DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
LUIS P. SALAVERIA
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE
And
COMMITTEE ON JUDICIARY

Wednesday, March 18, 2015
2:00 pm
State Capitol, Conference Room 325

in consideration of
SB118, SD1

RELATING TO REAL ESTATE INVESTMENT TRUSTS.

Chairs McKelvey and Rhoads, Vice Chairs Woodson and San Buenaventura, and Members of the Committee.

The Department of Business, Economic Development & Tourism (DBEDT) offers comments on SB118, SD1, which would require DBEDT to conduct a study on the Real Estate Investment Trusts.

DBEDT **appreciates the overall intent** of this bill, but is concerned that the Department would not have adequate funding resources to carry out the intent of this bill. Also, the study cannot be done to satisfy the intent of this bill for the following reasons: (1) Of the thirteen categories of data required by the bill, none of them currently exist. While the Department of Taxation could require additional information to identify the number of Real Estate Investment Trust (REIT) who file Hawaii tax returns, the data will not be available until 2017. (2) Not all the Hawaii taxpayers who invest in REITs can be identified due to the fact that many taxpayers invest in REITs through mutual funds. Mutual Funds may not be required to report detailed investment information. Further, some of the investment may be tax deferred and not be required to file 1099 DIV forms.

An option to collect the data is through surveys of REITs, investment management companies, and Hawaii taxpayers. Such surveys are costly and will result in estimated numbers. Our estimate on the cost of the surveys, data compilation, and report preparation would be $150,000.

Thank you for the opportunity to offer comments on SB118, SD1.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR

MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
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To: The Honorable Angus L.K. McKelvey, Chair
and Members of the House Committee on Consumer Protection and Commerce

The Honorable Karl Rhoads, Chair
and Members of the House Committee on Judiciary

Date: Wednesday, March 18, 2015
Time: 2:00 P.M.
Place: Conference Room 325, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 118 S.D. 1, Relating to Real Estate Investment Trusts

The Department of Taxation (Department) provides the following comments regarding S.B. 118 S.D. 1 for your consideration.

The original version of this measure would have amended the corporation income tax by taxing Real Estate Investment Trusts (REITs) without regard to the federal deduction for dividends paid. The Senate Committee on Ways and Means amended this measure to instead require the Department of Business, Economic Development, and Tourism (DBEDT), in conjunction with the Department, to study the impact of REITs in Hawaii and the possible effect of repealing the dividends paid income tax deduction. In particular, the objective of the study is to determine:

(1) The total number of real estate investment trusts that operate in Hawaii;
(2) Of that total in (1) above, the number that are Hawaii-based;
(3) The number of Hawaii taxpayers who are investors in real estate investment trusts that operate in Hawaii;
(4) The number of Hawaii taxpayers who are investors in Hawaii-based real estate investment trusts that operate in Hawaii;
(5) A breakdown of Hawaii taxpayers who are investors in Hawaii-based real estate investment trusts that operate in Hawaii, by filing status and income;
(6) The direct and indirect impacts of real estate investment trusts on the Hawaii economy, especially in real estate development and operation;
(7) A comprehensive examination of captive real estate investment trusts for companies operating in Hawaii;
(8) An examination of the argument that real estate investment trusts provide

opportunities for small investors to pool funds with others and invest in real estate developments, similar to investments through mutual funds invested in company stocks;

(9) An examination of the possible transfer pricing if the dividend paid income tax deduction for real estate investment trusts is repealed;

(10) An examination of the equity and efficiency of the dividends paid income tax deduction for real estate investment trusts;

(11) The projected tax revenue impact to the State if the dividends paid income tax deduction for real estate investment trusts is repealed;

(12) The impact on the real estate development market and capacity if the dividends paid income tax deduction for real estate investment trusts is repealed; and

(13) The impact on the economy of the State if the dividends paid income tax deduction for real estate investment trusts is repealed.

The report is due to the Legislature not later than twenty days prior to the convening of the regular session of 2016. The Department defers to DBEDT on the merits of this measure, but notes the following issues. In particular, the Department does not currently track which corporations file an income tax return as a REIT. For Hawaii tax purposes, a REIT files a standard corporation income tax return, just as any other 'C' corporation would file. The Department has not required a REIT to identify itself as such.

In order to identify a REIT, the Department must require the taxpayer to disclose additional information on the tax form. As the forms for tax year 2014 have already been approved and printed, the earliest year for which this information can be obtained from taxpayers will be for the 2015 tax year. Tax returns for the 2015 tax year are due on or before the 20th day of the 4th month following the close of the taxable year.

Thus, a REIT that has a year end of December 31 would not be required to file its 2015 income tax return until April 20, 2016, well after the start of the 2016 Legislative session. In addition, corporations may elect to file their returns up to 6 months after the April due date of the return, which many corporations elect to take. Consequently, the information sought will not be available any earlier than 2017.

In order to facilitate the data collection for the purpose of producing the report required by this measure, the Department suggests that section 235-71(d), Hawaii Revised Statutes, be amended as follows:

(d) In the case of a real estate investment trust there is imposed on the taxable income, computed as provided in sections 857 and 858 of the Internal Revenue Code but with the changes and adjustments made by this chapter (without prejudice to the generality of the foregoing, the deduction for dividends paid is limited to such amount of dividends as is attributable to income taxable under this chapter), a tax consisting in the sum of the following: 4.4 per cent if the taxable income is not over $25,000, 5.4 per cent if over $25,000 but not over $100,000, and on all over $100,000, 6.4 per cent. In addition to any other penalty provided by law any real estate investment trust whose tax liability for any taxable year is deemed to be increased pursuant to section 859(b)(2)(A) or 860(c)(1)(A) after December 31, 1978, (relating to interest and additions to tax determined with respect to the amount of the deduction for deficiency dividends allowed) of the Internal Revenue Code shall pay a penalty in an amount equal to the amount of interest for which such trust is liable that is attributable solely to such increase. The penalty payable under this subsection with respect to any determination shall not exceed one-half of the amount of the deduction allowed by section 859(a), or 860(a) after December 31, 1978, of the Internal Revenue Code for such taxable year.

(1) A taxpayer shall make an affirmative election to be taxed as a real estate investment trust, and as a requirement of such election, shall provide pertinent data as may be required by the department of business, economic development, solely for the purposes of producing any report mandated by the legislature. Failure to meet the requirements of this subsection shall invalidate the election to be taxed as a real estate investment trust. Such information at a minimum shall include:

- (A) The total number of investors in that real estate investment trust and the total amount of dividends paid to those investors;
- (B) The number of Hawaii taxpayers who are direct investors in that real estate investment trust and the total amount of dividends paid to those investors; and
- (C) Whether such real estate investment trust is a captive real estate investment trust. For purposes of this subsection, a "captive real estate investment trust" means a real estate investment trust that is not regularly traded on an established securities market, and where 50 percent or more of the voting stock is owned or controlled, directly or indirectly, by a single entity treated as an association taxable as a corporation under the Internal Revenue Code that is not exempt from the federal income tax and is itself not a real estate investment trust.

(2) Notwithstanding any other law to the contrary, the department may share the name and taxpayer identification number of a taxpayer who has elected to be taxed in accordance with this subsection with the department of business, economic development, and tourism, solely for the purpose of determining whether such taxpayer has complied with the provisions of this subsection. Any tax information submitted in compliance with this subsection shall be treated and afforded with the same confidentiality as a return filed under section 235-116.

Finally, it should be noted that many mutual funds invest in REITs. Consequently, a Hawaii taxpayer may receive dividends from a REIT indirectly when such taxpayer receives dividend from a mutual fund that has investments in REITs. Mutual funds are creations of federal law and are subject to an extensive and detailed regulatory regime as set forth in the Investment Company Act of 1940. As such, a mutual fund cannot be compelled to provide information on the number of Hawaii taxpayers investing in such fund or the amount of income attributable to a REIT operating in Hawaii. Therefore, any report will not be able to provide all of the information as requested in this measure.

Thank you for the opportunity to provide comments.

NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS®

WRITTEN TESTIMONY OF

DARA F. BERNSTEIN
SENIOR TAX COUNSEL
NATIONAL ASSOCIATION OF REAL ESTATE INVESTMENT TRUSTS, INC.
REGARDING S.B. 118, S.D. 1

BEFORE THE HAWAII HOUSE OF REPRESENTATIVES
COMMITTEE ON CONSUMER PROTECTION AND COMMERCE

HONORABLE ANGUS L.K. MCKELVEY, CHAIR
HONORABLE JUSTIN H. WOODSON, VICE CHAIR

and

COMMITTEE ON JUDICIARY

HONORABLE KARL RHOADS, CHAIR
HONORABLE JOY A. SAN BUENAVENTURA, VICE CHAIR

HEARING ON S.B. 118, S.D. 1

MARCH 18, 2015

♦ ♦ ♦
1875 I Street, NW, Suite 600, Washington, DC 20006-5413
Phone 202-739-9400 Fax 202-739-9401 www.REIT.com

The National Association of Real Estate Investment Trusts submits this testimony regarding S.B. 118, S.D.1. NAREIT is the world-wide representative voice of real estate investment trusts (REITs) and publicly traded real estate companies in the United States.

S.B. 118, as originally proposed, would have eliminated what is known as the dividends paid deduction (or DPD) for all REITs operating in Hawaii. S.B. 118, S.D. 1 now provides for a study regarding the impact of REITs operating in Hawaii. NAREIT believes that such a study will demonstrate why the DPD should not be eliminated.

Eliminating the DPD would be contrary to the federal income tax rules applying to widely-held REITs in every state with an income-based tax system like Hawaii except for New Hampshire. It is worth noting that although both Hawaii and New Hampshire have roughly equivalent contributions to the nation economy, REIT investment in Hawaii is about four times that of New Hampshire.

While those who support the legislation as originally proposed state that that investment money can be easily replaced, it is worth noting that as of December 2013, based on filings with the Securities and Exchange Commission, approximately twenty widely-held REITs invested about six billion dollars in commercial real estate in Hawaii that results in the employment of many Hawaii residents. The Hawaii real estate owned by REITs generates millions of dollars in property taxes and excise taxes. These taxes are on top of the individual income taxes currently generated by REIT dividends paid to Hawaii residents from income earned wherever the distributing REIT resides or does business. In addition, the sales generated by the tenants that conduct business on the premises owned and operated by REITs generate jobs and taxes as well. Replacing a $6 billion investment is not as easy as it looks and since tax-exempt organizations such as pension plans and endowments are major investors in large scale commercial real estate, these players would be the most likely to fill any vacuum created by REITs investing in other states. NAREIT hopes that S.B. 118, S.D.1, as amended to provide for a study to analyze the impact of REITs in Hawaii, will bring needed factual clarity to the benefits Hawaii obtains by maintaining conformity to virtually all other states regarding a REIT’s dividends paid deduction.

Background of REITs. Congress created REITs in 1960 specifically to enable small investors to invest in professionally managed, income-producing real estate. REITs are corporations that combine capital of many investors to benefit from a diverse portfolio that may include apartments, hotels, healthcare facilities, shopping centers, senior housing, offices, storage facilities and warehouses. Federal law requires REITs to distribute all their taxable income to their shareholders. The billions of dollars distributed are taxable where the REIT shareholders reside. Hawaii residents invest in REITs that own properties in Hawaii and REITs that own no properties in Hawaii but own properties in other states. The dividend income earned by Hawaii residents in Hawaii is taxed here even if the REIT invested in owns properties elsewhere. The workers who have jobs because of REITs pay income taxes in Hawaii, and the State receives the general excise taxes that this income generates through the purchase of goods and services.

Just Like Other Taxpayers Are Not Taxed On Mandatory Expenses Like Property Taxes, REITs Should Not Be Taxed on the Taxable Income They Cannot Retain. Hawaii allows taxpayers to deduct certain expenses like property taxes when calculating their taxable income. This is because taxpayers should not be taxed on the cash used to pay these expenses. Unlike other businesses, REITs are required to distribute all their income so this income is taxed at the shareholder level. As a result, REITs should not be taxed on money that they cannot keep.

