



EXECUTIVE CHAMBERS
HONOLULU

LINDA LINGLE
GOVERNOR

Testimony of
Linda L. Smith
Senior Policy Advisor to the Governor

Before the
HOUSE COMMITTEES ON TOURISM, CULTURE, AND INTERNATIONAL AFFAIRS
AND ECONOMIC REVITALIZATION, BUSINESS, AND MILITARY AFFAIRS
Monday, February 8, 2010, 9:30 a.m.
Room 312, State Capitol

HB 2559 RELATING TO REMODELING TAX CREDITS

Chair Manahan, Chair McKelvey, and Members of the Committees:

The Office of the Governor **supports HB2559**, an Administration proposal that provides a ten percent non-refundable tax credit for the construction and renovation of hotel or resort properties from January 1, 2010 to December 31, 2012. Because the construction and visitor industries have been hit especially hard during the downturn, we believe this tax credit has the capacity to significantly stimulate the economy by targeting these economic sectors while upgrading our visitor industry infrastructure.

HB2559 establishes a ten percent tax credit, applicable to costs incurred in the construction or renovation of hotel or resort properties for tax years 2010 to 2012. This non-refundable tax credit may be used to offset income, general excise or transient accommodation taxes, and the Department of Taxation may award up to \$50 million per year in tax credits for all qualifying construction and renovation costs.

This bill will provide up to \$500 million in construction activity at a cost of \$50 million per year, or up to \$1.5 billion in construction activity for the three year period of

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the tax credit. This bill will more than pay for itself due to the amount of economic activity that will be generated, especially in the current economic environment.

Moreover, a similar tax credit was recommended in a 2010 report by the Construction Industry Task Force, which the Legislature established pursuant to SCR 132 (2009) for the purpose of developing and proposing actions to create new jobs in the construction industry.

This tax credit will provide a short-term incentive to move ahead hotel construction and renovation projects that were stalled or are already planned, but would otherwise only begin construction after the economy rebounds. The tax credit is designed with various safe guards to maximize construction activity while minimizing the cost of the credit to the State:

- 1) The tax credit sets a floor of \$10 million and a cap of \$100 million for qualifying costs per project, which ensures that substantial construction activity will occur while also limiting the State's costs;
- 2) The tax credit limits qualifying construction and renovation costs to only include labor, material, and supply costs incurred in Hawaii, but do not include design, planning, or permitting costs. This provision ensures that the tax credit only incentivizes immediate construction activity, which must occur between 2010 and 2012; and
- 3) The tax credit cannot be taken for construction and renovation costs financed through government grants or loans, since such construction has already been incentivized by the government through other means.

This bill will help to revitalize the construction industry in the key sector of hotel and resort development while providing long-term enhancements to visitor accommodations in the State. As such, the Office of the Governor supports this Administration measure and respectfully requests that it be passed from your committee.

Hawai'i Tourism Authority

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Testimony of
Mike McCartney
President and Chief Executive Officer
Hawai'i Tourism Authority
on
H.B. 2439 Relating to Taxation
H.B. 2681 Relating to Taxation
H.B. 2559 Relating to Remodeling Tax Credits

House Committee on Tourism, Culture, & International Affairs
House Committee on Economic Revitalization, Business, & Military Affairs
Monday, February 8, 2010
9:30 a.m.
Conference Room 312

The Hawai'i Tourism Authority (HTA) supports the intent of the following measures:

- H.B. 2439, which proposes a tax credit of 10% of the costs of construction or renovation of qualified hotel facilities incurred from January 1, 2010 to December 31, 2015;
- H.B. 2681, which proposes a 4% tax credit for hotel construction and renovations incurred before December 31, 2011; and
- H.B. 2559, which proposes a tax credit of 10% of the costs of construction or renovation of qualified hotel facilities incurred from January 1, 2010 to December 31, 2012, where the costs are a minimum of \$10 million up to a maximum of \$100 million.

The HTA is tasked with marketing and promoting Hawai'i as a visitor destination, with the goal of increasing visitor spending. One of the keys to branding Hawai'i's visitor industry and increasing visitor spending is the improvement of the state's tourism product, which includes the physical infrastructure. As such, the HTA supports these measures which provide the private sector with investment incentives to upgrade Hawai'i's hotel facilities. This will help Hawai'i remain competitive as a destination while providing enhancements to the visitor experience.

