



1201 15th Street, NW Suite 400 Washington, DC 20005

April 20, 2011

TO: Budget and Finance Committee
Councilmember Joseph Pontanilla, Chair
Councilmember G. Riki Hokama, Vice Chair

FROM: Ken McKelvey, Chairman, ARDA-ROC (American Resort Development Association Resort Owners Coalition)

RE: Proposed FY 2012 Budget for the County of Maui – Real Property Tax Rates (BF-1)

Chair Pontanilla and Members of the Budget and Finance Committee:

The Resort Owners' Coalition of the American Resort Development Association (ARDA-ROC) is a non-profit organization advocating on behalf of timeshare owners and managers and dedicated to preserving and protecting the rights of the consumers who purchase timeshare as well as their governing home owners associations. Unlike other types of real property owners, timeshare owners are often not able to vote in the jurisdictions in which they hold a real estate interest. ARDA-ROC was formed to fight unbalanced "tax the visitor not the voter" legislative efforts at the federal, state and local levels.

ARDA-ROC strenuously objects to the Mayor's egregious and punitive proposed increase in timeshare property tax rates from \$14.00 to \$19.60.

Timeshare already pays more than its fair share of property taxes

As the Council is well aware, timeshare owners and developers pay a current tax rate that is 69% higher than hotels and resorts and 450% higher than homeowners. Timeshare, which is classified as residential real property, has a property tax rate that is 200-300% higher than all other non-homestead residential property classifications.

During FY2006-FY2008, the Council saw it appropriate to provide property tax relief for all residential real property classifications except for the timeshare classification. And now, the Mayor has proposed a budget that increases taxes on timeshares by 40%, while proposing nominal or 0% increases in all other residential real property classifications.

In case the Council is not aware, using information from the Hawai'i Visitor Plan Inventory for Maui and information from the Maui Real Property Tax Division, we have found that on a per-unit basis, a timeshare unit yields more than 1190% more property tax revenue than a homeowner pays on Maui. Again, that is almost 1200% more property tax generated from a residential timeshare unit than a residential homeowner. As compared to all other non-

homestead residential units on Maui, timeshare pays on average 400% more property tax per unit than those categories. (*Source – Hospitality Advisors, LLC*)

Land Classification	FY 2011			FY 2012		
	Certified Revenue	Units	Certified Revenue per Unit	Projected Revenue	Units	Projected Revenue per Unit
Timeshare ¹	\$ 24,877,346	3,305	\$ 7,527	\$ 24,848,889	3,305	\$ 7,519
Hotel and Resort ²	\$ 67,922,468	13,675	\$ 4,967	\$ 67,794,743	13,675	\$ 4,958
Homeowner ³	\$ 19,509,915	26,874	\$ 726	\$ 15,545,633	26,685	\$ 583
Total Other Residential ⁴	\$ 59,342,578	39,919	\$ 1,487	\$ 59,834,765	40,108	\$ 1,492

Note¹: Timeshare Units based on 2010 State of Hawai'i Visitor Plant Inventory for Maui County.

Note²: Hotel & Resort Units based on 2010 State of Hawai'i Visitor Plant Inventory. Includes Hotel units and Condo-Hotel units.

Note³: Units represent owner-occupied units. Count per County of Maui Real Property Tax Division.

Note⁴: Combines revenue for Land Classes "Residential" and "Apartment". Units based on total Maui Housing units reported in the State Databook minus Homeowners.

Source: County of Maui Real Property Tax Division, Hawai'i Tourism Authority, State of Hawai'i Data Book

Finally, in case the Council believes that a timeshare unit does not pay its fair share of taxes as compared to a hotel unit, this again is not true. As proven in a recent study, timeshare units pay, per unit, more property tax and more tax overall than a hotel unit in every County in the State of Hawaii. Here is the information for Maui County.