For example, like other businesses, REITs have to pay property taxes. Thus, if both a REIT and non-REIT businesses have $100 of rental income and $10 of property taxes, they both get a $10 deduction. Then, they are both left with $90 ($100-$10). Unlike the other business, the REIT has to distribute the remaining $90. Thus, it has no cash left. Here, it has distributed $90, and is left with $0 in cash; thus, it pays no tax for federal income tax purposes and for state tax purposes in states with corporate income taxes (other than New Hampshire).

Benefits to Hawaii. REITs, such as General Growth Properties, owner of the Ala Moana Shopping Center, and Taubman Centers Inc., the developer of the International Marketplace, have access to public capital markets to raise the large funds needed for such large development projects. The renovation and expansion of Ala Moana enjoys a commitment of over $500 million while the International Marketplace project shows a commitment to invest over $400 million on the part of Taubman. This redevelopment will result in about one thousand construction jobs and 2,500 permanent jobs and all the taxes that activity will produce. These jobs would have been put in jeopardy by the tax proposed as a result of S.B. 118.

Hawaii investors also benefit from REITs. Between January 2010 and 2015, almost 11,000 Hawaii investors invested over $380 million in around 70 SEC-registered, non-listed REITs, some of which have been sold or undergone initial public offerings. These companies have distributed approximately $100 million to these Hawaii investors. In addition to investing in public, non-listed REITs, Hawaii investors invest in publicly traded REITs through mutual funds, particularly mutual funds dedicated to publicly traded REIT stock. In fact, thousands of Hawaii shareholders have invested about $60 million in several dedicated REIT mutual funds sponsored by a single mutual fund company. In 2014 their accounts received income and capital gain distributions totaling $8.5 million. The State is collecting taxes on the millions of dollars distributed to Hawaii investors by these companies and funds that invest in REITs, even though almost all of the properties held by these REITs are located outside of Hawaii.

Except for New Hampshire, every other state that imposes a corporate-level income tax allows the DPD for widely-held REITs. It is hard to imagine Hawaii's position would be improved by partnering with New Hampshire as opposed to being seen as being aligned with the rest of the nation. If Hawaii repeals the DPD, Hawaii would not be viewed as an attractive place for REIT investments. As can be seen from the record, as opposed to the speculation on the part of the supporters of S.B. 118 as originally proposed, the REIT investments have resulted in tremendous value and in jobs, all of which produces income for government and residents. Can Hawaii be assured that much of this investment will not be lost if the DPD is repealed? Logic says much of the investment would be lost, and NAREIT believes that the economic impact study proposed by S.B. 118, S.D. 1 will confirm this.

Accordingly, NAREIT does not oppose a study to analyze the impact of REITs in Hawaii as provided for in S.B. 118, S.D. 1. Thank you again for the opportunity to submit this testimony.

THE SHIDLER GROUP

March 17, 2015

Honorable Angus L.K. McKelvey, Chair
Honorable Justin H. Woodson, Vice Chair
Committee on Consumer Protection and Commerce
Karl Rhoads, Chair
Joy A. San Buenventura, Vice Chair
Committee on Judiciary
State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

Re: Testimony in Opposition to Senate Bill No. 118, S.D. 1 relating to real estate investment trusts

Dear Chairs, Vice-Chairs and Committee Members:

I am submitting this testimony in opposition to Senate Bill No. 118, S.D. 1 on behalf of The Shidler Group, which is based in Honolulu and invests in the formation and capitalization of real estate-related companies and new investment initiatives, including the acquisition and ownership of individual properties and portfolios. The Shidler Group has created real estate investment trusts (REITs) that has invested in Hawaii and in the Mainland including Pacific Office Properties which is headquartered in Honolulu.

Congress created REITs in order to provide investors a way to invest in professionally run real estate companies. Historically, real estate has been owned in the United States by "pass-through" entities such as limited partnerships and more recently limited liability companies. In order to allow REITs to compete with these vehicles, they were allowed a dividends paid deduction in exchange for paying out virtually all of their taxable income. As publicly traded companies, REITs also provide investors with liquidity previously unavailable to real estate investments.

Hawaii, via Senate Bill 118, S.D. 1 is reconsidering this investment vehicle after more than 40 years. Apparently the premise is that REITs are bad for Hawaii because there are more mainland shareholders of the REITs doing business in Hawaii than there are Hawaii investors in REITs doing business outside of Hawaii. In other words we are losing some income tax revenue from the non-Hawaii residents.

Even if this argument is true, I would encourage you to focus on what we have gained rather than we have lost. If there are more non-Hawaiian REIT investors than Hawaiian REIT

Shidler Pacific Advisors, LLC
841 Bishop Street • Suite 1700 • Honolulu, Hawaii 96813 • (808) 531-3000 • Fax (808) 528-7127

investors, that must mean that we have benefited by receiving a disproportionate share of the money raised by REITs and invested in real estate. How have we benefited from this additional investment? Improved and expanded retail properties (Ala Moana Center), renovated retail properties (International Marketplace), improved hotel properties (Starwood), and additional jobs. These types of assets are producing significantly greater sales because of those investments. The gross sales are all subject to general excise tax (GET) and transient accommodations tax (TAT) in the case of the hotel properties. The tax revenue that is raised the GET and TAT dwarfs the additional tax we could collect by taxing REITs corporate income. Furthermore, a significant portion of GET and TAT is being paid by non-Hawaiian residents. I believe that REIT investment in Hawaii has been a huge windfall for our state.

Enacting Senate Bill 118, S.D. 1 would discourage future REIT investment in Hawaii. If other states enacted similar legislation, that would seriously cripple the REIT industry and would prevent many Hawaiians from participating in the real estate markets.

I also believe that it is bad public policy to change the tax laws applicable to certain investments, after the investment has been made. Hawaii already receives more than our share of negative publicity about being business unfriendly.

Before enacting such important legislation, I urge you to undertake a study to determine the true impact of REITs on Hawaii's economy.

Thank you for the opportunity to present my view.

Sincerely,

Lawrence J. Taff
Managing Partner
The Shidler Group

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DATE: March 18, 2015

TO: The Honorable Angus McKelvey, Chair
and Members of the House Committee on Consumer Protection

The Honorable Karl Rhoads, Chair
and Members of the House Committee on Judiciary

SUBJECT: SB 118, SD 1, Relating To Real Estate Investment Trusts

We were previously concerned regarding the original intent of SB 118 which will disallow dividends paid tax deduction for Real Estate Investment Trusts (REIT). We are, however, in favor of the amended language under SD 1 to require the Department of Business, Economic Development, and Tourism to study and collect data on the economic impact of real estate investment trusts in Hawaii.

We believe that a comprehensive and meaningful study will demonstrate REIT corporations make a significant contribution to Hawaii's tax base by paying General Excise Tax (GET) and dividends paid to shareholders are taxed as income. REITs investments in Hawaii are valued at more than $6 billion dollars with primary investments in commercial properties for long term capital appreciation.

New Hampshire is the only state that disallows dividends paid deduction for REITs. Forbes ranks Hawaii among the bottom 5 states with a poor business climate and describes Hawaii as, "most onerous business tax situations."

Hawaii needs to continue to attract REITs which creates businesses, which in turn create jobs, and yes, contributes to our local economy tax base. The State of Hawaii collects GET from the lease rent and retail sales. The State government also receives collections on employee payroll taxes. The four counties collect higher property tax assessments. Double taxing REITs will enhance tax revenues for the short term, but it will have devastating long term effects as REITs will take their investments to other states with a more favorable tax climate.

Thank you for allowing us to provide our comments.

Bert A. Kobayashi
Chairman & CEO
Kobayashi Development Group

Duncan MacNaughton
Chairman & Founding Partner
The MacNaughton Group

ENVISION CREATE

LAND USE RESEARCH
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March 13, 2015

Representative Angus L.K. McKelvey, Chair
Representative Justin H. Woodson, Vice Chair
House Committee on Consumer Protection and Commerce

Representative Karl Rhoads, Chair
Representative Joy A. San Buenaventura, Vice Chair
House Committee on Judiciary

Testimony in Support of SB 118, SD1, Relating to Real Estate Investment Trusts (REITs); Dividends Paid Deduction (DPD); Income Tax; and Department of Business, Economic Development and Tourism (DBEDT) Study.

Wednesday, March 18, 2015, 2:00 p.m., in Conference Room 325

The Land Use Research Foundation of Hawaii (LURF) is a private, non-profit research and trade association whose members include major Hawaii landowners, developers and a utility company. LURF's mission 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.

SB 118, SD1. In view of controversy surrounding the possible disallowance of the DPD for REITs, this bill proposes to require, and appropriate funds for the DBEDT to study the impact of such trusts and the disallowance of the DPD in Hawaii.

LURF's Position. Given that an unwarranted change of such a universal tax rule in place since 1960 may adversely affect investments currently made by REITs in Hawaii; significantly reduce the availability of capital in this State; and result in other undesirable, damaging economic repercussions, LURF concurs that it is advisable and prudent for the Legislature, prior to considering the disallowance of the DPD, to require support for such a proposal in the form of a study or studies containing material facts proving that the State's economy will not be negatively affected as a result of the taking of such action. Specific inquiries may include how much money the State would actually receive as a result of the passage of legislation disallowing the DPD,[1] especially given the likelihood that REIT investment in Hawaii will in turn, decline (i.e., whether the proposed measure is fiscally reasonable); and whether it would be possible to replace the billions of dollars currently being invested in this State by REITs.

LURF agrees with proponents of this bill that it would be irresponsible and indefensible for lawmakers to pass legislation which may potentially stifle, if not reverse the current growth of the State's economy, without first conducting a thorough review and analysis of all the facts and information relating to the disallowance of the DPD for REITs, as well as the potential consequences thereof.

For the reasons stated above, LURF **supports SB 118, SD1**, and recommends the passage of this bill by these Committees.

Thank you for the opportunity to provide testimony regarding this proposed measure.

[1] LURF understands that the State Department of Taxation currently does not even know how much money the government might gain from the disallowance of the DPD.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Real estate investment trusts

BILL NUMBER: SB 118, SD-1

INTRODUCED BY: Senate Committee on Ways and Means

BRIEF SUMMARY: Requires the department of business, economic development and tourism (DBEDT), with the assistance of the department of taxation, to study the impact of real estate investment trusts in Hawaii and the effect of repealing the dividends paid income tax deduction for state income tax purposes.

Appropriates $______in general funds for fiscal 2016 to DBEDT to conduct a study on real estate investment trusts in Hawaii.

EFFECTIVE DATE: July 1, 2015

STAFF COMMENTS: Currently under federal and state income tax law, a real estate investment trust (REIT) is allowed a dividend paid deduction, unlike most other corporations, resulting in that dividend being taxed once, to the recipient, rather than to the paying corporation. While the original measure would have made that section of the IRC inoperative for Hawaii income tax purposes for tax years beginning after 12/31/15, meaning that REITs would be subject to double taxation similar to other corporations, this measure is merely a study of the impact of REITS in Hawaii.

All state income tax systems in the United States, including ours, have a set of rules that are used to figure out which state has the primary right to tax income. For example, most tax systems say that rent from real property is sourced at the location of the property, so if a couple in Florida rents out a property they own on Maui they can expect to pay our GET and our net income tax on that rent. These sourcing rules, which do vary by state but are relatively consistent across state lines, are there to assure consistent and fair treatment between states.

Sourcing rules, however, can yield strange results. Here, there is a Hawaii Supreme Court case saying that when real property is sold on the installment basis under an "agreement of sale," where the seller remains on title until the price is paid (although the buyer can live in the house), then the interest on the deferred payments is Hawaii source income and is subject to our net income tax and our GET. There is also a Hawaii Tax Appeal Court case holding that when the seller instead finances the deal by taking a purchase money mortgage on the property, and does not remain on title, then the mortgage interest is sourced to the residence of the seller, who in that case did not live in Hawaii. In the second case the court applied the rule for income from intangibles such as interest, royalties, and dividends, which says that income is sourced to the residence of the recipient unless you can connect it with some active business that the recipient is conducting somewhere else.

