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Senator David Y. Ige, Chair and Senator Michelle N. Kidani, Vice Chair
Senate Committee on Ways and Means

<u>Strong Support of SB 769, SD 1</u>, Relating to Economic Recovery (Establishes a tax credit for qualified hotel and resort property construction and renovation costs incurred through December 31, 2014.)

Friday, February 25, 2011 at 9:00 a.m. in CR 211

My name is Dave Arakawa, and I am the Executive Director of the Land Use Research Foundation of Hawaii (LURF), a private, non-profit research and trade association whose members include major Hawaii landowners, developers and a utility company. One of LURF's missions is to advocate for reasonable, rational and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources and public health and safety.

LURF is in **strong support of SB 769, SD 1**, which provides a nonrefundable tax credit for qualified hotel and resort property construction and renovation costs incurred through December 31, 2014.

<u>BACKGROUND</u>. SB 769, SD 1 is one of the bills recommended by the Construction Industry Task Force (CITF), established in 2009 pursuant to Senate Concurrent Resolution (SCR) No. 132 (2009) to determine the economic contributions of Hawaii's construction industry and to develop proposals for state actions to preserve and create new jobs in the local construction industry. This bill proposes a nonrefundable tax credit for construction and renovation costs on hotel and resort property incurred after December 31, 2010 and before January 1, 2015. Any credit exceeding the taxpayer's tax liability in the year claimed, may be carried over as credit for future years until exhausted. SB 769, SD 1 was patterned after Act 10 (2001 Special Session).

<u>LURF'S POSITION</u>. LURF strongly supports SB 769, SD 1, as the bill is intended to boost Hawaii's construction and visitor industries. The implementation of this legislation is therefore necessary and warranted, as substantiated by the following:

- **SCR 132 (2009) CITF Recommendations and Justifications for the Bill.** In 2009, the chair of the CITF's Resort/Hospitality/Private Sector Committee supported a draft bill which was anticipated to be introduced in 2010 (and was conceptually identical to SB 769, SD 1), based on the following justifications:

  1. The hotel and resort tax credits were successful in instigating new construction, renovating existing projects, and generating employment which contributed to the prompt economic recovery after September 11, 2001;

2. The measure was also a profitable investment for the State and counties of Hawaii;
3. The State and counties continue to benefit from the residual effects of Act 10 (2001) as the projects and improvements created during this time period continue to generate tax revenues; and
4. Tax credits similar to SB 769, SD 1 were previously implemented by law (Act 10 in 2001), and therefore will be an easier and more timely remedy than creating a new program.

➢ **2009 Independent Quantitative Economic Analysis by Premiere Realty Advisors of Honolulu.** In 2009, Premiere Realty Advisors of Honolulu was retained to prepare an economic impact study of the CITF's proposal to re-enact Act 10 (2001). Act 10 (2001) differed from SB 769, SD 1 in the amount of the tax credit and its nonrefundable nature (the CITF proposed a 10 percent "refundable" tax credit in Act 10, while SB 769, SD 1 proposes a "non-refundable" tax credit in an amount yet to be determined, which could be carried over as credit for future years until exhausted). Despite these technical differences, the two bills are virtually identical in concept, and LURF understands that the estimated economic impact of the bills would also be similar.

The following is a summary of the analysis prepared by Premiere Realty Advisors, estimating the impact on this State resulting from the CITF proposal to reenact Act 10 (2001) as a 10% "refundable" tax credit for the period from 2010 through 2015:

- Induced construction spending estimated at $2,002,500,000.
- Net tax cost estimated at $46,725,000.
- Induced jobs estimated at 23,630.
- Net tax cost per induced job estimated at $1,977.

CONCLUSION. As evidenced by the findings of the CITF and independent realty advisors, LURF believes that the implementation of this legislation is necessary and warranted, and that the objective of this bill (i.e., to create a hotel and resort construction and renovation tax credit to boost Hawaii's construction and visitor industries), would be satisfied and furthered by the enactment of SB 769, SD 1.

Based on the above, LURF respectfully requests that **SB 769, SD 1 be favorably considered and approved by your Committee.**

Thank you for the opportunity to testify in **strong support** of this bill.