Maui	Taxes Paid per Unit ⁱ			
	Hotels	Timeshare ⁱⁱ	\$ Difference	% Difference
General Excise Tax ⁱⁱⁱ	\$2,340	\$2,560	\$220	9%
Real Property Tax ^{iv}	\$2,950	\$8,420	\$5,470	185%
Transient Accommodation Tax ^v	\$4,910	\$650	-\$4,260	-87%
Transient Occupancy Tax ^{vi}	<i>Not applicable</i>	\$1,530	<i>Not applicable</i>	<i>Not applicable</i>
TOTAL	\$10,200	\$13,160	\$2,960	29%

Source: Hospitality Advisors LLC, Smith Travel Research, survey respondents

With this information in mind, how can the Mayor, or the County Council, believe that timeshare does not pay more than its fair share of taxes?

Neither the current rate, nor the increase, corresponds to the County services used by timeshare occupants

Assuming the Mayor did not propose this tax increase to either force timeshare owners into defaulting on their maintenance fees payments or to solely discourage development or growth on Maui, what would the reason be to raise taxes in such a discriminatory manner?

Does the timeshare owner use more services than the hotel guest or homeowner on Maui? We are not aware of one study that has been done that would indicate that is the case. In fact, when taking a look at the visitor arrivals and the number of residents who are on island on a daily basis, it is quite clear that timeshare visitors are the smallest, albeit one of the most consistent, visitor populations on Maui (according to the 2010 Analysis of the State of Hawai'i Timeshare Industry conducted by Hospitality Advisors, LLC, the average timeshare occupancy for all units on Maui was 91.6% in the year 2009)

	De Facto Population			Percentage of De Facto Population		
	2010	2009	2004	2010	2009	2004
Hotel Visitors	21,716	20,297	23,468	10.8%	10.8%	12.8%
Timeshare Visitors	9,032	8,352	3,353	4.5%	4.4%	1.8%
Other Visitors	15,362	14,215	18,696	7.6%	7.6%	10.2%
Maui Residents	154,924	145,240	137,136	77.1%	77.2%	75.1%
	201,034	188,104	182,653	100%	100%	100%

Note: De Facto Population represents visitor and resident population in the County of Maui on any given day.

Sources: Maui County Data Book 2010; Smith Travel Research, Maui County; Hawai'i Tourism Authority, 2009 Annual Visitor Research Report; Hawai'i Tourism Authority, 2010 Preliminary Island Report; Hawai'i Tourism Authority, 2009 Visitor Plant Inventory; Hawai'i Tourism Authority 2010 Visitor Plant Inventory; Analysis of the State of Hawai'i Timeshare Industry, Final Report, August 13, 2010; County of Maui Summary Analysis of Economic and Social Impacts on Maui County from Timeshare Conversions June 1, 2006

It is difficult to understand how the Council would believe that the 9,000 timeshare visitors that are on island on any given day could use 1,200 times more County services than the nearly 155,000 Maui residents would. Again, we have seen no data to prove the existence of a disproportionate negative impact of timeshare owners on Maui so we are left only with the conclusion that the current tax, and proposed increase, are both arbitrary and aimed only at generating money on the backs of non-resident property owners.

This property tax increase will ultimately hurt the local economy

By increasing taxes in this manner, the County will likely encourage defaults in maintenance fee payments at a time when timeshare associations are already seeing record amounts of defaults and foreclosures. Timeshare owners who own in Maui will likely look to vacation elsewhere, and with them will go the spending at grocery stores, restaurants, art galleries, scuba shops, orchid farms and other businesses that are vital to the local economy. We believe you have already heard from thousands of timeshare owners who are outraged about the Mayor's proposal.

In addition to visitor spending, Maui is at risk of losing the money that timeshare developers are planning to spend building more timeshare in Maui, bringing construction and other good paying jobs to the Island.

According to one recent study, construction spending on new projects as well as renovations to current projects will total \$255 million on Maui alone in the next three years. Not to mention the creation of 120 new timeshare jobs and millions of dollars in tax revenue. During these difficult economic times, why would the County want to discourage the creation of new jobs and tax dollars as well as the subsequent local spending that would take place from new timeshare owners coming to Maui?

