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Why ARDA and Wisconsin Timeshare Developers, Managers and Owners' Associations Oppose the Budget Bill Provisions

- Ninety percent of timeshare resorts in the U.S. convey deeded real estate interests to timeshare owners. Thus, nearly all timeshare weeks are recognized interests in real estate accompanied by mortgages and deeds with insurable title. Timeshare owners pay all taxes normally applied to any interest in real estate, including substantial real estate taxes for schools which they do not use.

- Wisconsin Statutes, Chapter 707, recognizes timeshares as interests in real property. Ch. 707.03(2) clearly states "Each time-share estate constitutes for all purposes a separate estate in real property." This provision is entirely consistent with timesharing definitions in laws and regulations in at least 44 other states.

- So called "flex time" timeshare interests are also deeded interests in real estate which the owners have agreed to use more flexibly because they can't always vacation at the same time each year. In many resorts this flexible use right is incorporated into the CC&Rs (covenants, conditions and restrictions). But in any case, a flexible use timeshare is no different than co-owners of a vacation home agreeing among themselves to use their property at different times of the year each year.

- Once a developer sells out the timeshare weeks in a resort, the management of the resort is turned over to a not-for-profit association of the consumer owners. Timeshare associations function exactly like other not-for-profit condominium or homeowners' associations, which do NOT pay sales tax on their maintenance fees, annual assessments or real estate taxes!

- Timeshare interests are recognized as the equivalent of all other vacation or second home properties under the federal tax laws. Specifically, under Internal Revenue Service Regulation 24 CFR 1.163-10T(p)(6) [captioned "Special Rule for Time-Sharing Arrangements], a property will not fail to qualify for the second home tax deduction "because the taxpayer's interest in or right to use the property is restricted by an arrangement whereby two or more persons with interests in the property agree to exercise control over the property for different periods during the taxable year."

EDWIN H. MCMULLEN, SR., RRP, CHAIRMAN · CYNTHIA A. HUHEEY, PRESIDENT

AMERICAN · RESORT · DEVELOPMENT · ASSOCIATION

ARDA

Why Timeshare Vacation Home Ownership is Not Like Renting a Hotel Room

Item	Timeshare Vacation Home	Hotel Room
1. Method of Acquisition.	Sold only under the supervision of a licensed real estate broker.	Not sold at all; rented by the day by a clerk.
2. Nature of Acquisition.	A deeded interest in real property or other recorded interest in real property.	A night's lodging.
3. Disposal/sale.	Can be sold or bequeathed.	There is nothing to sell or bequeath.
4. Real estate taxes.	Owner is legally responsible for proportionate share of taxes.	Occupant has no responsibility to pay these taxes.
5. Loss of interest.	Owner loses occupancy rights only through foreclosure proceedings.	Occupant can be summarily evicted for failure to pay rent or for causing a disturbance.
6. Individual's obligation.	Owner is legally obligated to pay share of all expenses whether or not unit is occupied at all.	Potential occupant cancels reservation and bears no financial obligation.
7. Lien on interest.	Owner's interest is subject to lien for non-payment of taxes and maintenance expenses.	Occupant acquires no interest which could be liened.
8. Role in management of property.	Owner is a member of an owner's association and has certain legal rights and responsibilities regarding the management of the resort.	Occupant has no legal rights or responsibilities in the management of the hotel.
9. Federal Tax Treatment for purposes of a second home exemption	Under the Internal Revenue Code, a timeshare owner may claim and receive a second home tax exemption for the timeshare property (if all other qualifications are met).	Occupant has no interest or ownership which could qualify a hotel stay for a second home tax exemption.
10. Statutory Definition.	Section 707.03(2) states that "each timeshare estate constitutes for all purposes a separate estate in real property."	"...sleeping accommodations offered for pay.." s.254.61(3)

Timeshare ownership and the renting of a hotel room are very different. The rights and responsibilities of timeshare owners are virtually identical to those of owners of condominiums and single family homes - simply for shorter time periods which people can afford.

GREEN BAY PRESS-GAZETTE

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the state about $23 million a year from gambling profits, or almost 60 times the $350,000 a year paid under the previous seven-year compacts, Bugher said.

The state's cut under the new agreements is comparable to Wisconsin's 7.9 percent corporate income tax rate, state negotiators said.

Annual payments range from $65,000 from the Red Cliff Band of Lake Superior Chippewa to $7.5 million from the Ho-Chunk Nation.

Gaming compacts

Tribe	Date renewed	Annual payment	5-year payment
Lac Courte Oreilles	Feb. 13,1998	$420,000	$2,100,000
Mole Lake	Feb. 20,1998	260,000	1,300,000
Oneida	May 8,1998	4,850,000	24,250,000
Bad River	June 12, 1998	230,000	1,150,000
Red Cliff	Jan. 15, 1999	64,685	323,425
St. Croix	June 18, 1998	2,200,000	11,000,000
Stockbridge-Munsee	Aug. 12, 1998	650,000	3,250,000
Potawatomi	Dec. 3, 1998	6,375,000	31,875,000
Menominee	March 3, 1999	747,371	3,736,855
Ho-Chunk	Dec.11, 1998	7,500,000	37,500,000
Lac du Flambeau	Dec.18, 1998	738,000	3,690,000
Total		$24,035,056	$120,175,280

Source: Govenor's Office

Press-Gazette

TESTIMONY OF DONALD CARLEY, SECRETARY-TREASURER
LAC COURTE OREILLES BAND OF LAKE SUPERIOR CHIPPEWA INDIANS

Wednesday, April 14, 1999

Honorable Committee Members, I am Donald Carley, Secretary-Treasurer of the Lac Courte Oreilles Band of Lake Superior Chippewa Indians. I am here to express the great disappointment that LCO shares with other Tribes over the approach taken by Governor Thompson and the Department of Revenue as to the proposed expenditures being termed "Governor's Native American Gaming Initiative." These monies, in excess of $20,000,000 per year, are available to the State for particular usage pursuant to Memoranda of Understanding which were signed in connection with gaming compacts that the State negotiated separately with each Tribe, including ours. These are not general revenues.