Real estate investment trusts (REITs) are source shifters. For income tax purposes, they take in rent income, which is sourced to the location of the property being rented. They don't pay income tax on that income as long as they distribute the money to their shareholders as dividends. The dividend income of their shareholders, on the other hand, is generally sourced to the residence of the shareholders. So the income that the property states expected to tax is instead taxed in the states in which the shareholders live. And, to the extent that REIT shares are held by tax-exempt entities such as labor unions and retirement funds, passive income such as dividends may not be taxed at all. Source shifting is an issue specific to state taxation.

Apparently the evil sought to be addressed by the bill is that REITs are in Hawaii, but do not get taxed because of the deduction allowed for dividends paid, while many REIT owners who receive the dividend income are either outside of Hawaii and don't get taxed either because they are outside of Hawaii, or are exempt organizations that normally are not taxed on their dividend income. Normally we like to have our income tax law conform to the Internal Revenue Code to make it easier for people and companies to comply with it, but our legislature has departed from conformity when there's a good reason to do so (such as if it is costing us too much money). The issue is whether such a good reason exists here.

REITs do pay general excise and property taxes on rents received and property owned – as do the rest of us who are fortunate enough to have rental income or property to our name.

While the committee on Ways and Means could not obtain data on the economic impact of REITS in Hawaii and their impact on tax revenue in the state, the measure directs DBEDT to conduct a comprehensive study on REITS including any recommended legislation.

Digested 3/16/15

GGP

March 17, 2015

Hearing Date: Wednesday, March 18, 2015
Time: 2:00 pm
Place: State Capital, Conference Room 325

Hon. Angus McKelvey, Chair
Committee on Consumer Protection & Commerce

Hon. Karl Rhoads, Chair
Committee on Judiciary

State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

Re: Testimony regarding Senate Bill No. 118, SD1

Dear Chairman McKelvey, Chairman Rhoads, and Hon. Committee Members of the Committees on Consumer Protection & Commerce and Judiciary:

Thank you for the opportunity to provide testimony on Senate Bill No. 118, SD1, which would require the Department of Business, Economic Development & Tourism ("DBEDT") and the Department of Taxation ("DOT") to study the impact of real estate investment trusts ('REITs") in Hawaii and the possible effect of repealing the dividends paid deduction for REITs.

We are Francis Cofran, the Senior General Manager of Ala Moana Center, the largest retail center in the state of Hawaii, and Sandeep Mathrani, the Chief Executive Officer of General Growth Properties, Inc. ("GGP").

GGP would be supportive of a State sponsored study along the lines of SB 118, SD1, with the understanding that interested parties be allowed provide input to DBEDT and DOT in connection with such study.

For the reasons set forth in our previous testimony attached hereto, GGP continues to strongly but respectfully oppose the elimination of the dividend paid deduction for REITs. We greatly appreciate the opportunity to testify and your consideration of our views.

Sincerely,

Francis Cofran
Senior General Manager

Sandeep Mathrani /s/

Sandeep Mathrani
Chief Executive Officer

Attachment

GGP

February 17, 2015

Hearing Date: Wednesday, February 18, 2015
Time: 9:00 am
Place: State Capital, Conference Room 211

Senator Jill N. Tokuda, Chair
Senator Ronald D. Kouchi. Vice-Chair
Senate Committee on Ways and Means
State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

Re: Testimony in Opposition to Senate Bill No. 118

Dear Chairman Tokuda, Vice-Chairman Kouchi, and Committee Members:

Thank you for the opportunity to provide written testimony on Senate Bill No. 118, which would eliminate the federal tax deduction for dividends paid by a real estate investment trust ("REIT") for purposes of Hawaiian income taxation. We are Francis Cofran, the Senior General Manager of Ala Moana Center, the largest retail center in the state of Hawaii, and Sandeep Mathrani, the Chief Executive Officer of General Growth Properties, Inc. ("GGP"), an S&P 500 publicly traded REIT, the owner of Ala Moana Center.

GGP owns 121 shopping malls in 40 states with 124 million square feet of gross leasable space. Our mission is to own and operate best-in-class retail properties that provide an outstanding environment and experience for our communities, retailers, employees, consumers and shareholders. GGP operates three major retail shopping centers in Hawaii – the Prince Kuhio Plaza in Hilo, Whalers Village in Lahaina, and the Ala Moana Center in Honolulu. The latter two are iconic visitor attractions that help to sustain Hawaii's important tourism industry, with the majority of their respective sales made by tourists.

REITs are primarily engaged in owning and operating real estate assets and are generally required to pay out all taxable income in the form of dividends. The REIT's shareholders are subject to income tax on the dividends in their state of residence. This is the uniform and consistent single-tax environment in all states, except New Hampshire where REITs do not have a substantial presence. We believe the New Hampshire tax has inhibited REIT investment.

REITs have a significant real estate investment in Hawaii, which, in turn, produces substantial economic benefits, such as jobs, general excise tax on rents from tenants, general excise tax on sales of goods by tenants, income tax on profits from tenants, real property taxes, and individual income tax from employment of residents of Hawaii.

At Ala Moana Center, GGP has or will be investing almost $1 billion in capital to construct additional retail square footage and luxury residential condominiums based on the existing Hawaiian tax regime. We are making this investment using local partners; Hawaiian Dredging is the general contractor for the retail expansion and The MacNaughton Group, The Kobayashi Group, and Blacksand Capital are our partners in the residential condominiums.

This $1 billion investment is producing substantial benefits to the Hawaiian economy. During the construction period, we estimate economic activity of 11,600 full- and part-time jobs and over $146 million of state revenue including indirect community benefits (known as the "ripple effect"). Post the construction period, the shopping center investment alone will produce an incremental $33 million of state revenue and 3,000 jobs annually.

We are considering future expansion plans at Ala Moana Center that may be as much as an additional $2 billion. However, we would need to reconsider whether this investment could be more profitably deployed elsewhere if Senate Bill No. 118 was enacted. GGP evaluates investment opportunities throughout the United States, and the state tax implications of those investment opportunities impact our capital allocation decisions. The enactment of Senate Bill No. 118 or bills of this type ultimately reduce the attractiveness of investing in Hawaii.

Please do not allow a short-term revenue increase to override the long-term economic benefits that REIT investment under the existing tax regime brings to the state of Hawaii and its residents. For the foregoing reasons, we respectfully oppose Senate Bill No. 118 and urge you to not let it move forward. Thank you for your consideration.

Sincerely,

Francis Cofran
Senior General Manager

Sandeep Mathrani /s/

Sandeep Mathrani
Chief Executive Officer

WRITTEN TESTIMONY OF

ASHLEY H. PEEPER,
VP OF TAX

and

JOSEPH T. JOHNSON,
CHIEF FINANCIAL OFFICER

CNL LIFESTYLE PROPERTIES, INC.

BEFORE THE HAWAII HOUSE OF REPRESENTATIVES
COMMITTEE ON CONSUMER PROTECTION AND COMMERCE

HONORABLE ANGUS L.K. MCKELVEY, CHAIR
HONORABLE JUSTIN H. WOODSON, VICE CHAIR

and

COMMITTEE ON JUDICIARY

HONORABLE KARL RHOADS, CHAIR
HONORABLE JOY A. SAN BUENAVENTURA, VICE CHAIR

HEARING ON S.B. 118, S.D. 1

MARCH 18, 2015

On behalf of our shareholders, we thank you for this opportunity to voice our opinion on H.B. 82 and its companion S.B. 118. We represent CNL Lifestyle Properties, Inc. ("CLP"), a real estate investment trust, or "REIT", which owns Wet 'N' Wild Hawaii located in Kapolei, Hawaii. CLP is an unlisted publicly owned REIT that invests in lifestyle related properties such as ski resorts, gated attractions, waterparks, marinas, and healthcare facilities. CLP, like most REITs, has a long-term investment focus and is committed to creating sustainable value at its properties. CLP leases many of its properties under long-term leases to operators who are highly qualified in each of their respective industries. For example, we have leased Wet 'N' Wild Hawaii to an affiliate of Premier Parks, LLC which owns and operates several amusement and water parks throughout the United States. Because CLP has a long-term investment objective, we lease our properties on a long-term basis, as we have done here in Hawaii, typically for 20 years with multiple renewal extensions.

Modeled after mutual funds, Congress created REITs in 1960 to allow even the smallest investor to own and benefit from professionally managed, institutional quality, income-producing real estate. CLP currently has approximately 93,000 shareholders which are comprised of mostly individual or family owners, with few or no institutional investors. As with all REITs, CLP must meet many strict and costly requirements in order to maintain its status as a REIT. For example, REITs must distribute at least 90% of their taxable income annually, shares must be transferrable, they cannot be "closely held", they cannot "flip" properties without being subject to a 100% tax on the gain, and they cannot provide more than a small amount of tenant-specific services (like maid service in apartments) without jeopardizing REIT status. For this reason, REITs are not "unfairly" advantaged; they face additional burdens for which they receive the benefit of the dividends paid deduction.

S.B. 118, as originally proposed, would have eliminated what is known as the dividends paid deduction (or DPD) for all REITs operating in Hawaii. S.B. 118, S.D. 1 now provides for a study regarding the impact of REITs operating in Hawaii. We believe this study will demonstrate why the DPD should not be eliminated.

The elimination of the DPD would be inconsistent with federal tax rules and the existing rules of virtually all other states with an income based tax system. Additionally, we believe that our investment and the investments by other REITs in Hawaii are beneficial to the state and that such a tax would have the undesirable consequence of discouraging additional investments in the future. We strongly believe the proposed legislation's lack of conformity with the federal tax rules and the tax rules of most other states will diminish competitiveness of Hawaii to attract and to retain capital investments. If Hawaii repeals the dividends paid deduction, Hawaii would no longer be viewed as an attractive place for REIT investments by the market place.

CLP acquired Wet 'N' Wild Hawaii (formerly known as Hawaiian Waters) for $15 million in May 2009. Since that time, we have worked to identify capital improvements and maintenance projects to enhance the park experience and to make the water park even more successful. To that end, we have since invested several million additional dollars in the park to make enhancements and improvements which helps to draw both local residents and vacationers to the park.

CLP believes that its ownership of Wet 'N' Wild Hawaii and its motivation to continue to invest in the waterpark benefits the State of Hawaii in many ways, including:

- **JOBS.** Wet 'N' Wild Hawaii employs more than 350 employees with payroll and benefits in excess of $1.7 million.

- **CAPITAL IMPROVEMENTS.** Given the long-term nature of our investment and the structure of our leases, we are motivated (provided we are not subsequently discouraged by state tax law) to make sizeable investments to achieve orderly, sustainable growth at our properties. Waterpark infrastructure is expensive to both acquire and maintain which is a key reason there are so few waterparks in existence. Our principal investment objective is to preserve, protect, and enhance the long-term value of our assets. CLP is positioned to make, and has made, sizeable investments after it purchases waterparks because our REIT business model does not depend on a "quick flip" sale of the resort or high "private equity" level returns to our investors. This is why we have invested more than $3 million to install new rides, including a family friendly raft ride and a state of the art racing slide. We also have plans to make an additional investment of $750,000 to install a new waterslide in during 2015.

- **CAPITAL MAINTENANCE.** The existing infrastructure of a waterpark is extensive and costly to maintain on an annual basis. Once a property has fallen behind on maintenance, repair, and replacement schedules, a waterpark can begin a downward spiral of its annual business volume. Our REIT business model and structure of our tenant leases ensure we do not neglect this critical obligation. In fact, since it acquired the property in May 2009, CLP has invested more than $1.7 million for repair and maintenance items, including –

    - Refurbishment of pools and slides,
    - New pumps and equipment for rides,
    - New filtration systems for the pools,
    - New restaurant equipment, and
    - Parking lot refurbishment.