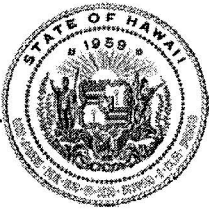
The HTA would also like to point out the following:

- H.B. 2559 does not include in the qualified costs plans, designs, and permitting, which often make up the significant costs of the first two years of a project.
- H.B. 2681 only provides a 4% tax credit;
- To our knowledge, there may be few projects that are ready to break ground at this time that could benefit from the tax credit in H.B. 2681 or H.B. 2559 which has sunset dates of December 31, 2011 and December 31, 2012 respectively.

For these reasons, the HTA prefers the 6-year period in H.B. 2439 which will provide an even greater benefit to stimulate Hawai'i's visitor industry and the State of Hawai'i.

Thank you for the opportunity to provide these comments

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TOURISM LIAISON

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LINDA LINGLE
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MARSHA WIENERT
TOURISM LIAISON

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Statement of
MARSHA WIENERT
Tourism Liaison
Office of the Governor
before the
HOUSE COMMITTEE ON TOURISM, CULTURE & INTERNATIONAL AFFAIRS
and the
HOUSE COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS & MILITARY AFFAIRS
Monday, February 8, 2010
9:30 a.m.
State Capitol, Conference Room 312

in consideration of
HB 2559
RELATING TO REMODELING TAX CREDITS.

Chairs Manahan and McKelvey, Vice Chairs Tokioka and Choy and Members of the House Committees.

HB 2559 provides a ten percent tax credit on costs incurred for the construction or renovation of hotel or resort facilities. We humbly urge this committee to support this measure.

As a result of the current economic downturn, a number of Hawai'i real estate projects have been delayed or cancelled in the past two years. This has had a huge impact on Hawai'i's construction industry. Between November 2008 and November 2009, there was a loss of 5,800 jobs, or 15 percent, of construction jobs statewide.

Since the construction and visitor industries have been among the hardest hit during this economic downturn and large-scale hotel and resort projects have the potential to hire large numbers of construction workers, it is essential to incentivize key construction activities as soon as possible to get our residents back to work. Additionally, renovation of existing hotels and the build out of new resorts will re-energize our visitor accommodations, improving our visitor product.

HB 2559 stimulates construction activity by establishing a ten percent tax credit, applicable to costs incurred in the construction or renovation of hotel or resort facilities. The non-refundable credit may be used to offset corporate income, general excise and transient accommodation taxes.

We need to provide an immediate boost to the construction industry, while jump starting Hawai'i's overall economy and improving our visitor accommodations now. HB 2559 will deliver short-term rewards and we ask for your support of this measure.

Thank you for the opportunity to testify on HB 2559.

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**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

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Comments of
EUGENE TIAN

Acting Economics Research Administrator

Department of Business, Economic Development, and Tourism
before the

HOUSE COMMITTEE ON TOURISM, CULTURE AND INTERNATIONAL AFFAIRS

and

**HOUSE COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS & MILITARY
AFFAIRS**

Monday, February 8, 2010

9:30 a.m.

State Capitol, Conference Room 312

in consideration of

HB 2559

RELATING TO REMODELING TAX CREDIT

Chair Manahan, Chair McKelvey and Members of the House Committee on Tourism, Culture & International Affairs, and Committee on Economic Revitalization, Business & Military Affairs.

The Department of Business, Economic Development and Tourism supports HB 2559, an administration measure, which provides a ten percent tax credit on costs incurred for the construction or renovation of a hotel or resort property through December 31, 2012.

This bill allows a taxpayer to deduct the tax credit from the taxpayer's net income, general excise, and transient accommodation tax liabilities. The bill also sets a qualified spending floor of \$10 million, a ceiling of \$100 million, and a cap of \$50 million credit per year, for three years.

This bill disqualifies spending on design and planning, and projects funded in whole or in part by government grants, government-issued loans, or property assessed clean energy financing when claiming the tax credit.

This bill could significantly increase investment and jobs in construction over the next several years and generate additional jobs in the community. We calculate that if 100% of the designated tax credits are used, there is a potential to create or sustain 23,000 jobs over the three-year period, with positive impacts on business receipts and state tax revenues as well.

Thank you for the opportunity to offer these comments.

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Waikīkī Improvement Association

Statement of
Rick Egged
President, Waikiki Improvement Association
Before the
House Committees on
Tourism, Culture & International Affairs
And
Economic Revitalization, Business & Military affairs
Monday, February 8, 2009
9:30 AM
State Capitol, Conference Room 312
in consideration of

HB 2439 and HB 2681 RELATING TO TAXATION &
HB2559 RELATING TO REMODELING TAX CREDITS

Good morning Chairs Manahan & McKelvey, Vice Chairs Tokioka & Choy and members of the respective Committees:

I am Rick Egged testifying on behalf of the Waikiki Improvement Association. WIA is a nonprofit organization representing 170 leading businesses and stakeholders in Waikiki.