In the agreement that our Tribe signed with the State, the monies that we annually pay from gaming revenues, initially $420,000 per year, are to be used for

1) Economic development initiatives to benefit Tribes and/or American Indians within Wisconsin
2) Economic development initiatives in regions around casinos
3) Promotion of tourism, and
4) Support of programs and services of the county in which the Tribe is located.

The Agreements also provide that the Tribe and the State are to address issues on a government-to-government basis. Despite this express mandate, it was only on the holiday before the Governor's budget message that we and other Tribes were contacted regarding the budget initiatives, and, even then, we only received a fax to preview what the Governor was to announce the next day.

The recommendations for the Governor's Native American Gaming Initiative appear to be directed to filling holes in the governor's budget with little guidance from the Agreements we executed in good faith. We understood that the monies we contributed would address needs of American Indians and the counties where our reservations are located.

The proposed "Gaming Initiative" budget includes suggested expenditures that are not specified in Tribal agreements at all, and which in some cases are even offensive to Indian people. Examples include:

1) hiring an attorney for the State to fight Indian jurisdictional issues with Indian tribes;

2) paying $2,000,000 per year to the Department of Natural Resources to avoid increases in hunting and fishing licenses while our treaty rights continue to be ignored;

3) spearfishing enforcement;

4) snowmobile-related expenditures.

Some portions of the proposed Gaming Initiative provide for expenditures that should be redirected in a manner consistent with the Agreements.

For example: Monies would be used to give the Department of Tourism $4,000,000 during each of the two years without any designation whatsoever, rather than targeting the monies to the counties where Tribes have casinos. A better approach would be to use the JEM process which provides 50% matching grants for tourism promotion to counties and Tribes where the casinos are present.

As another example: Economic development monies under the Gaming Initiative would not be provided to enhance the opportunities facilitated by the businesses we have built up, but rather they are proposed to be directed to parties "negatively impacted by gaming." We need cooperation and opportunity, not confrontation. Additionally, the focus should be on counties in the immediate vicinity of tribal casinos.

There are programs that have been previously funded within the Wisconsin State Budget and others that were suggested in the budget process by the Departments of State government that would far better serve Tribes, and the State, than many of the suggestions for expenditures in the Governor's Budget. Examples include:

a) grants to school districts to hire specialists in American Indian culture and history;
b) development of capacities by Tribes and the State to address Indian child welfare matters;
c) American Indian student assistance;
d) block grants to address health needs for Tribes and surrounding counties;
e) Badger-link Internet programs into schools, homes and libraries.

I would note also that much of the Gaming Initiative budget consists of shifting existing obligations of State government for replacement by monies from Tribes.

The Tribal-State Compacts each provide for revenue sharing whereby monies raised would be directed to Tribes generating the least gaming revenues. This is not even addressed in the Governor's Gaming Initiative. Rather, all the monies would be directed to the State for redistribution, largely without any benefit to Indian people at all. Understandably, we find this offensive.

Another troubling element in the budget is the recommendation that cigarette tax revenues raised within Indian reservations be subject to a new split, not the 70% to the Tribes and 30% to the State, as required within contracts between the State and each of the Tribes, save one. Rather, it is suggested that the State unilaterally break these contracts and impose an new 50-50 split.

What does it say about a state government that enters into agreements and then chooses to break them? It is incomprehensible that you are actually being asked to legislate to break contracts.

We ask of you a fair consideration of the topics I have only been able to highlight. A Joint Finance Committee meeting should be scheduled to specifically consider the Governor's Indian

Gaming Initiative and to provide Tribes and interested citizens with an opportunity to comment.

We must be fair with each other. There is room for differences of opinion as to how goals would best be served. I would submit that it does not serve either the goals of the Tribes or those of the State for Wisconsin to simply ignore agreements with Tribes.

Thank you for your consideration.

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LAC COURTE OREILLES BAND OF LAKE SUPERIOR CHIPPEWA INDIANS

Wednesday, April 14, 1999

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The recommendations for the Governor's Native American Gaming Initiative appear to be directed to filling holes in the governor's budget with little guidance from the Agreements we executed in good faith. We understood that the monies we contributed would address needs of American Indians and the counties where our reservations are located.

The proposed "Gaming Initiative" budget includes suggested expenditures that are not specified in Tribal agreements at all, and which in some cases are even offensive to Indian people. Examples include:

1) hiring an attorney for the State to fight Indian jurisdictional issues with Indian tribes;
2) paying $2,000,000 per year to the Department of Natural Resources to avoid increases in hunting and fishing licenses while our treaty rights continue to be ignored;
3) spearfishing enforcement;
4) snowmobile-related expenditures.