- **STABILITY.** CLP's focus is to create stability for both its shareholders, the State of Hawaii, as well as for the communities and families that depend on the economic contribution provided by Wet 'N' Wild Hawaii. To this end, CLP's stated target leverage ratio is not to exceed 50%. Market demands placed on public REITs have compelled REIT managers to use debt conservatively, which means properties do not have to be managed solely to generate the cash flow required to service high levels of debt. Our low leverage ratio gives us greater control over our assets, complementing and enhancing our investment view. A lower debt versus equity ratio cushions CLP (and other REITs) from the negative effects of fluctuations in the real estate market that have traditionally occurred over time.

- **TAXES GENERATED BY WET 'N' WILD HAWAII.** CLP's ownership of this prominent Hawaii property produces substantial tax revenue for Hawaii – revenue that will grow if continued investment motivation is not diminished by this ill-advised proposed legislation:

    - **Payroll Taxes.** Payroll taxes on employee wages totaled $197,208 in 2014.

    - **General Excise and Use Tax – Property Operations.** The tax revenues in this category totaled $497,060 in 2014.

- **General Excise and Use Tax – Rent.** Because CLP is a REIT and must use a lease structure, we are required to pay General Excise Tax on the rent received for both real and personal property. This tax was approximately $127,000 for 2013 and $117,000 for 2014.

- **Gas Taxes.** State taxes paid on gasoline purchases by guests traveling to and from the park.

- **Property Taxes.** CLP paid approximately $285,000 in property tax for 2014.

- **Transfer Taxes.** CLP paid a transfer tax of $62,000 when it acquired the waterpark.

- **Taxes on Seller's Gain in Connection with Properties Sold to REITs.**

- **Dividend Taxes Paid by REIT Investors.** REIT investors currently pay tax on their dividend income in their state of residence. The current system allows the State of Hawaii to collect taxes annually from REIT shareholders in Hawaii through personal state income taxes no matter where the REIT does business. <u>By adopting HB 82 / SB 118 and imposing a tax at the corporate REIT level, Hawaii would reduce the amount of cash ultimately available to be paid to Hawaii investors, thus putting them at an economic disadvantage</u>.

In addition, we believe that Wet 'N' Wild Hawaii further benefits the State of Hawaii and the island of Hawaii by creating an attractive amenity that helps draw visitors from the U.S. mainland, Japan and other locations.

In conclusion, though we do not oppose a study to analyze the impact of REITs in Hawaii as provided for in S.B. 118, S.D. 1, we strongly urge that Hawaii not impose double taxation on REITs. If adopted, this unwise legislation would (i) put Hawaii at a competitive disadvantage compared to virtually all other states, (ii) penalize Hawaii citizens who invest in REITs by reducing their returns, and (iii) discourage REITs from investing in Hawaii properties. Further, this legislation would have a chilling effect on the motivation of REITs, like CLP, which currently own property in Hawaii, to improve these assets and grow their positive economic impact through additional capital investment.

We thank you again for this opportunity to provide testimony against H.B. 82 / S.B. 118 and sincerely hope you consider our strong opposition to this proposed legislation.

Taubman

March 18, 2015

Honorable Angus L.K. McKelvey, Chair
Honorable Justin H. Woodson, Vice Chair
Committee on Consumer Protection & Commerce

Honorable Karl Rhoads, Chair
Honorable Joy A. San Buenaventura, Vice Chair
Committee on Judiciary
State Capitol (conference room 325)
415 South Beretania Street
Honolulu, Hawaii 96813

Re: Testimony in Support of Senate Bill No. 118, S.D. 1 relating to real estate investment trusts

Dear Chair McKelvey, Vice-Chair Woodson, Chair Rhoads, Vice-Chair San Buenavetura and Committee Members:

On behalf of Taubman Centers, thank you for the opportunity to provide our testimony in support of Senate Bill No. 118, S.D. 1, which is being heard by the Committees on CPC and JUD on March 18, 2015 at 2:00 p.m. Senate Bill 118, as originally proposed, would disallow the dividend paid deduction for real estate investment trusts ("REITs"). Senate Bill 118, S.D. 1 now requires and appropriates funds for the Department of Business, Economic Development & Tourism ("DBEDT") to study REITs. While we oppose the original proposed amendment to Hawaii's existing state income tax law affecting REITs, we believe such a study will indicate why the dividend paid deduction for a REIT should be permitted and therefore why there should be no change in the existing law.

We offer the following background on Taubman, our business activity in Hawaii and an explanation of our tax treatment as a REIT. We are an S&P MidCap 400 publicly-traded and widely owned REIT engaged in the ownership, operation, management, development and leasing of 21 regional, super-regional and outlet shopping centers in the U.S. and Asia.

Taubman is a new investor in Hawaii and began construction last year with Queen Emma Land Company and our partner Coastwood Capital Group to redevelop and revitalize International Market Place in Waikiki, Honolulu, Hawaii. Our shopping center will include approximately 75 retailers and is designed to celebrate the rich history of the site and offer a Hawaiian sense of place that honors Queen Emma's legacy while adding vitality and appeal to Waikiki for tourists and residents alike. We are very excited about this project and to be part of the business community in Hawaii.

We are organized, owned and operated in a manner to qualify as a REIT under the Internal Revenue Code for federal income tax purposes. A REIT is a conduit vehicle designed to allow many small investors to participate in real estate development and ownership. Some of the requirements to qualify as a REIT include (1) ownership by at least 100 shareholders, (2) a prohibition on being closely held and controlled by limiting ownership by five or fewer persons to no more than a 50% interest in the REIT, (3) meeting certain asset and income tests to ensure we are primarily invested in real estate and operate it for rental purposes as a long term investor, and (4) paying out all of our taxable income as cash dividends to our shareholders. Failure to meet these requirements results in losing our REIT tax status or in some circumstances harsh penalties like a prohibited transaction tax for not holding property as a long term investor in a rental real estate business. For meeting these stringent tests, Taubman Centers, like all REITs, is entitled to a deduction for dividends paid to our shareholders to reduce our taxable income. It is this deduction afforded in the federal tax law and permitted by virtually all other states that Senate Bill No. 118 as originally proposed would eliminate and disallow for Hawaii corporate income taxation.

Because of the forced dividend requirement to distribute all of its taxable income, a REIT's taxable income is effectively taxed at the shareholder level by the state taxing jurisdictions in which the shareholders reside. This allows for a single level of taxation at the shareholder level and no double taxation (i.e., it prevents taxation at both the entity level and again at the shareholder level) and is consistent with the treatment of investors in mutual funds that are treated as regulated investment companies for tax purposes. For publicly-traded and widely held REITs, state income taxation based on the shareholder's residence is the uniform tax treatment in virtually all states that impose an income based tax system.[1] This results in state income taxation by Hawaii on dividends received by Hawaii residents who are shareholders in REITs that may own property and operations outside of the State.

Please note that those taxpayers organized by corporations who do not qualify as a REIT are not entitled to a deduction for dividends paid in the computation of their taxable income. However, those taxpayers are not required to meet the restrictions on ownership and stringent operational and distribution requirements imposed on companies like us to qualify as a REIT and entitle them to a deduction for dividends paid. This means they are not required to be long term investors in real estate and are not required to distribute all of their taxable income as cash dividends. Therefore these taxpayers can retain more cash to fund their operations when a REIT is required to distribute its income to its investors and shareholders.

[1] We have no objection to limiting the dividend paid deduction for captive or privately owned REITs. They are different than widely owned REITs since captive REITs are primarily used as a tax strategy to lower their affiliate's effective income tax rate from non-real estate business activities.

Approximately 20 publicly-traded REITs have invested over $6 billion in commercial real estate in Hawaii and are responsible for significant economic activity in the construction industry, resort industry, restaurant and retail industry, office and industrial leasing and others. Taubman alone has committed an investment of over $450 million for the redevelopment of International Market Place. In addition after opening in 2016 our shopping center will require investment to fund significant capital expenditures on a recurring annual basis to maintain the property to our standards and provide the highest quality shopping destination for our shoppers and tenants. A REIT's ability to access and raise capital with equity offerings in the public markets to make these type of real estate investments in Hawaii and other states make it a unique investment vehicle and a major advantage over privately held real estate with a limited amount of investors.

Such business activity generates substantial economic benefit for Hawaii, including providing jobs, as well as significant tax revenues for the State government. The tax revenues include substantial general excise taxes on rents from tenants, on the sale of goods and services at retail by the tenants, and on construction activities, transient accommodations taxes on revenues from hotel operations, business income tax from profits from tenants and contractors, increased real property taxes, and individual income tax from employment of residents of Hawaii in the construction, retail, restaurant and resort industries.

Taubman's shopping center development is currently under construction and is projected to generate over $10 million annually in general excise tax (from landlord rents and by tenants from retail sales of merchandise) and over $4 million annually in property taxes. It will result in employment of over 1,000 construction jobs and 2,500 permanent jobs, which generate both general excise tax revenues from construction work and individual income tax revenues from both the construction and permanent jobs.

Such a policy change in state taxation of REITs is likely to discourage future investment by REITs in Hawaii, stifling the availability of capital[2] and putting Hawaii at a competitive disadvantage versus virtually every other state when trying to attract capital for investment in the State. Because investments by REITs generate so much economic activity and create so many local jobs in the State, disallowing the deduction for dividends paid not only would hurt workers in Hawaii, over the long run, it ultimately may result in less tax revenue for the State as its makes Hawaii unattractive for investment by REITs resulting in less economic activity. We believe the economic study proposed with Senate Bill 118, S.D. 1 should confirm this.

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[2] As of December 31, 2014, there were approximately 200 publicly-traded REITs in the United States, with a market capitalization of around $800 billion.

Thank you for your consideration of our testimony.

Very truly yours,

Chris B. Heaphy
Assistant Secretary
Taubman Centers, Inc

200 East Long Lake Road
Suite 300
Bloomfield Hills, Michigan
48304-2324

T 248.258.6800
www.taubman.com

WAIKELE

An American Assets Trust Property

March 16, 2015

Honorable Angus L.K. McKelvey, Chair
Honorable Justin H. Woodson, Vice Chair
Committee on Consumer Protection and Commerce
State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

Honorable Karl Rhoads, Chair
Honorable Joy A. San Buenaventura, Vice Chair
Committee on Judiciary
State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

Re: Written Testimony to Senate Bill No. 118, SD 1 regarding Real Estate Investment Trusts
March 18, 2015 hearing at 2:00 p.m.

Dear Chair McKelvey, Vice-Chair Woodson, Chair Rhoads, Vice-Chair San Buenaventura and Committee Members:

My name is Pamela Wilson, and I am the General Manager of Hawaii Real Estate for American Assets Trust. I am a life-long resident of our Islands. I have worked for American Assets Trust for the past nine years and have witnessed the positive impact that they have had on our communities. American Assets Trust is a New York Stock Exchange-listed Real Estate Investment Trust (REIT) engaged in acquiring, improving, developing and managing premier retail, office and residential properties primarily in Hawaii, Southern California, Northern California, Oregon, and Washington State.

S.B. 118 as originally proposed would have eliminated the dividends paid deduction (or DPD) for all REITs operating in Hawaii. SB 118, SD1 now provides for a study regarding the impact of REITs operating in Hawaii. American Assets Trust believes that the outcome of that study will demonstrate why the DPD should not be eliminated.

REITs allow ordinary Americans to invest in real estate. As with all REITs, and unlike other non-REIT property owners, we must satisfy many strict and expensive requirements in order to maintain our REIT status. One of the requirements is to distribute annually all of our taxable income to shareholders in order for all of our earnings to be taxed at the shareholder level. Another requirement is to own properties for the long-term, rather than to develop and sell properties. This bill, as originally proposed, would have penalize not only the REITs themselves, but also Hawaii residents and pension funds who invest in REITs owning Hawaii real estate.