Hotel Construction and Renovation Tax Credits work. A 2004 study prepared by Hospitality Associates, Inc. and economics professor Dr. James Mak found that:

1. The tax credits produced a sizable increase in hotel construction and renovation activity. Against the backdrop of a sluggish State economy, the jobs, earnings, and tax revenues generated by this increase in construction activity are extremely significant.
2. The gain in tax revenues from increased hotel construction and renovation activity far exceed the estimated amount of the tax credits given. In addition to increased tax revenues from construction activities, the improvements are generating higher room rates, which translate into higher GET and TAT collections over time.
3. The renovations spurred by the credits are attracting higher spending visitors. The key to sustainable tourism in Hawaii is our ability to increase per capita visitor spending.

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By facilitating hotel renovations, the tax credits have proven to be an effective tool in helping to improve the quality of Hawaii's hotel and visitor market. Higher visitor spending, of course, produces even greater tax revenues.

The Waikīkī Improvement Association **supports** all three bills. We do have some comments regarding some of the differences in the bills. HB 2681 appears to cover only two years 2010 to 2011, HB 2559 covers three years 2010 to 2012 and HB 2439 six years 2010 to 2015. The two year period in HB 2681 may be too short to be effective. The longer time frame will spur more projects to begin work now.

HB 2439 and HB 2681 provide a refundable credit; HB 2559 can only be used to offset tax liability but allows a carry-over. HB 2712 limits eligible cost to a minimum of \$10 million and a maximum of \$100 million and caps annual credits at \$50 million, HB 2439 has no such limits. The \$10 million minimum would eliminate a number of smaller properties and cap creates uncertainty about whether the credit will be available or not. It is uncertain what is intended by 235 (g, h) (3). Does this item refer to all commercial construction in a "qualified resort area" or only that within a hotel? WIA would strongly support including non hotel properties. The shopping, dining and entertainment experiences offered by resort district properties enhance the destination regardless of whether or not located in a hotel. Including non hotel properties would of course increase the number of construction jobs created.

The Waikīkī Improvement Association would be happy to work with the committee to combine the best features of each bill.

Thank you for the opportunity to testify.

GOODSILL ANDERSON QUINN & STIFEL

A LIMITED LIABILITY LAW PARTNERSHIP LLP

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MEMORANDUM

TO: Representative Joey Manahan
Chair, Committee on Tourism, Culture & International Affairs
Representative Angus McKelvey
Chair, Committee on Economic Revitalization, Business & Military Affairs
VIA EMAIL: TCItestimony@Capitol.hawaii.gov

FROM: Mihoko Ito

DATE: February 7, 2010

RE: **H.B. 2559 – Relating to Remodeling Tax Credits**
Hearing: Monday, February 8, 2010 at 9:30 a.m., Room 312

Dear Chair Manahan, Chair McKelvey, and Members of the Committees:

I am Mihoko Ito, testifying on behalf of Wyndham Worldwide. Wyndham Worldwide offers individual consumers and business-to-business customers a broad suite of hospitality products and services across various accommodation alternatives and price ranges through its portfolio of world-renowned brands. Wyndham Worldwide has substantial interests in Hawaii that include Wyndham Vacation Ownership, with its resort at Waikiki Beach Walk.

We support H.B. 2559, which provides a tax credit for costs incurred for the construction or renovation of a hotel or resort property through December 31, 2012. This proposed tax credit will provide a boost to the hospitality industry in Hawai'i by providing an incentive to encourage hotel renovations and improvements, and creating new jobs.

Thank you very much for the opportunity to submit testimony.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Hotel and resort property construction and renovation tax credit

BILL NUMBER: SB 2712; HB 2559 (Identical)

INTRODUCED BY: SB by Hanabusa by request; HB by Say by request

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers subject to HRS chapter 235, HRS chapter 237 and HRS chapter 237D to claim a nonrefundable hotel and resort property construction and renovation tax credit of 10% of the construction or renovation costs incurred after December 31, 2009 and before January 1, 2013; provided that the construction and/or renovation costs shall be required to be between \$10 million and \$100 million in the aggregate for a qualified hotel facility. The credit may be deductible against the taxpayer's net income, general excise, and transient accommodations tax liability for the taxable year the credit is claimed. The credit shall not be applicable to costs of construction or improvement for which another income tax credit was claimed for the taxable year. Establishes an annual cap of \$50 million on all tax credits granted under this section.