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For example: Monies would be used to give the Department of Tourism $4,000,000 during each of the two years without any designation whatsoever, rather than targeting the monies to the counties where Tribes have casinos. A better approach would be to use the JEM process which provides 50% matching grants for tourism promotion to counties and Tribes where the casinos are present.

As another example: Economic development monies under the Gaming Initiative would not be provided to enhance the opportunities facilitated by the businesses we have built up, but rather they are proposed to be directed to parties "negatively impacted by gaming." We need cooperation and opportunity, not confrontation. Additionally, the focus should be on counties in the immediate vicinity of tribal casinos.

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Another troubling element in the budget is the recommendation that cigarette tax revenues raised within Indian reservations be subject to a new split, not the 70% to the Tribes and 30% to the State, as required within contracts between the State and each of the Tribes, save one. Rather, it is suggested that the State unilaterally break these contracts and impose an new 50-50 split.

What does it say about a state government that enters into agreements and then chooses to break them? It is incomprehensible that you are actually being asked to legislate to break contracts.

We ask of you a fair consideration of the topics I have only been able to highlight. Now that the Gaming Initiative has been separated from the General Budget, a Joint Finance Committee meeting should be scheduled to specifically consider usage of these monies and to provide Tribes and interested citizens with an opportunity to comment.

We must be fair with each other. There is room for differences of opinion as to how goals would best be served. I would submit that it does not serve either the goals of the Tribes or those of the State for Wisconsin to simply ignore agreements with Tribes.

Thank you for your consideration.

To The Honorable Members Of The Joint Finance Committee:

Thank you for the opportunity to address you today and thank you for making the effort to travel to various parts of the State to hold these hearings.

I am here today as the County Administrator for Burnett County to comment on the Governor's proposed budget from Burnett County's viewpoint. I am not going to address all the various aspects of the budget that affect Burnett County such as Youth Aids, Court System Funding, Community Aids, Shared Revenue, etc. I'm sure you have and will continue to hear from Counties regarding our view of the inadequacy of funding for Counties in these areas in the proposed budget.

Rather, I would like to comment on one particular part of the budget that is extremely disturbing to Burnett County - the Indian Gaming Initiative. Burnett County has two Casinos and the St. Croix Chippewa headquarters located in the County. We have had a very good relationship with Lewis Taylor - Tribal Chairman and the St. Croix Tribe and I want to make it perfectly clear that Burnett County does not have a problem with the Tribe regarding the Indian Gaming Compact. The Tribe has negotiated with the State in good faith and they are living up to their part of the deal. Our problem is with the State and the Governor's proposed Indian Gaming Initiative.

The Memorandum of Understanding Regarding Government to Government Matters between the State and the St. Croix Chippewa (copy attached) which is part of the Compact Agreement states in part "it is agreed that the Governor shall undertake his best efforts within the scope of his authority to assure that monies paid to the State hereunder shall be expended upon:

1. Economic development initiatives to benefit Tribes and/or American Indians within Wisconsin,
2. Economic development initiatives in regions around casinos,
3. Promotion of Tourism within the State of Wisconsin,
4. Support of programs and services of the County in which the Tribe is located, and
5. Law enforcement initiatives on reservations."

Upon review of the Indian Gaming Initiative included in the Governor's proposed budget, the State clearly falls short of meeting the commitments contained in the Compact. In many instances it appears the proverbial budget "shell game" is being played. Programs that had been funded with General Purpose Revenue (GPR) funds are now being funded by Indian Gaming revenue, thereby freeing up GPR funds for other areas and uses.

Of particular concern to Burnett County is the total and I mean total absence of any funding to fulfill commitment #4 "Support of programs and services of the County in which the Tribe is located." Burnett County spends nearly $500,000 annually on out-of-home placement of juveniles and over 50% of these placements are Native American. Burnett County spends over $1.1 million annually for our Court System, District Attorney's Office and Jail. The Jail population consistently averages over 40% Native American. The costs for these services are borne by the property taxpayers of Burnett County. This burden is being placed on citizens of the County whose average annual income is 27% below the State average.

We have been told that the Compacts provide for local units of government to negotiate individually with the Tribe to secure funding for services that are provided. Why should the Tribe negotiate with us? They have in good faith lived up to their obligation of providing funds to the State that were supposed to be used to pay for the programs and services provided by the County in which they are located. It is the State that failed to do what they said they would do. Why should the Tribe pay twice?

This is a severe injustice that has been dealt to the County and to the Tribes and it must be rectified. I certainly hope members of this Committee will see fit to do so. Thank you.

Attachment

MEMORANDUM OF UNDERSTANDING REGARDING GOVERNMENT TO GOVERNMENT MATTERS

This Memorandum of Understanding is entered into by and between the St. Croix Chippewa Indians of Wisconsin ("TRIBE") and the State of Wisconsin ("STATE").