ATTACHMENT A

Economic Impact from the Construction and Operation of New Timeshare Units in 2011 through 2013

Table 1 Construction Budgets for Timeshare Projects (2011-2013)

<i>(\$ millions)</i>	State	Maui	O'ahu	Kaua'i	Big Island
Construction Budgets for New Timeshare Units	\$ 560.0	\$ 225.0	\$ 78.0	\$ 165.0	\$ 92.0
Renovation and Capital Expenditures for Existing Timeshare Units	\$ 81.5	\$ 30.1	\$ 12.9	\$ 34.0	\$ 4.6
Total	\$ 641.5	\$ 255.1	\$ 90.9	\$ 199.0	\$ 96.6

Source: Hospitality Advisors LLC

Table 3 New Jobs and Tax Revenues from the Operations for New Timeshare Units (2011 - 2013)

	State	Maui	O'ahu	Kaua'i	Big Island
Number of New Timeshare Units Added to Supply	1,190	130	730	130	200
Total Timeshare Sales (\$ millions)	\$ 1,204.3	\$ 434.3	\$ 311.0	\$ -	\$ 459.0
New Timeshare Jobs	1,250	140	770	20	320
Taxes Generated from Timeshare Operations (\$ millions)					
General Excise Tax	\$ 1.8	\$ 0.3	\$ 1.1	\$ -	\$ 0.4
Timeshare Occupancy Tax	\$ 0.9	\$ 0.1	\$ 0.7	\$ -	\$ 0.1
Transient Accommodation Tax	\$ 0.2	\$ 0.2	\$ -	\$ -	\$ -
Conveyance Tax	\$ 1.8	\$ 0.7	\$ 0.5	\$ -	\$ 0.7
Real Property Tax	\$ 19.8	\$ 3.0	\$ 7.7	\$ -	\$ 9.0
Total Tax	\$ 24.6	\$ 4.3	\$ 10.0	\$ -	\$ 10.2

Source: Hospitality Advisors LLC, Belt Collins Hawaii, Ltd.

Note: Composite sales and tax estimates reflect only those properties that provided timeshare sales data. Therefore the estimates provided in this schedule do not reflect the full impact from all pipeline developments to be completed during 2011 to 2013.

This proposed new tax is not revenue neutral

The Mayor has stated that he and his administration believe that this proposed tax is “revenue neutral” and would result in the all tax payers paying the same amount as last year.

To the best of our knowledge, this is the first time that we have ever heard the Maui County Council or the Mayor articulate that it was its policy to raise or lower tax rates in order to provide for year to year 0% increase in property taxes paid to the County. As explained earlier, when all residential real property classifications saw decreases in rates when there were dramatic increases in property values, the Council did not lower rates for timeshares in order to keep revenues flat. As a matter of fact, during those years the timeshare property tax classification saw growth in property tax values and payments alike. As for this year, a recent survey of several timeshare resorts shows that no property has seen even close to a 40% decrease in valuation, and some have even seen an increase in valuations.

So, we are left to question whether the Mayor and his administration have carefully thought out this policy of revenue neutrality or if it is just a convenient excuse to single out timeshare owners, the majority who live off-island, to shoulder the burden of the Mayor’s spending. If the

Mayor truly believed in “revenue neutrality,” why were there no past reductions in the rate for timeshare owners when relief was given to all other residential real property classifications?

In conclusion, ARDA-ROC strenuously opposes the Mayor’s proposed increase in property taxes for timeshare owners and believes it is harmful to both Maui and its overall visitor industry. Timeshare owners are real property owners and one of the most consistent guests to the Island, and while a hotel guest can simply cancel their reservation if they chose not to pay in increase in their rate due to an increase in tax, a timeshare owner continues to have a legal obligation to pay maintenance fees, which include property tax payments. The statistics show that timeshare owners already pay their fair share of taxes and are one of, if not the most, consistent visitors to Maui. Finally, there is no rationale that we are aware of that would indicate the timeshare rate corresponds to services consumed by timeshare owners, making this proposed tax increase a clear attempt at placing a disproportionate amount of the financial burden of the Mayor’s budget squarely on the backs of non-voting out-of-state property owners.

While ARDA-ROC remains supportive of the hospitality industry in Maui, if the Mayor and the Council continue to look for additional tax dollars from timeshare owners we will have to research all options to defeat these measures, including legal action against the County.

Thank you for allowing us the opportunity to present testimony on this important matter.