In the case of a partnership, S corporation, estate or trust, or association of a qualified hotel facility, time share owners association, or any developer of a time share project, the credit shall be based on qualified costs incurred by the entity with costs on which the credit is computed determined at the entity level. To qualify for the credit, the taxpayer shall be in compliance with all applicable federal, state, and county statutes, rules, and regulations. If a deduction is taken under IRC section 179 (with respect to election to expense depreciable business assets), no tax credit shall be allowed for such qualified costs for which the deduction was taken. The basis of eligible property for depreciation or accelerated cost recovery system purposes shall be reduced by the amount of credit allowable and claimed.

Credits in excess of a taxpayer's income tax liability shall be applied to subsequent tax liability. Claims for the credit, including any amended claims, must be filed on or before the end of the twelfth month following the close of the taxable year. Stipulates that renovation or construction costs financed with funds that represent government grants, government-issued loans, or property assessed clean energy financing, shall not be eligible for the credit.

Defines "construction and/or renovation cost" as any cost incurred in Hawaii after December 31, 2009 and before January 1, 2013 for construction, remodeling, or modification to a qualified hotel facility including the cost of labor, material, and supplies; except that the costs for plans, designs, and permitting are not included. Also defines "net income tax liability," "qualified hotel facility" and "qualified resort area" for purposes of the measure.

This act shall be repealed on January 1, 2013.

EFFECTIVE DATE: Tax years beginning after December 31, 2009

STAFF COMMENTS: This is an administration measure submitted by the office of the governor GOV-20(10). The legislature by Act 195, SLH 2000, enacted a hotel construction and renovation tax credit of 4% for hotel renovations effective for tax years beginning after December 31, 1998 but before December 31, 2002. Act 10 of the Third Special Session of 2001 increased the hotel renovation tax credit to 10% for construction costs incurred before July 1, 2003. Act 10 also provided that the credit shall revert back to 4% on July 1, 2003 and sunset on December 31, 2005. This measure proposes a similar credit for hotel renovation costs incurred in a taxable year.

The original tax credit was promoted on the argument that the tax credit would be an incentive for hotels to refurbish their properties in order to remain competitive with other destinations around the world. The credit amount was set at 4% to seemingly offset the 4% general excise tax. When 9/11 hit, the momentum of the crisis fostered support for an increase in the credit to 10% to supposedly keep projects which were already in progress going. However, the governor objected and threatened to veto the sweetened credit. The legislature compromised and provided that the 10% credit would be nonrefundable.

While this measure proposes to reestablish a hotel renovation tax credit, it should be noted that no evaluation has been done to validate the effectiveness of this credit in spurring substantial renovations of hotel resort properties. While some may argue that this credit is necessary to make their upcoming renovations pencil out, one must ask whether or not it is the role of government to subsidize private investments. While the credit might be viewed as critical to a taxpayer's project or to the continued renovation of the resort plant, one must ask how long must all other taxpayers suffer the heavy burden of taxation so that this subsidy can be extended to a few? One thing learned from the last credit was that the credit spurred construction activity beyond the capacity of the workforce and supply of materials driving the cost of construction artificially higher at a much faster pace. While it may have been good news for the industry, the long term effect is that the higher cost of construction aggravated the affordability of projects and securing the financing.

It would be a very different picture if those who are asking for the subsidy would be willing to forgo other public services or make recommendations on how government can rein in spending, but that is not the case. Now, more than ever, lawmakers need to recognize that they need to set priorities for what precious few dollars taxpayers can part with to run state and local government. One must ask how lawmakers can provide subsidies like this proposal when they raised the general excise tax on all other taxpayers to pay for a transit system in Honolulu? Taking care of a few taxpayers at the expense of all other taxpayers is certainly a cavalier attitude.

More importantly, if the intent of this measure is to entice hotel owners to undertake major renovations, then the sponsors do not understand what is happening to the nation's economy. In order to undertake large scale construction or renovations, either the hotel owner has to be cash rich or have access to the credit markets. As the nation now knows, the credit markets have frozen and despite herculean efforts to thaw those credit markets, it will be a long road to recovery. Given that fact, it is doubtful that any hotel owner will undertake new renovation projects, in fact, some who had such projects underway have pulled back or completely shut down those projects for the time being. Thus, the sponsors of this proposal may find this incentive useless in this environment.

Instead of perpetuating these targeted tax incentives and subsidies, lawmakers should look at the broader picture and enact tax relief that will benefit all taxpayers. Perpetuating targeted tax credits, like this,

merely perpetuates the high burden of taxes in Hawaii which, in turn, places a barrier on any recovery. From a global perspective, what effect will these credits have on the cost of construction in Hawaii?