WHEREAS, TRIBE and STATE on this date have entered into Amendments to the St. Croix Chippewa Indians of Wisconsin and the State of Wisconsin Gaming Compact of 1991; and

WHEREAS, said amendments provide for the payment of monies by TRIBE to STATE; and

WHEREAS, the parties desire to specify the usage to be made of such monies; and

WHEREAS, the parties wish to meet on a regular basis to address government to government issues of mutual concern;

NOW THEREFORE IT IS AGREED that the Governor shall undertake his best efforts within the scope of his authority to assure that monies paid to the STATE hereunder shall be expended upon:

1) Economic development initiatives to benefit Tribes and/or American Indians within Wisconsin,
2) Economic development initiatives in regions around casinos,
3) Promotion of tourism within the State of Wisconsin,
4) Support of programs and services of the County in which the Tribe is located, and
5) Law enforcement initiatives on reservations.

IT IS FURTHER AGREED that the STATE and the TRIBE shall establish a schedule of regular meetings to address government to government issues of mutual concern.

IT IS FURTHER AGREED that the STATE shall consult with the TRIBE regarding the content of the proposals for distribution of the monies paid to the STATE hereunder.

IT IS FURTHER AGREED that the STATE and the TRIBE shall negotiate additional memoranda of understanding on government to government issues of mutually agreed upon concerns no later than December 19, 1998 and each December 19 thereafter for the duration of this Compact. One meeting between the STATE and the TRIBE each year shall contain an accounting of the funds expended in accordance with this agreement.

ST. CROIX CHIPPEWA INDIANS OF WISCONSIN

By: [signature]
Lewis Taylor,
Tribal Chair

Date Signed: 6/18/98

STATE OF WISCONSIN

By: [signature]
Tommy G. Thompson,
Governor

Date Signed: June 18, 1998

Courthouse
311 North Main Street

April 1, 1999

SHAWANO COUNTY BOARD OF SUPERVISORS
Shawano, Wisconsin 54166

Representative John Gard, Co-Chair
Joint Finance Committee
Room 315 North
State Capitol Building
Madison, WI 53703

RECEIVED
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Dear Representative Gard,

I am writing to express Shawano County's extreme disappointment with the components of Governor Thompson's Native American Gaming Initiative as described in the Governor's proposed 1999 – 2001 State budget. This proposal would take over $42 million in funds intended for use in Counties containing gaming facilities and spend it almost entirely on State programs, many of which replace existing programs already funded by the State. This action breaks a trust that the Governor established with the Tribes and Counties when the compacts were signed. The compact negotiated with the Sockbridge-Munsee Tribe indicates that , "The Governor shall undertake his best efforts within the scope of this authority to assure that monies paid to the State will be used for . . . Support of programs and services of the County is which the Tribe is located." Only one of the 31 programs in the Initiative, the County-Tribal Law Enforcement Fund, even refers to County government. There is no recognition of increased County expenses for human services, transportation, jails or courts related services that result directly from gaming activities. Shawano County is experiencing increasing service needs in all of these areas.

Unlike the State, Counties operate with a tax rate limit. Our revenue raising ability has been restricted by the State. Now it appears that Counties are being denied use of an alternative to the property tax while still being expected to fund activities resulting from gaming. The State has many different methods available for raising revenue. The State should use existing sources to fund its programs, not usurp a funding source designated for Counties.

We would hope as the Legislature deliberates the Budget that it would recognize the responsibility that the State has to support counties which contain gaming facilities. The language in the compacts acknowledges this responsibility. Unfortunately the Governor's Initiative ignores this commitment and instead uses the money intended for Counties to fund State programs. The Legislature should correct this mistake and direct these funds to programs operated by Counties which contain gaming facilities.

Sincerely,

Clarence Natzke

Clarence Natzke
County Board Chairman

Cc: Governor Thompson
County Board
Members of the Joint Finance Committee
Senators Cowles and Breske
Representatives Ainsworth and Seratti
Robert Chicks, President, Stockbridge-Munsee Tribe
Apesanahkwat, Chairperson, Menominee Indian Tribe
Wisconsin Counties Association

Patricia Messina, Village of Turtle Lake

Objecting to the uses planned for the Revenues gained from Tribal Gaming Compact Amendments of 1998

As President of the Village of Turtle Lake, I have come to ask

1) that you make the County-Tribal Law Enforcement funds available to municipalities like ours which are responsible for law enforcement in and around our casino. Unlike most casinos, ours is located within a Village at the far edge of the county. It would be irresponsible and often life threatening if we insisted that the county police this area. We have had to add 3 FTE police officers and an additional squad car since the casino was built in 1992.

2) that provisions be made to assist municipalities around casinos with the additional infrastructural needs due to the growth and tourism (roads, new sewer plant, storm sewer needed because of new asphalt, etc.).

3) that additional emergency services be assisted due to more accidents, heart attacks, etc.

4) that \$1.5-\$2 of the new dollars going for economic development be designated to a pilot program assisting with 10% owner equity injection for businesses which serve casino clientele (hotels, restaurants, recreation, etc) and industries which create several jobs or diversify the economy. Make this a 4% interest loan with a 2 year interest free deferral. Restrict eligibility to communities under 5,000 population within 15 mile radius of a casino or reservation.

5) that the economic development funds available to Native Americans be increased since this was the #1 item listed in the compact Memoranda of Agreements.

(6) that no Native American dollars be used to bail out taverns. The tribes have waged a huge effort for years to discourage alcohol abuse, and to use their money for a society such as this is a low blow. It is also an insult to the tribes who have hoped to use part of their money for good social programs.