94-849 Lumiania Street Suite 100 Waipahu, Hawaii 96797
Telephone: 808 671-7977 Facsimile: 808 678-8170
Email: pwilson@americanassets.com

Like most REITs, American Assets Trust is a long-term property investor. We are committed to creating sustainable value at our properties. American Assets Trust owns four properties in Hawaii: The Shops at 2150 Kalakaua; Waikele Center; Waikiki Beach Walk and the Embassy Suites-Waikiki Beach Walk. In particular, approximately ten years ago, American Assets Trust made a significant investment to acquire the Waikiki Beach Walk with our partner Outrigger Enterprises, at that time. Our understanding is that capital from local investors was not available to make this investment during that period. As a publicly traded company, American Assets Trust has access to the public capital markets, which provides an efficient source of capital to invest in and improve properties like Waikiki Beach Walk. Since then American Assets Trust has provided additional capital for improvements to maintain this property as a world class destination.

Since making these investments, the entire area has improved tremendously. From creating local businesses that produce many jobs, increased business activity, and additional improvement to the state's economy (including through generation of additional payroll, general excise, and income taxes earned by residents employed at these properties). Not to mention the growth in tourism over the last decade which in large part is a result of the long term patient capital allocation by REITs to create high quality, world class retail and resort destinations that tourists enjoy and are drawn back to time and time again.

Notably, the REIT business model does not depend on "flipping" properties but on providing sustainable returns to our investors from distributions of current earnings and modest capital appreciation of our stock. Thus, we are incentivized (assuming state law regarding REITs does not change) to continue making additional investments in Hawaii at these properties.

Furthermore, unlike other non-REIT property investors, publicly traded REITs like American Assets Trust are compelled by market forces to borrow money at a conservative level. As a result, we do not have to manage our properties in a manner just to generate the cash flow required to service higher levels of debt. This conservative debt level provides a cushion for American Assets Trust when there are fluctuations in the real estate market and provides stability for the community and families that depend on the economic contributions provided by the continued vitality of Waikiki Beach Walk and our other Hawaii properties.

As a REIT that invests in multiple states, a double taxation would make Hawaii less attractive and encourage the placement of investments in other states that do permit the Dividend Paid Deduction (DPD). Why would investors choose to do business in a state where they are subject to double taxation when they could invest in 48 other states that wouldn't penalize them? As originally proposed, SB 118 would have made Hawaii only one of two states that would subject REITs to corporate income taxation, upsetting the uniformity of state taxation principles between all states except New Hampshire, which has about a fourth of REIT investment compared with Hawaii. How can this possibly benefit the State? American Assets Trust is confident that the economic impact study proposed by S.B. 118, S.D.1. will validate this and as such does not oppose a study.

Thank you for the opportunity to submit this testimony.

Pamela R. Wilson

Pamela R. Wilson
General Manager, Hawaii Real Estate
American Assets Trust

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HAWAIIAN DREDGING
CONSTRUCTION COMPANY, INC.

March 17, 2015

Hearing Date: Wednesday, March 18, 2015
Time: 2:00 p.m.
Place: State Capitol, Conference Room 325

Hon. Angus McKelvey, Chair
Committee on Consumer Protection & Commerce

Hon. Karl Rhoads, Chair
Committee on Judiciary

State Capitol
415 South Beretanina Street
Honolulu, HI 96813

Re: Testimony in Opposition to Senate Bill No. 118, SD1

Dear Chairman McKelvey, Chairman Rhoads, and Hon. Committee Members of the Committees on Consumer Protection & Commerce and Judiciary:

Thank you for the opportunity to provide testimony on Senate Bill No. 118, SD1, which would require the Department of Business, Economic Development & Tourism ("DBEDT") and the Department of Taxation ("DOT") to study the impact of real estate investment trusts ("REITs") in Hawaii and the possible effect of repealing the dividends paid deduction for REITs.

Hawaiian Dredging Construction Company, Inc. would be supportive of a State sponsored study along the lines of SB 118, SB1, with the understanding that interested parties be allowed to provide input to DBEDT and DOT in connection with such study.

For the reasons set forth in our previous testimony, HDCC continues to oppose the elimination of the dividend paid deduction for REITs.

Thank you for the opportunity to testify and your consideration of our view.

Sincerely,

William J. Wilson
Chairman of the Board
Hawaiian Dredging Construction Company, Inc.

Testimony to House Committees on Consumer Protection and Commerce and Judiciary

Representative Angus L.K. Mckelvey, Chair ~ Consumer Protection
Representative Justin H. Woodson, Vice Chair ~ Consumer Protection

Representative Karl Rhoads, Chair ~ Judiciary
Representative Joy A. San Buenaventura, Vice Chair ~ Judiciary

Wednesday, March 18, 2015 at 2:00 p.m.
Conference Room 325, State Capitol

Re: <u>Testimony in Support of Senate Bill 118, SD1</u>

Dear Chairs McKelvey and Rhoads, Vice Chairs Woodson and San Buenaventura and Members of the Joint Committee:

On behalf of the Retail Merchants of Hawaii (RMH), thank you for the opportunity to provide testimony on SB 118, SD1, which would require the Department of Business, Economic Development & Tourism (DBEDT) and the Department of Taxation (DOT) to study the impact of real estate investment trusts (REITs) in Hawaii and the possible effect of repealing the dividends paid deduction for REITs.

RMH is a not-for-profit trade organization representing nearly 3,000 storefronts statewide, and its membership includes both REITs and non-REITs. The retail industry is the largest single generator of general excise tax revenue and employs 25% of the workforce in the State of Hawaii. We are committed to working with multi-agency partners to foster the growth and welfare of the retail industry.

RMH supports a State sponsored study along the lines of SB 118, SD1, with the understanding that interested parties be allowed to provide input to DBEDT and DOT in connection with such study.

REITs in Hawaii, such as General Growth, Taubmann Centers, Inc. and others, have access to public capital markets to raise the large funds needed for such large development projects. The current redevelopment project in Hawaii, will result in hundreds of construction jobs and over 2,500 permanent jobs. Additionally, the revenue made by the tax activity will benefit Hawaii's economy greatly. These jobs would have been put in jeopardy by the tax proposed in S.B. 118. Between January 2010 and 2015, nearly 11,000 Hawaii investors invested $380 million in 70- SEC-registered, non-listed REITs, some of which have been sold or undergone initial public offerings. These companies have distributed approximately $100 million to these Hawaii investors. In addition to investing in public, non-listed REITs Hawaii investors invest in publicly traded REITs through mutual funds, particularly mutual funds dedicated to publicly traded stock. In fact, thousands of Hawaii shareholders have invested about $60 million in several dedicated REIT mutual funds sponsored by a single mutual fund company.

The State of Hawaii is collecting taxes on millions of dollars distributed to Hawaii investors by companies and funds that invest in REITs, even though almost all of the properties held by these REITs are located outside of Hawaii.

Thank you for the opportunity to provide testimony on S.B. 118, SD1 in support of a statewide study to analyze the impact of REITs in Hawaii.

HSTA
HAWAII STATE TEACHERS ASSOCIATION
Teaching Today for Hawaii's Tomorrow

1200 Ala Kapuna Street ♦ Honolulu, Hawaii 96819
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Wil Okabe
President

Joan Kamila Lewis
Vice President

Colleen Pasco
Secretary-Treasurer

Wilbert Holck
Executive Director

TESTIMONY BEFORE THE HOUSE COMMITTEES ON
CONSUMER PROTECTION & COMMERCE
&
JUDICIARY

DATE: WEDNESDAY, MARCH 18, 2015

RE: S.B. 118, SD1 – RELATING TO REAL ESTATE INVESTMENT TRUSTS

PERSON TESTIFYING: WIL OKABE
HAWAII STATE TEACHERS ASSOCIATION

The Honorable Chair McKelvy, Vice Chair Woodson, Chair Rhoads, Vice Chair Buenaventura and Members of the Committee.

The Hawaii State Teachers Association (HSTA) **supports S.B. 118, SD1** relating to real estate investment trusts.

HSTA is the exclusive representative of more than 13,500 public and charter school teachers statewide. As the state affiliate of the 3.2 million members of the National Education Association, HSTA supports tax reform and believes that it should:

A. Increase tax fairness and raise revenue necessary to finance quality public education and other public service;
B. Eliminate regulations that shift the tax burden to the less affluent;
C. Prevent excessive reliance on property tax or any other single tax;
D. Reflect the findings off comprehensive studies of the total individual and corporate tax burden;
E. Assure that statewide uniformity in property tax effort be required;
F. Provide funding for public education that ensures adequacy and equity of resources;
G. Not be used to place arbitrary maximum limits on any state or local government's ability to spend or tax, particularly since such limits have a negative impact on the full funding of schools;
H. Attract expatriated businesses and investments to return the benefit to our American economy; and
I. Encourage penalties to corporations that move their interests abroad to avoid tax liabilities.

Thank you for the opportunity to testify in **Support of S.B. 118, SD1.**

Legal Department
701 Western Avenue
Glendale, CA 91201

www.publicstorage.com
818.244.8080

Public Storage

March 17, 2015

Hearing Date: Wednesday, March 18, 2015
Time: 2:00 p.m.
Place: Conference Room 325

The Honorable Angus L.K. McKelvey, Chair
The Honorable Justin H. Woodson, Vice Chair
House Committee on Consumer Protection & Commerce

The Honorable Karl Rhoads, Chair
The Honorable Joy A. San Buenaventura, Vice Chair
House Committee on Judiciary

Re: Testimony About S.B. No. 118 S.D.1 – Study of Proposed Repeal of Dividends Paid Deduction for REITs

Chairs McKelvey and Rhoads, Vice Chairs Woodson and San Buenaventura, and Members of the House Committee on Consumer Protection & Commerce and House Committee on Judiciary:

My name is Lily Yan Hughes, Senior Vice President, Chief Legal Officer and Corporate Secretary of Public Storage, and I am providing this written testimony relating to SB 118 SD1. As originally proposed, SB 118 would have eliminated the "dividends paid deduction" (DPD) for Hawaii income tax purposes for all real estate investment trusts (REITs). The amended bill instead calls for a study of various factors to assist in evaluating the impact of a possible repeal of the DPD for REITs.

Earlier this year, I supplied written opposition testimony for a hearing before the Senate Ways and Means Committee on SB 118, as well as for the prior hearing before your committees on a companion bill, H.B. 82. I will not now repeat that prior testimony, but note that we continue to believe that a repeal of the DPD for publicly-traded REITs would be wrong from a policy standpoint and also would create a significant disincentive impeding further REIT investment in Hawaii. In fact, the arguments against any repeal seem compelling enough to make a study unnecessary (particularly given the expense and effort required to perform the study and the likely incomplete information that will have to be used in the study). However, we do not oppose the suggested study.

Public Storage is a publicly-traded real estate investment trust (REIT) that is the largest owner and operator of self-storage facilities in the United States, with almost 150 million rentable square feet of real estate in 38 states. We have approximately 2,260 facilities and 1.3 million tenants in the United States. We own 11 properties in Hawaii that generated more than $25 million of gross revenue in 2014, resulting in over $1.1 million of general excise tax revenues for the state.

We believe that those performing the study will face significant issues in obtaining information that will help with a careful evaluation of a potential repeal. For example, identifying which REIT shareholders are located in Hawaii may be problematic. For publicly-traded REITs, much of the stock is held in street name and cannot be tracked to particular investors with any ease. Moreover, significant portions of the shares of REITs are held by other pass-through entities, such as mutual funds, partnerships or S corporations, and tracing through those levels to find the underlying beneficial owners is not likely to be practical. Also, advocates for repeal have suggested that mainland REITs disproportionately invest in Hawaii and then send all of the Hawaii profits back to their shareholders, who are assumed to be disproportionately on the mainland. It is not clear that the study will be able to address these unsupported assertions.

While we anticipate that performing the study will present challenges, we recognize that if the study can obtain the needed data, your committees and other policy-makers might well find the results of the study useful. Of course, obtaining accurate and relevant data will be key, and if it cannot be obtained, the study may have limited value.