Given the lengthy process necessary for the planning and design, as well as the financing, of such large scale projects, the window of opportunity proposed in this measure will probably benefit only those projects that are currently on the drawing boards. While the 10% credit may seem enticing, it is probably not enough to offset the cost of credit in these difficult times let alone the availability of the credit.

Digested 2/1/10

SAH - Subcontractors Association of Hawaii

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February 8, 2010

Testimony To: House Committee on Tourism, Culture, & International Affairs
Representative Joey Manahan, Chair

House Committee on Economic Revitalization, Business, & Military Affairs
Representative Angus L.K. McKelvey, Chair

Presented By: Tim Lyons
President

Subject: H.B. 2439 – RELATING TO TAXATION.
H.B. 2681 – RELATING TO TAXATION
H.B. 2559 – RELATING TO REMODELING TAX CREDITS

Chair Manahan, Chair McKelvey and Members of the Joint Committees:

I am Tim Lyons, President of the Subcontractors Association of Hawaii. SAH is composed of nine separate and distinct subcontracting organizations including:

ELECTRICAL CONTRACTORS ASSOCIATION OF HAWAII
HAWAII FLOORING ASSOCIATION
ROOFING CONTRACTORS ASSOCIATION OF HAWAII
HAWAII WALL AND CEILING INDUSTRIES ASSOCIATION
TILE CONTRACTORS PROMOTIONAL PROGRAM
PLUMBING AND MECHANICAL CONTRACTORS ASSOCIATION OF HAWAII
SHEETMETAL CONTRACTORS ASSOCIATION OF HAWAII
PAINTING AND DECORATING CONTRACTORS ASSOCIATION
PACIFIC INSULATION CONTRACTORS ASSOCIATION

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We support this bill.

Short and simple, our members are in need of work. People are not spending money on residential renovations, commercial renovations or even hotel renovations. A tax credit? This bill is as simple as the fact that it would provide for a tax credit if you do that type of work. That will benefit our members, as well as the economy.

Based on the above, we support this bill.



**HAWAII HOTEL & LODGING
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Are You Walking???
May 15, 2010
(Always the 3rd Saturday in May)
www.charitywalkhawaii.org

**TESTIMONY OF MURRAY TOWILL
PRESIDENT
HAWAII HOTEL & LODGING ASSOCIATION**

DATE: February 8, 2010

**RE: HB 2439 Relating to Taxation
HB 2559 Relating to Remodeling Tax Credits
HB 2681 Relating to Taxation**

Good morning Chairpersons Manahan and McKelvey and members of the House Committees on Tourism, Culture & International Affairs, and Economic Revitalization, Business And Military Affairs. I am Murray Towill, President of the Hawaii Hotel & Lodging Association.

The Hawaii Hotel & Lodging Association is a statewide association of hotels, condominiums, timeshare companies, management firms, suppliers, and other related firms and individuals. Our membership includes over 150 hotels representing over 48,000 rooms. Our hotel members range from the 2,680 rooms of the Hilton Hawaiian Village to the 4 rooms of the Bougainvillea Bed & Breakfast on the Big Island.

The Hawaii Hotel & Lodging Association supports HB 2439 Relating to Taxation, HB 2559 Relating to Remodeling Tax Credits, and HB 2681 Relating to Taxation. Each of these bills provides a construction tax credit for hotel and/or resort construction. The bills also have a variety of provisions that vary from one another.

We support these measures because they all provide incentives to stimulate reinvestment in the visitor product. Perhaps most importantly in our current economic situation stimulating construction is a good way to get people back to work. It is especially valuable to get people in the construction sector back to work since they have been hit very hard by the current recession.

Currently there are a number of obstacles to investments including the uncertainty in the financial markets and the financial challenges facing many due to the recession. A tax credit of this type would be a stimulus to trigger investment.

I would like to comment on a number of features in these bills.

First, we believe the 10% credit provided in HB 2559 and HB 2439 will have the greatest possible impact. Given the challenges in the financial market and uncertainty in the economy. We do not believe a 4% credit will stimulate much new economic activity.

Second, we believe the 6-year period covered by HB 2439 will provide the most stimulus in large part due to the length of time it takes projects to go through the regulatory approval process. Unless a project has most or all of its approvals, it will have a difficult time being underway by 2011 or 2012.

Third, HB 2559 also contains a provision that limits the minimum size of a project to \$10 million. We believe this is too restrictive. If the committee decides to include a minimum, we would recommend this minimum amount be lowered to \$1 million.

Again, mahalo for this opportunity to testify.

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