The tribes were given the impression their contributions would be used for new tribal programs and assistance to surrounding communities and counties. Much of what is proposed by the Governor is, instead, a fee for service type of reimbursement which uses tribal dollars to replace most or all programs the state has previously funded for Native Americans. Although this is not unprecedented, it was not what was agreed to in the compacts. The tribes may have been willing to agree to it, if it had been mentioned, but it was not.

In fact, when I and a group of 22 local officials from 3 counties and St. Croix Com[illegible] leaders met with Mark Bugher in Madison on August 31, 1998, I specifical[illegible] mentioned how the mandated payments from one government to another was unprecedented except for fee for service payments. He never mentioned, during this opportune moment, any intent to use tribal funds to reimburse the state for services to Native Americans.

He also fervently assured me in front of these 22 witnesses plus State Budget Department staff that the state was bound to and would use the tribal contributions for the criteria listed in the signed Memorandum of Agreement Relating to Government to Government Matters. I said we had heard that the Governor had said he would use these funds for a new business in Wisconsin Rapids or Racine if the need was indicated. Mr. Bugher assured us these funds would be used communities and counties where casinos and reservations are located. We urge the legislature to keep these promises and designate the dollars from the tribes which go to Departments Commerce, Tourism, etc. as usable only by tribes, schools, local and county governments directly affecting and affected by casinos, reservations, and tribal affairs. Thank You.

ARDA

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FACT SHEET

CONTACT Chris Larsen
ARDA
202-371-6700

Ellen Yui
YUI+COMPANY
301-585-0298

Visit the ARDA web site at http://www.arda.org

STUDIES AVAILABLE ON THE VACATION OWNERSHIP INDUSTRY

The data on vacation ownership presented herein was compiled and analyzed in the studies listed below that are available from the American Resort Development Association. The studies are based on surveys of timeshare resorts and timeshare owner households along with extensive data supplied by the world's leading timeshare exchange companies, Interval International (II) and Resorts Condominiums International (RCI).

The studies were conducted by the following research organizations: KPMG Peat Marwick LLP, Steven Miner Research & Appraisal, Ragatz Associates (now RCI Consulting, Inc.), and the University of Southern California's School of Urban Planning and Development.

The United States Timeshare Industry 1997: Overview and Economic Analysis

Financial Performance Digest 1997: A Survey of Timeshare and Vacation Ownership Resort Developers

The Nevada Timeshare Industry: An Industry Overview and Economic Impact Analysis, (1997)

The Florida Timeshare Industry: An Industry Overview and Economic Impact Analysis, (1997)

Hawaii's Timeshare Industry: An Industry Overview and Economic Impact Analysis, (1997)

Financial Performance 1996, A Survey of Timeshare and Vacation Ownership Resort Developers

Timeshare Purchasers: Who They Are, Why They Buy, 1995 Edition

The 1995 Worldwide Resort Timeshare Industry

Timeshare Ownership Benefits: Results from a Nationwide Survey of Timeshare Owners 1995

The 1995 American Recreational Property Survey

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A Comparison of Vacation Home Ownership

	Whole-Ownership Vacation Home	**Whole Ownership Vacation Condo**	**Time-Share Vacation Condo**
Interest in Real Property?	Yes	Yes	Yes – all time-shares, whether fixed or flexible use
Type of Real Estate Interest?	Fee Simple	Fee Simple	Fee Simple or Interest for years
Conveyed By?	Warranty Deed	Warranty Deed	Warranty Deed
Sold only by or under supervision of licensed real estate broker?	Yes	Yes	Yes
Title Protected by Recording of Deed?	Yes	Yes	Yes
Subject to Real Estate Transfer Fee upon Recording of Deed?	Yes	Yes	Yes
Owner responsible for real estate taxes?	Yes	Yes	Yes
Can interest be sold or bequeathed?	Yes	Yes	Yes
Can a lien be attached to the interest?	Yes	Yes	Yes
Eligible for Second Home Tax Exemption pursuant to the Internal Revenue Code?	Yes	Yes	Yes

Obviously, a time-share interest in real property is very similar to whole-ownership interests. Notwithstanding the similarities described above, the budget bill proposes to treat timeshares differently from other estates in real property as follows:

Would owner pay real estate transfer fee when protecting title by recording deed?	Yes	Yes	No. Unclear how title will be protected.
Would sales tax be charged upon transfer of the interest?	No	No	Yes (currently sales tax is charged on time-shares with flexible use provisions, budget bill extends sales tax to all time-shares)
Would owner pay sales tax on goods, materials and services to maintain residence?	Yes	Yes	TWICE, due to sales tax charged on maintenance fees.
Would owner pay sales tax on real estate taxes paid?	No	No	Yes, through the sales tax charged on maintenance fees.
Would sales tax be charged on dues /fees charged by the owners' association?	No	No	Yes

Because the interests are so similar, as shown above, it does not make sense for Wisconsin to treat timeshares differently as proposed in the 2000-01 budget bill. Currently, Wisconsin treats fixed use and flexible use time-shares differently by charging sales tax on flexible use interests. However, both interests are interests in real property. The budget proposal correctly asserts that all time-shares should be treated uniformly; however, it seeks to subject all time-shares to sales tax rather than to treat all time-shares as other interests in real property are treated. Estates in real property should be treated uniformly.

