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LOCAL 5 HAWAII

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Eric Gill, Financial Secretary-Treasurer
Hernando Ramos Tan, President
Godfrey Maeshiro, Senior Vice-President

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Sen. David Ige, Chair, Committee on Ways and Means
Sen. Michelle Kidani, Vice Chair, Committee on Ways and Means
Members of the Committee on Ways and Means

Re: Testimony with comments re: SB 2968, SD1 relating to tourism stimulus initiatives

Chair Ige and Committee Members:

UNITE HERE Local 5 is a local labor organization representing 10,000 hotel, health care and food service workers employed throughout our State. We would like to offer comments related to Senate Bill 2968. SB 2968 would provide income tax credits for the construction and renovation of hotels, timeshares or condotels. **We request that this legislation be amended to allow the income tax credits to apply only to hotels, and not to timeshares or condotels.**

We want to be part of the solution and help Hawai'i reach its potential as both a top visitor destination and the best place to continue to raise our families. In order to do that, we are urging the state to make a distinction between hotels, which have created the jobs, the TAT and much of the GET we all benefit from, and condos, condotels and timeshares, which provide less. Less TAT, less GET and less jobs mean less of a future for us – it makes it harder to save, to own a home, to spend money at local businesses, and to fund the services and programs we all need.

<u>Condotels cost tax dollars</u>

When condotels are constructed or hotels are converted to condotels, some of the buyers typically choose not to rent out their units at all, resulting in a total loss of TAT, GET and income tax revenue to the state. Even in those condotel units which are being rented out (rather than lived in), many owners choose not to put their units into the hotel "rental pool" and instead rent them out individually or through smaller operations.

Because of these two things, we estimate the average TAT, GET and income tax lost is over $3,300 per unit per year for every unit not entered into a rental pool at a condotel property. We estimate that over 45% of the more than 10,000 rooms in condotel buildings statewide are not in their respective properties' rental pools.

<u>Timeshares cost tax dollars</u>

The state loses TAT money from timeshares, as they are taxed at a lower rate. A 2007 UHERO study estimated that tax collections for a given timeshare unit were 25% (or less) than for a comparable given hotel unit because of the way taxes were calculated. That was in 2007. Since then, the TAT for hotel rooms has increased to 9.25%, but the analog tax for timeshares has not increased.

We estimate that the average TAT lost is over $3,700 per unit per year on average for every timeshare in Hawai'i versus a comparable hotel unit. As of 2012, there were 10,184 timeshare units in the state.

Additionally, unlike hotels, timeshares may only be cleaned once or twice a week, which results in less work and less resultant income taxes.

Our tax base is eroding and we wonder why the State's coffers are strained. Taxpayers grumble about higher tax rates and the deterioration of our public facilities and services and yet we incentivize the construction of more and more condos and timeshares in our visitor plant without ensuring we get something in return for giving up our beachfront.

It is good for our hotels to be revitalized and renovated – it updates the visitor plant, keeps us competitive and provides valuable construction jobs. If the state is going to incentivize such renovations and new construction with tax credits, we should be incentivizing the kind of lodging that best serves the future of our state.