As noted above and explained in our prior submissions, we firmly believe that Hawaii should **NOT** repeal the DPD for REITs. Because we are taxed as a REIT, Public Storage is effectively required to distribute all of its taxable income to its shareholders who report and pay tax on those dividends. Public Storage has 11 properties in Hawaii, out of 2,260 in the U.S. (less than 0.5%), and also some significant number of direct and indirect shareholders in Hawaii (though we cannot quantify the number). Consistent with the REIT structure, our shareholders in Hawaii (as in other locations) are taxable on all of our dividends (including the income earned on the 2,249 properties not located in Hawaii), so Hawaii benefits from the basic REIT structure.

If Hawaii breaks from the national REIT template and repeals the DPD, it would subject shareholders in Hawaii to double taxation on our income in the state (Public Storage would pay tax to Hawaii on its Hawaii earnings, and our Hawaii shareholders would pay tax again to Hawaii when those earnings are included in their dividends). Also, Public Storage (and presumably all other REITs) would see the new 6.4% Hawaii tax as a significant added charge on income earned in the state. If repeal happens, REITs will rightly focus their investments in other states with attractive income producing real estate (such as California and New York) that continue to conform to the REIT model and permit the DPD. Whether you perform the study or not, we urge that you leave the DPD intact for publicly-traded REITs.

Sincerely,

Lily Yan Hughes
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& Corporate Secretary of Public Storage
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LATE

The Twenty-Eighth Legislature
Regular Session of 2015

HOUSE OF REPRESENTATIVES
Committee on Consumer Protection and Commerce
Rep. Angus L.K. McKelvey, Chair
Rep. Justin H. Woodson, Vice Chair
Committee on Judiciary
Rep. Karl Rhoads, Chair
Rep. Joy A. San Buenaventura, Vice Chair

State Capitol, Conference Room 325
Wednesday, March 18, 2015; 2:00 p.m.

STATEMENT OF THE ILWU LOCAL 142 ON S.B. 118, SD1
RELATING TO REAL ESTATE INVESTMENT TRUSTS

The ILWU Local 142 supports S.B. 118, SD1, which requires and appropriates funds for DBEDT to study the impact of Real Estate Investment Trusts (REITs).

Hawaii is losing out on millions of dollars in taxes because of something called the dividends paid deduction that helps REITs avoid paying taxes in Hawaii as long as they distribute 90% of their taxable income to shareholders, who then pay taxes in their home states. Most of the REITs with real estate holdings in Hawaii have shareholders/investors who do not live in Hawaii. Since REITs themselves currently have a dividends paid deduction, and most shareholders reside outside of Hawaii, all of the income from real estate activity of REITs in Hawaii goes to other states, and none of it remains in Hawaii.

Hawaii can certainly use another revenue stream. Requiring REITs to pay corporate income taxes would be one means of generating the revenues needed for the services and programs needed to address the myriad of issues facing our residents—including public education and early childhood education, homelessness and affordable rental housing, support for the elderly and disabled, and access to quality health care.

Many involved with REITs have testified in opposition to repealing the deduction, citing the possibility of losing real estate investments. In our view, it is highly unlikely that a repeal of the deduction will mean that REITs will pull out of the Hawaii real estate market altogether. There are reasons why REITs invest in Hawaii—the deduction being but one small reason. And there are also reasons why everyone should pay their fair share of taxes to benefit the entire community. However, we agree with the Senate Committee on Ways and Means that more careful study and discussion is needed to determine the impact of taxing REITs before enacting legislation to repeal the deduction.

The ILWU urges passage of S.B. 118, SD1, which will provide for this study. Thank you for the opportunity to share our views on this measure.

LATE

Testimony of Paul H. Brewbaker, Ph.D., Principal, TZ Economics

before the House Committee on Consumer Protection and Commerce
and the House Committee on Judiciary
Hawaii State Legislature
on
S.B. 118 (SD1) RELATING TO REAL ESTATE INVESTMENT TRUSTS

Wednesday, March 18, 2015

My name is Paul H. Brewbaker and I am a private economist and former member and Chair of the Hawaii Council on Revenues (COR). Earlier this year I provided testimony at the money committees' annual economic informational briefing. Subsequently, I was engaged to analyze economics of the proposal to disallow the dividends paid tax deduction for Real Estate Investment Trusts (REITs), now S.B. 118, SD1. In the last month I have not concluded my research but I did provide preliminary testimony, to the Senate Ways and Means Committee, in opposition to the bill in its form at that time. My preliminary opinion of the version of that proposal before you now is that it is ill-advised and at the very least worthy of further study—certainly more than a few weeks on-the-go has afforded to me. It seems to me that this initiative is unlikely to raise much revenue, once behavioral responses are taken into account. Worse than that, and partly because of its "signaling" about Hawaii as a host environment for investment, the bill might divert capital flows away from Hawaii. I don't think the bill is a good idea.

Withdrawing the exemption for dividends paid introduces a distortion—double-taxation of capital income—that impairs one asset class relative to others. It is disadvantageous to real property owned or being redeveloped by REITs. It favors other asset classes, even other real property distinguishable only by ownership structure. For instance, if I understand the bill correctly, real property owned outright by individuals or groups of individuals, pension and charitable funds, private corporations, private equity funds, and the like would not first be subjected to a tax on the income produced by the subject properties, and then taxed again when that income is distributed to the owners of the financial vehicle that owns the property. It is important *not* to alter the tax code in a way that discriminates against one or another financial *structure*, because it can induce an inefficient misallocation of financial capital.

Financial structures like pension funds, charitable endowment funds, private equity funds, and REITs all mobilize and aggregate *financial* capital, allocating its deployment into *real* capital formation. Such structures pool risk exposures. They enable small investors to gain access to global capital markets through their collective effort, for example through the State of Hawaii's pension fund investments. So successful are these vehicles for mobilizing and efficiently deploying capital that they now dominate, in the modern economy, over the pattern of individual ownership that was characteristic of Hawaii several generations ago. However nostalgic one may be about the Hannabatta Days, few would return Hawaii to a time when a small number of families owned a disproportionate share of Hawaii real estate. Financial structures such as REITs have made it more probable that capital formation in Hawaii is in the broader interest of larger numbers of individual investors than of a small group of individuals favored by an associated political oligarchy, which is not an unfair characterization of Hawaii for much of the Territorial Era.

There is never a good time in the economic cycle to doubly-tax capital income or to deter capital formation in Hawaii. However, if you had to pick the worst time to do it, introducing such a distortion at the threshold of an investment-led reacceleration of Hawaii economic activity would be that time. (See appended Figure 1 and Figure 2.) In my earlier comments before the money committees on January 31, 2015 my presentation, "Overoptimistic forecasts bailed out by oil prices," made three key observations. First, Hawaii's tourism-led economic recovery, 2010-2012, faded in 2013. Second, stagnating real federal government civilian employment in Hawaii,[1] real Hawaii construction outlays,[2] as well as real Hawaii tourism receipts,[3] 2013-2014, all contributed to a loss of impetus that slowed Hawaii economic growth and manifested itself in substantially lower than forecast state revenues. Third, the much-anticipated construction and investment upswing had yet to emerge durably. Falling oil prices in second half 2014 provided a temporary tailwind sufficient to sustain Hawaii economic growth entering 2015. Tourism may continue to grow 1-2 percent after inflation.[4] However, an investment-led reacceleration is the *only* plausible way to sustain and extend Hawaii economic expansion through the 20-teens.

Investment activity, therefore, is the key to sustaining Hawaii economic growth. Enthusiastic anticipation, however, is not the same thing as the actual fact.[5] A cyclical upswing is anticipated, but it remains tentative. The incipient upswing *is* benefitting from a substantial inflow of offshore capital in acquisitions and repositioning of various commercial properties for redevelopment and expansion. Some of that is beginning to appear in the best measure of private commitments to build, the constant dollar estimated construction cost associated with county building permit issuance. In terms of *actual* construction, however, the waiting continues. The average annual numbers of new housing units for which building permits were issued statewide since the Great Recession was the lowest for any five years since World War II; that *includes* urban high-rise residential condominiums. There hasn't been a Class A office tower built in Hawaii in more than twenty years.[6] As a consequence of this anticipated investment upswing

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[1] Including military employment, monthly, on a seasonally-adjusted basis going back to federal fiscal year 2013.

[2] Measured by contracting receipts in the State's General Excise and Use Tax Base, adjusted for construction cost inflation using the U.S. Bureau of the Census implicit price deflator for (residential) construction and, therefore, an *underestimate* of decline because of the wind-down in federal military housing privatization and redevelopment, which was not general excise taxable economic activity (qualifying as "federal" projects on federal lands).

[3] Measured to total visitor expenditure in either event, adjusted for inflation on a seasonally-adjusted basis adjusted for U.S. price inflation using the Bureau of Economic Analysis (BEA) implicit price deflator for consumption or, at quarterly frequencies, using the Honolulu Consumer Price Index interpolated from its semi-annual original format.

[4] This is the main sector-specific detail in the State of Hawaii's most recent economic forecast which, "Overall…is more optimistic compared with the previous forecast. (page 8 of http://files.hawaii.gov/dbedt/economic/data_reports/qser/qser-2015q1.pdf).

[5] See Andrew Gomes (June 3, 2013) "CONDO MANIA!" *Honolulu Star-Advertiser*, page A-1

[6] Ironically, the most recent office tower (built beginning in 1992) was the benchmark used by the Legislature last year to cap Honolulu building heights.

failing to appear, as recently as last fiscal year the state's general fund revenue forecast estimate was too high by approximately 10 percentage points in absolute value. The fact that revenue declined when it was forecast to rise is an indication of how much forward economic momentum the state lost in the last two calendar years.[7]

For Hawaii in the 21st century, *re*development is the dominant investment phenomenon. The key players are offshore institutional investors. (See appended Figure 3, panel 1.) Investment-led economic growth is a sufficient and *necessary* condition for improving the State of Hawaii's fiscal picture, but not if it is impaired by tax distortions or a higher probability of future tax distortions.

This point about "signaling" is an important one. REITs with investments in Hawaii would have a motivation to change ownership structure to avoid the tax liability, under the proposed legislation: financial structure is not inert. Worse than that, however, Hawaii would signal to global financial market instability and unpredictability of its investment environment. It would signal: "the principle of non-distortionary tax policy *can* be violated in Hawaii."

Anything that *increases* the uncertainty of future investment income streams, such as whether the host environment's tax code credibly can be perceived as stable, interacts with irreversibility to raise even higher the threshold for an investor's acceptance of a potential acquisition or development project. An irreversible investment can't be "taken back" if the rules of the game change in mid-construction. Rendering the perception of the tax code variable rather than fixed can reduce capital flows into Hawaii. Where such uncertainties are absent, in other jurisdictions, risk-adjusted asset returns will be higher. For investors, confidence is about predictability. Reputations fall easily, as in the recent case of Greece.

A good long-standing example of potentially bad outcomes from double- or multiple-taxation is Hawaii's corporate net income tax. First, Hawaii taxes gross business receipts. Then it taxes net incomes of corporations with a Hawaii tax domicile. Then it taxes incomes of the corporation's owners, its shareholders, in Hawaii. Remarkably, when adjusted for inflation and seasonality, the constant-dollar value of Hawaii corporate net income tax receipts has been *declining* for nearly forty years! Between 1969 and 2007, prior to the last recession, Hawaii real GDP grew at a 2.7 percent annual average rate, real Hawaii corporate net income tax receipts *declined* at a −0.17 percent annualized annual rate, real general excise tax receipts grew at a +3.0 percent average annual rate, and real individual income tax receipts grew at a +2.7 percent annual rate. Corporate economic activity in Hawaii *could* have become dramatically less important to the state by 2007 than it was nearly forty years earlier, but my guess is that what declined dramatically was having a corporate net income tax liability in Hawaii, *not* the amount of economic activity conducted by corporations. Double-taxation surely is one of the reasons.[8]

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[7] Compare actual FY2014 revenues, in the year ending in June 2014, to the forecast from May 2013. See Hawaii Council on Revenues (May 30, 2012) (http://files.hawaii.gov/tax/useful/cor/2012gf05-29_with0530_Rpt2Gov.pdf).