- **Please <u>oppose</u> the budget bill proposal to charge sales tax on all time-share purchases, and instead**
- **Please <u>support</u> the proposal that all time-shares pay real estate taxes and the real estate transfer fee as is required of all other interests in real property.**

FACT SHEET

- THE WORLDWIDE VACATION OWNERSHIP INDUSTRY IS THE FASTEST GROWING SEGMENT OF THE TRAVEL AND TOURISM INDUSTRY
- GLOBAL SALES VOLUME IN 1997 WAS $6 BILLION
- THERE ARE OVER 1,200 RESORTS IN THE USA REPRESENTING 64,300 UNITS AND CLOSE TO 5,000 RESORTS WORLDWIDE
- THE AVERAGE VACATION OWNERSHIP UNIT SELLS FOR $10,500 AND FEATURES TWO BEDROOMS
- TIMESHARE'S CONTRIBUTION TO THE U.S. ANNUAL ECONOMY: $18 BILLION
- TIMESHARE VACATIONERS EXCHANGING INTO WISCONSIN CONTRIBUTED APPROXIMATELY $13.7 BILLION TO THE WISCONSIN RESORT COMMUNITIES IN 1996. SINCE THEN, THIS FIGURE CONTINUES TO GROW.
- 38,874 TIMESHARE OWNERS RESIDE IN WISCONSIN
- APPROXIMATELY 20,000 INDIVIDUALS OWN TIMESHARE WEEKS IN WISCONSIN
- IN 1996 APPROXIMATELY 12,105 FAMILIES EXCHANGED INTO WISCONSIN
- TIMESHARE OWNERS EXCHANGING INTO WISCONSIN SPEND APPROXIMATELY $1,130 PER WEEK IN THE LOCAL AREA AT RESTAURANTS AND BARS, RENTAL CARS AND GASOLINE, GROCERIES, ENTERTAINMENT AND SPORTS, SHOPPING, ADMISSIONS TO MUSEUMS, MOVIES, TOURS, STATE PARKS, ETC.
- THE TIMESHARE INDUSTRY IS A THREE BILLION DOLLAR A YEAR BUSINESS IN THE UNITED STATES. WISCONSIN IS A FACTOR IN CONTRIBUTING TO THIS SUCCESS

FACT SHEET

- THE TIMESHARE INDUSTRY SERVES A IMPORTANT SEGMENT OF THE VACATION INDUSTRY BY OFFERING A VACATION EXPERIENCE TO THOSE WHO WANT TO BUY WEEKS WHICH THEY INTEND TO USE, AS OPPOSED TO SOMEONE WHO CAN AFFORD TO BUY A WHOLE OWNERSHIP CONDOMINIUM OR VACATION PROPERTY.

- TIMESHARE WEEKS ARE DEFINED IN THE WISCONSIN STATUTES BY THE WISCONSIN LEGISLATURE AS REAL ESTATE (707.03)

- TIMESHARE INTREST IS WHERE A SPECIFIC WEEK IS DEEDED TO AN INDIVIDUAL. THIS IS NO DIFFERENT THAN A CONDOMINIUM. ALL IT IS, IS A CONDOMINIUM DIVIDED INTO A SMALLER FRACTION. JUST LIKE CONDOMINIUM OWNERS SHARE COMMON AREAS IN THE BUILDING AND REAL ESTATE OUTSIDE THE BUILDING, SO TIMESHARE OWNERS SHARE TIMESHARE BUILDINGS.

- SALES TAX ON TIMESHARE WEEKS IS DOUBLE TAXATION. WISCONSIN STATUTES CLEARLY DEFINES TIMESHARE AS REAL ESTATE. THEREFORE, IT CANNOT BE SUBJECT TO SALES TAX AS PERSONAL PROPERTY.

- THE FEDERAL GOVERNMENT HAS DEFINED TIMESHARE INTRESTS AS REAL PROPERTY. FOR TAX PURPOSES TIMESHARE IS RECOGNIZED AS THE EQUIVALENT OF ALL OTHER VACATION OR SECOND HOME PROPERTIES UNDER THE FEDERAL TAX LAWS. I.R.S. REGULATION 24 CFR 1.163-10T(P)(6).

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Rep. Lassa

Testimony Before The Joint Finance Committee

Stevens Point, April 13, 1999

By

Susan Pokorny

My husband and I own a timeshare at Christmas Mountain Village in Wisconsin Dells. At our last owners meeting, we were told that the Governor's proposed budget includes a provision to put a sales tax on timeshare sales and maintenance fees.

My husband and I have a difficult time understanding how a sales tax can be put on a real estate transaction. We also don't see how maintenance fees can be taxed. Our ownership is a ***deeded*** condominium purchase; that is we have a deed to a particular piece of real estate. Does this mean that all condominium maintenance fees will be subject to a sales tax?

When we purchased our timeshare in 1988, we paid a real estate transfer fee, received a real estate deed, and have paid real estate taxes on it since. Can real estate taxes be subject to a sales tax? Can our utility costs, which include a sales tax, have another sales tax added on? Can the monies we pay as wages to employees be taxed by a sales tax? Every expenditure our maintenance fees pay for already include a tax paid to the State. We don't think a tax on a tax is fair, or constitutional.

Because timeshare ownership and maintenance fees are under the condominium laws of Wisconsin, would passage of this part of the budget mean that all condominium sales and fees would be taxed? Would all employers in Wisconsin have to pay a sales tax on all the wages and fringe benefits of their employees? Because of Wisconsin's Constitution concerning equality of property taxes, would all property owners have to pay a sales tax on their property taxes?

I think it is rather obvious that this is an unfair proposal and should be dropped from the budget. I ask you to please do that.

Thank you.

Susan Pokorny
1902 Tamarack St.
Plover, WI 54467

Public Forum on Governor's Budget
Joint Finance Committee Hearing
April 8, 1999

TOPIC: TIMESHARE INTEREST TAXATION
Assembly Bill 133
Senate Bill 45

My name is Everett Wood. I am an attorney residing in Oak Creek and am appearing today to speak against the proposed taxation of timeshare maintenance fees included within the Governor's budget. I am president of the Christmas Mountain Villas Owner's Association, an association of approximately 5,000 timeshare interests.

The current proposal seeks to ignore Wisconsin Statutes and its definition of a timeshare as an interest in real property. As
707.03(2)
real property, each owner contributes both a real estate transfer tax upon purchase and yearly real estate taxes. The proposal seeks to add sales tax to the yearly maintenance fees paid by its owners.

In addition to being unprecedented nationwide, the imposition of sales tax on such a real property interest is of questionable constitutional basis.

Now, you may be thinking those people who own timeshares are well off enough that they can afford to absorb this tax. Such reasoning would be based on a false stereotype. The typical timeshare owner, at least in our association, is middle class average person. Our owners are the individuals trying to provide vacation experiences for their entire family, and who typically don't have the ability to afford a separate vacation home. This tax would hurt those people the most. I have been contacted by two owners this past week who inform this tax is posed to sell their interest as a result. These ordinary people feel the yearly imposition of sales tax on their maintenance fees will be "the last straw."

In no other state, and on no other interest is real property purchase or maintenance subjected to sales tax. The imposition of this tax opens the door to taxation of other real estate interests. Take for example the condominium owner paying association dues for maintenance of common areas. Are these maintenance fees taxed? NO! Should they be? NO! How about commercial lessees who pay CAM or common area maintenance charges. Again, these interests are not taxed nor should they be. Residential renters pay a portion of their rent for common area maintenance. Does the legislature wish to tax renters on their monthly payments as well? Certainly not! Likewise for homeowners' associations as well.

Why then does the proposal seek to thrust this sales tax only upon the timeshare industry? Perhaps the drafting representative(s) are disgruntled by this <u>same</u> tax proposal's removal from the final budget in 1995. Perhaps the hope is that the industry would not notice. But that is clearly not the case.

The imposition of this tax will clearly have an adverse effect not only on timeshare owners and associations, but also on one of Wisconsin leading industries – tourism. Those inclined to purchase a timeshare interest would clearly given all other factors equal, purchase interests not subject to sales tax on maintenance fees. i.e. interests purchased in other states.

In summary, the proposed tax is unfair as it singles out but one real estate interest. It's unprecedented effect operates as a double taxation, ignoring the statutorily defined real property nature of the timeshare interest. The average person is most greatly effected by this tax, which our association requests be removed as the budget takes its final form.

Thank You for Your Consideration

Everett E Wood

Everett E. Wood
1345 W. Lois Lane
Oak Creek, WI 53154

Dear Assembly Rep. Porter

This letter R/T — Assembly Bill #133
Sales Tax on Timeshare Weeks:
Fixed + Flex

Please enter our strong objection to any Sales tax which applies to the sale of timeshare weeks or timeshare maintenance fees. Time share weeks are defined in the Wisconsin statutes by the Wisconsin Legislature as real estate (707.03)

The current budget proposal taxes time-share weeks as personal property. We've already paid a Wisconsin transfer fee for our weeks. How can we now be reclassified as personal property for the purpose of taxation?

Taxation of timeshare weeks hurts the average citizen. We value our vacations and vacation experiences. We appreciate the opportunity to be able to buy fractional interests in a vacation home at a much lower cost than buying an entire second home property. We should not be punished by taxes because we only buy those weeks we are actually able to be there to use, as opposed to someone who can afford to buy a whole ownership condo or vacation property.

Please oppose any sales tax on timeshare weeks

Thank-you in advance for your support
Yours truly
Armin & Shirley Engelmann

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IMPORTANT FACTS ABOUT VACATION OWNERSHIP

- During 1996, the US timeshare industry sold a total of 218,000 intervals at an average price of $10,000 per week. The result was a total sales volume of $2.18 billion.

- A total of 1,767,000 households own timeshares in the US. The number of timeshare intervals owned by consumers in the US is growing at a compounded rate of 9% per year.

- Over four million households worldwide now own a vacation interval, with owners residing in 190 countries.

- With a 1997 sales volume of $817 million, Florida leads the country in timeshare sales, followed by the Pacific region, with $507 million, the Central region, with $303 million, the Mountain region, with $239 million, the Northeast, with $138 million, and the Southeast, with $176 million.

- As an aggregate profile, the typical vacation owner is an upper-middle-income, middle-aged, well-educated couple: 77% have incomes over $50,000; 69.2% are 45 years of age or older; and 64% have at least a bachelor's degree. The median income of US timeshare owners is $77,000.

- A 1997 survey of US vacation owners revealed that 85.2% are satisfied with their timeshare purchase. Of those, 55.1% report they are "very satisfied."

- California leads the nation in number of owners by state, with 270,531 owners, representing 15.3% of owners nationwide. By region, the largest percentage of owners reside in the Northeast, which accounts for 38% of all owners.