[8] Economic governance, economies of scale, globalization, information technology, the market for corporate control, and many other factors explain the disappearance of some of the grand old corporate names such as Hawaii's oligarchic Big Five of the mid-20th century (Alexander & Baldwin, AMFAC, C. Brewer & Company, Castle & Cooke, Theo. H. Davies), the spin-off of others (Matson), and whole acquisition of still others (First Hawaiian

Economics teaches that in the balancing act between revenue adequacy, efficiency, and equity (fairness), a tax policy decision-maker must be careful not to stray too far in one direction to the neglect of the others. Taxing REIT income before it is distributed to a subset of shareholders, and then taxing it again upon accrual to Hawaii shareholders, introduces an *in*efficient economic distortion to the tax code. It benefits alternative financial structures that are substitutes for REITs as vehicles for acquisition, development, and management of Hawaii real estate portfolios. It risks spuriously diverting the flow of capital away from Hawaii as a host environment for capital formation. It will unfairly treat Hawaii REIT dividend recipients.[9]

As a host environment for investment Hawaii faces a global capital market playing field that is tilted only slightly in its favor by its natural and human capital endowment and its advanced stage of destination-tourism development. These are thin distinctions in the global competition for capital. Hawaii should treat all financial structures equally under its tax code, and maximize returns to investors *and* to Hawaii by facilitating an efficient flow of capital across Hawaii's many investment alternatives. At the very least, the tax concept proposed in S.B. 118, SD 1 – Relating to Real Estate Investment Trusts should be studied much more carefully and thoroughly than I have had a chance to undertake in the last four weeks on behalf of an industry association. Further analysis can only be helpful, and I feel certain that it will validate the concerns I raise in this testimony.

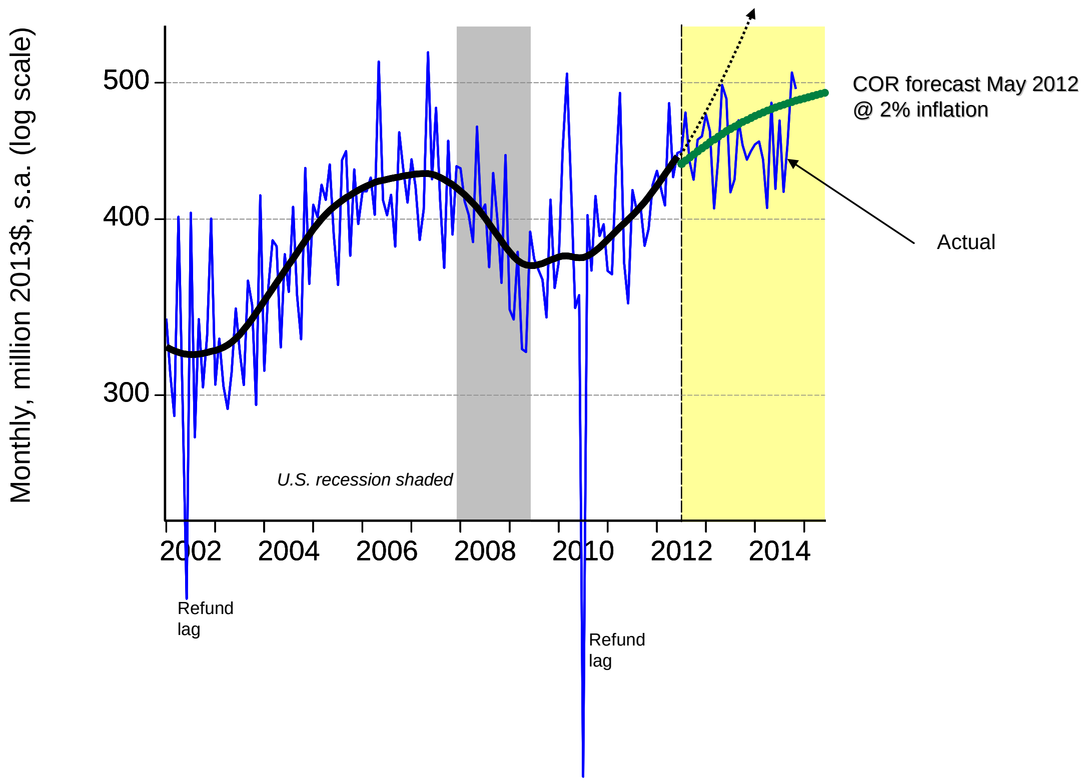
Bank). Even in the cases of venerable old "local" corporations like Bank of Hawaii or Hawaiian Airlines, the vast majority shareholders are non-resident institutional investors such as pension funds.

[9] Technically, getting rid of REITs and other modern financial management structures as Hawaii property development, ownership, and management entities might return the islands to an earlier romanticized time when a few families owned most of the assets. See Gavin Daws, *Land and Power in Hawaii*, UH Press or get a copy of the movie version of Kaui Hemming's *The Descendants*. It's true that Hawaii's income distribution in the 21st century is worse than it was for most of the 20th, but not because REITS, pension funds, charitable endowments, private equity funds and other institutions through which the vast majority of Hawaii residents participate directly as individual investors are major real estate holders in Hawaii, rather than a few families.

Graphical Appendix

Figure 1. Hawaii General Fund Revenues in constant dollars lost upward momentum

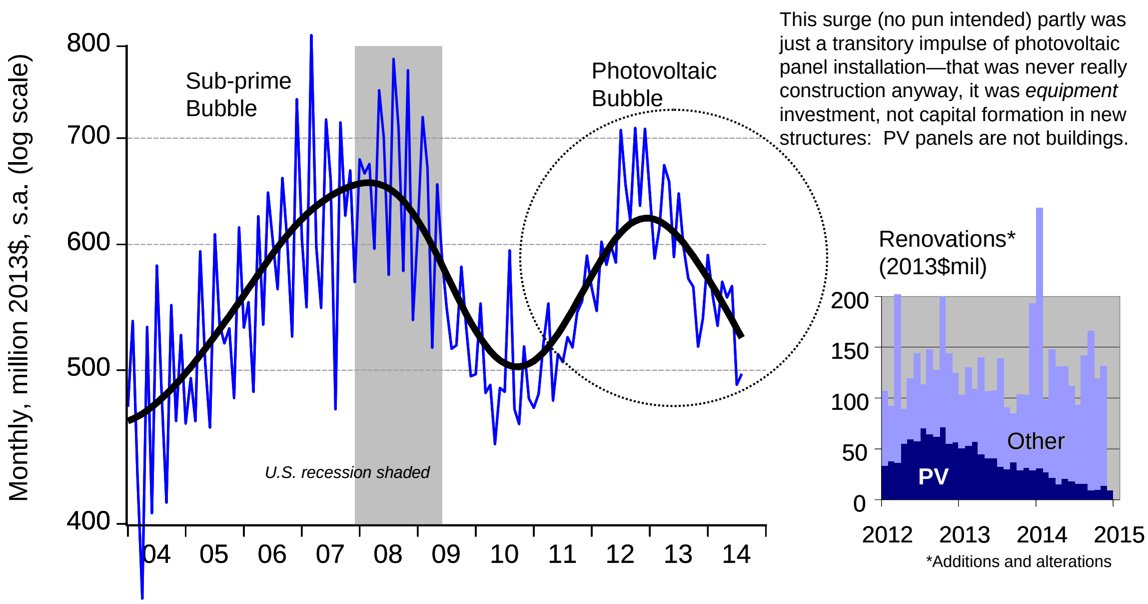
Hawaii Council on Revenues forecasts did not anticipate the extent of Hawaii's economic deceleration, 2013-2014



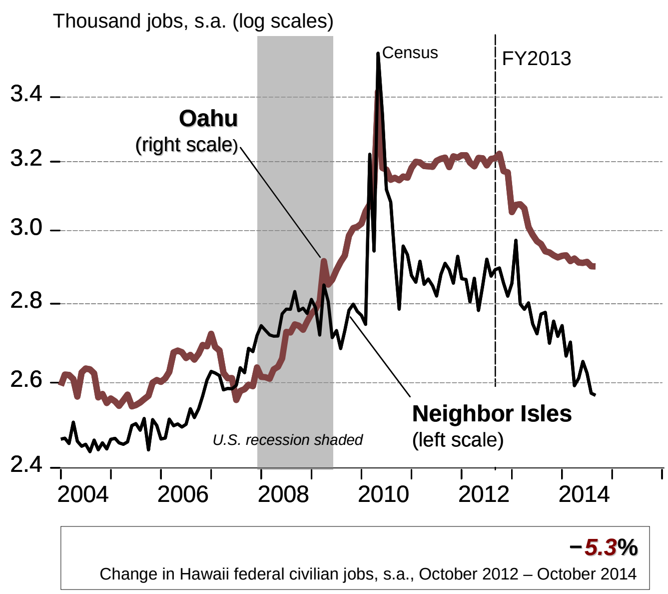
Sources: Hawaii DBEDT, DoTAX, and Hawaii Council on Revenues (May 30, 2012) (http://files.hawaii.gov/tax/useful/cor/2012gf05-29_with0530_Rpt2Gov.pdf); deflation using U.S. PCE deflator, seasonal adjustment using Census X-12 ARIMA filter, trend extraction with Hodrick-Prescott filter and interval regression by TZE.

Figure 2. Three areas of Hawaii economic activity where down is the new up

1. Hawaii contracting receipts

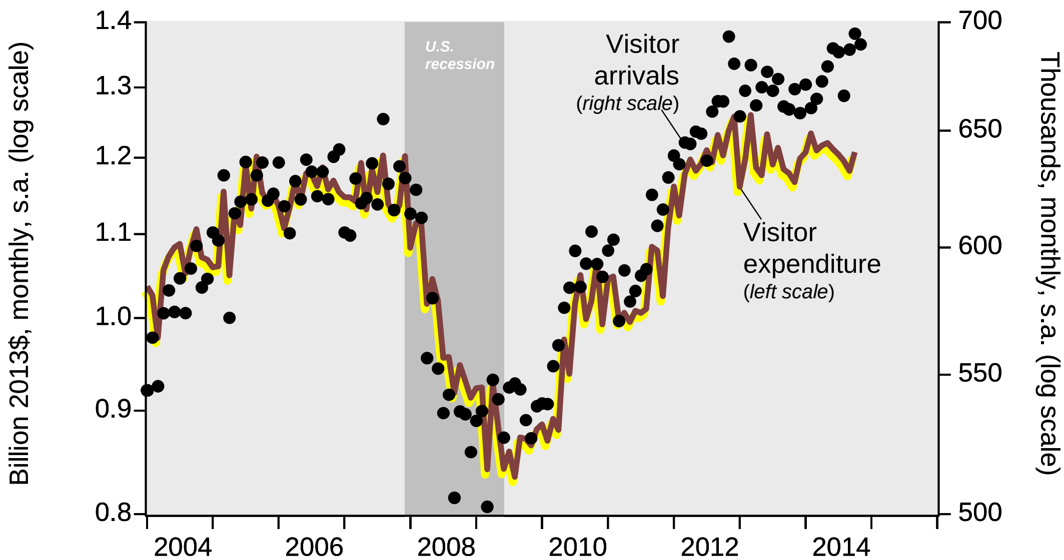


2. Hawaii federal government employment



- Federal fiscal contraction
- Loss of earmarks, Inouye
- Sequestration, impasse
- CBO: "If current laws governing federal taxes and spending generally remained unchanged, revenues would grow only slightly faster than the economy and spending would increase more rapidly.... Consequently, relative to the size of the economy, deficits would grow and federal debt would climb."

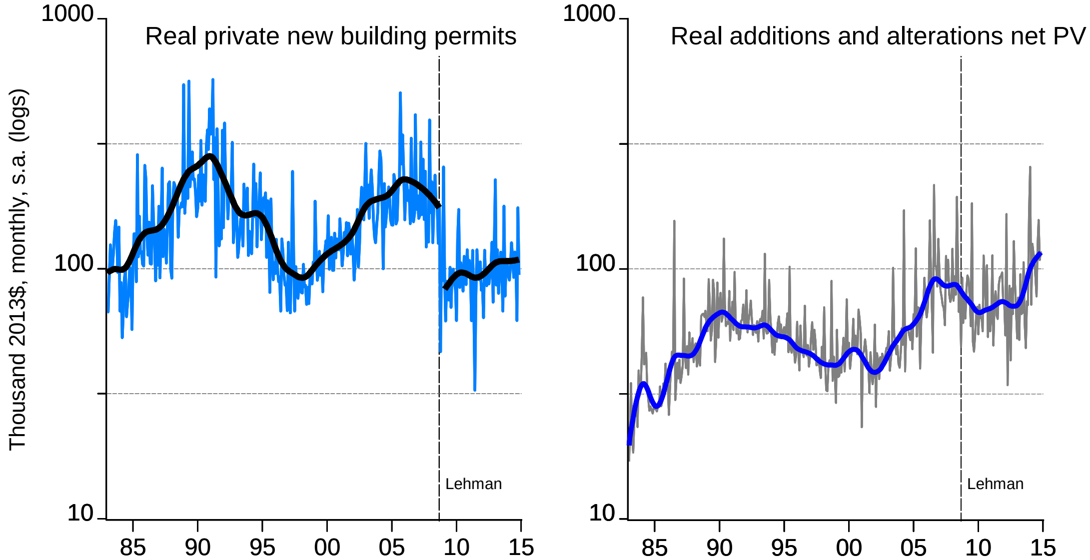
3. Hawaii real tourism performance



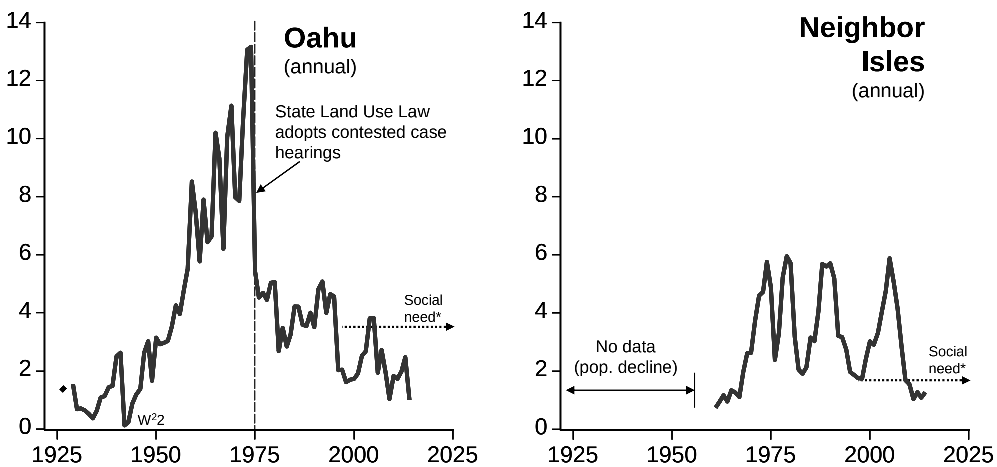
Sources: Hawaii Department of Taxation (contracting receipts), Hawaii DLIR, Hawaii DBEDT (payroll employment monthly averages through October 2014); quote from CBO (August 27, 2014) (http://cbo.gov/publication/45653), Bureau of the Census (construction cost deflator), Hawaii Tourism Authority and Hawaii DBEDT (http://dbedt.hawaii.gov/visitor/tourism/) including 2013-2014(Apr) revisions and data through November 2014, Bureau of Economic Analysis (U.S. personal consumption deflator); seasonal adjustment, deflation, trend/cycle component extraction by TZ Economics.

Figure 3. Emerging Hawaii investment upswing is *re*development-led, housing-poor

1. Real private building permit value net of photovoltaic panel (PV) installation



2. Hawaii statewide new housing authorizations (thousand units permitted)

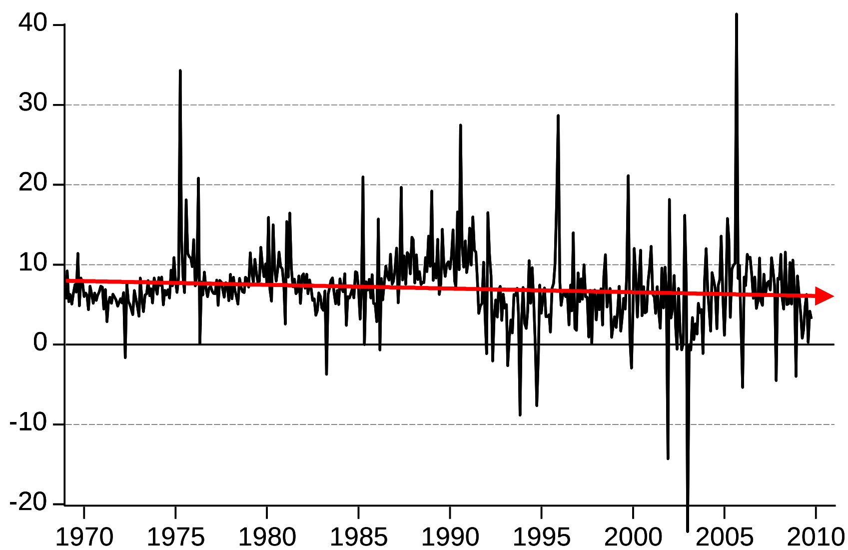


* Eugene Tian, Hawaii DBEDT, "What are the Economic Drivers for Hawaii in 2014 and Beyond," Realtor Housing Forum (May 2, 2024) calculated annual need to accommodate new household formation at existing density (http://files.hawaii.gov/dbedt/economic/reports/2014-economic-drivers.pdf).

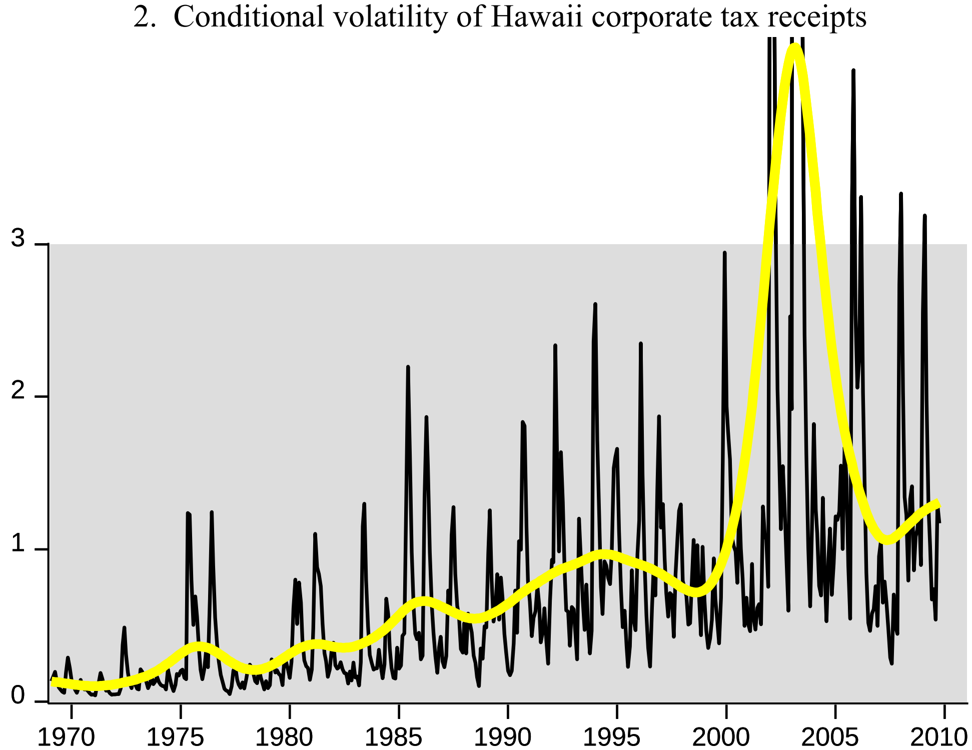
Sources: County building departments, Hawaii DBEDT, U.S. Bureau of the Census, Robert C. Schmitt (1976) Historical Statistics of Hawaii UH Press, county building departments, Hawaii DBEDT (various) State of Hawaii Data Book (Section 21), TZE database; flows are permitted new units minus authorized demolitions, but later data (since late-1970s) are gross new units; seasonal adjustment, deflation, and trend extraction by TZ Economics.

Figure 4. Hawaii real monthly corporate net income tax receipts:
more noise than signal (all data seasonally-adjusted, 1969-2009)

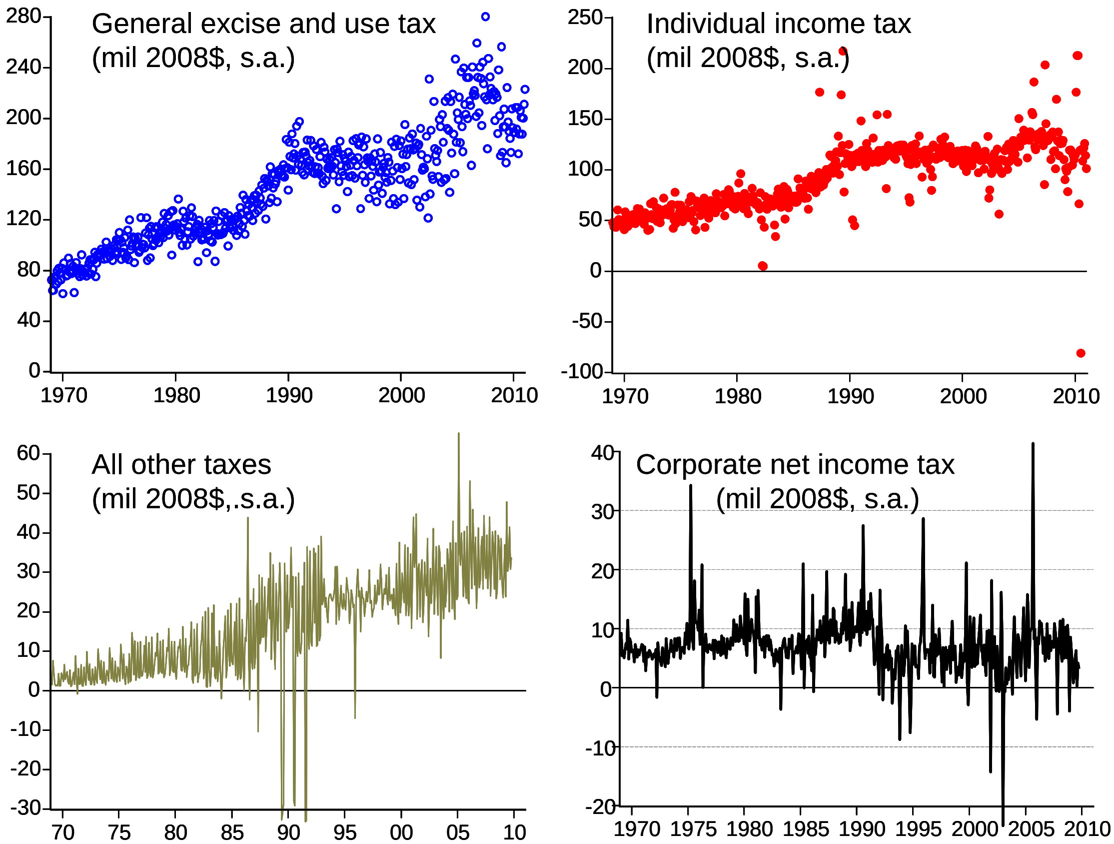
1. Hawaii corporate net income tax receipts (million 2008$)



2. Conditional volatility of Hawaii corporate tax receipts



3. Everything grew *except* Hawaii corporate income tax revenues



Sources: Hawaii Department of Taxation; all calculations (seasonal adjustment, deflation, etc.) are by TZ Economics, volatility depicted is generalized autoregressive conditional heteroskedasticity estimate of the annualized monthly standard deviation of log changes of intercept-adjusted, seasonally-adjusted monthly Hawaii real corporate net income tax receipts.