- Over two million exchanges were confirmed in 1997 by the two leading timeshare exchange companies, Resorts Condominiums International (RCI) and Interval International (II). Over 97% of all exchange requests made to the exchange companies are confirmed. To date, over ten million exchanges have been confirmed worldwide.

- As of 1995, 60.3% of US households feel they have a chance of purchasing recreational property within the next 10 years.

- Florida is the single-most preferred state by Americans for a recreational property purchase. The next five most preferred states are California, Colorado, North Carolina, Texas and Arizona, in that order.

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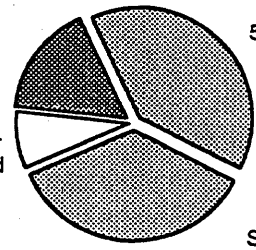
VACATION OWNERSHIP: 85% SATISFACTION RATINGS BY OWNERS

With over 1.7 million resort vacation owners in the US and approximately 120,000 new buyers each year, the vacation ownership industry is enjoying skyrocketing approval ratings from its owners and achieving levels of satisfaction unequaled in the hospitality industry.

Owner Satisfaction Ratings



Satisfaction ratings by vacation owners continue to climb. A 1997 survey of 2,653 US vacation owners revealed that 85.2% are satisfied with their timeshare purchase. Of those, 55.1% report they are "very satisfied." This represents an increase from 1993, when 75.3% of owners reported satisfaction with ownership, with 39% reporting they were "very satisfied."

The vast majority of US owners (76.6%) report that their expectations of vacation ownership at the time of purchase have been matched or exceeded. Three quarters (75.4%) of US owners say they recommend vacation ownership to others. Owners rate the following characteristics very high (over 80%):

- services and activities in area near resort(s)
- cleanliness and upkeep of unit(s)
- construction quality
- amenities and facilities at resort(s)
- hospitality shown by staff
- management responsiveness

Why They Buy: Flexibility, Quality, and Value

When asked to rate the importance of their reasons for purchasing timeshare, US owners cited the following as the primary motivating factors:

- **Flexibility.** The opportunity to exchange into other US resorts is considered the most important motivation for purchasing.
- **Quality.** The quality and desirability of the facilities is a key factor in deciding to purchase a timeshare.
- **Value.** Households are looking to vacation ownership to receive more value for their vacation dollar.

—more—

Top 10 Motivating Factors for Purchase Ranked in Order of Importance by US Timeshare Owners	
Scale: 1= "not important" to 5 = "very important"	
1. Exchange to other US resorts	4.5
2. Assurance of good accommodations	4.2
3. Good value compared to other options	4.0
4. Like unit, amenities, or resort features	4.0
5. Exchange to non-US resorts	3.9
6. Save money over long run	3.8
7. Confidence in timeshare company	3.7
8. Treated well during sales presentation	3.6
9. Wanted to own in that resort area	3.5
10. Affordable vacation home	3.5

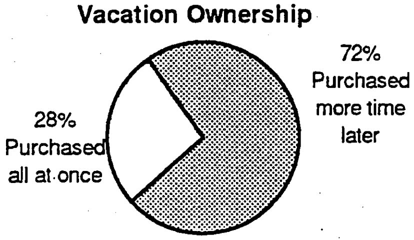
Owners Report Positive Experience with Sales Process

When asked about the sales process, three out of four (73.8%) US timeshare owners rate it as "very positive" or "somewhat positive" and give the "personality, manners, knowledge of sales personnel" particularly high marks. This overwhelmingly positive report is a strong indication that high-pressure selling is no longer a major issue among timeshare purchasers.

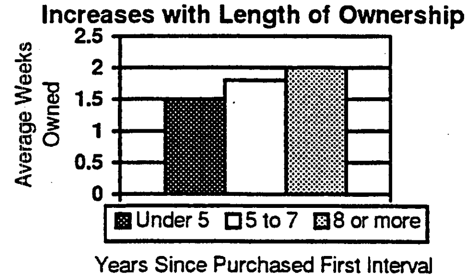
More Owners Purchase Additional Time

Of the vacation owners surveyed, 34.9% had purchased additional time beyond that which they obtained through their original purchase. This proportion jumps to 44.7% among long-time owners, or those who first purchased at least eight years ago.

Most Multi-Week Owners Purchased Additional Time After Experiencing Vacation Ownership



Number of Intervals Owned Increases with Length of Ownership



Overall, 17.1% of current US owners are interested in purchasing more time in a resort where they presently own a timeshare. The highest percentage is in Florida, at 21%. Of all US owners, 24.1% are interested in purchasing more time at a resort other than their own. Overall, 11.9% of US owners express some degree of interest in purchasing time in a resort outside the US.

—more—

75% of Owners Claim Timeshare Ownership Improves Quality of Life

The positive timeshare satisfaction ratings are mirrored by positive quality of life ratings. Of US timeshare owners, 75.6% say their lives have been affected "very positively" (35%) or "somewhat positively" (41%). Owners in the Pacific have the highest percentage reporting positive effects of vacation ownership on their lives, at 82.2%.

There is also a strong correlation between believing that timesharing has had a positive impact on the lives of the household and increased length of ownership. Long-standing owners are more likely to report a positive impact: of owners who purchased before 1990, 76.7% report a positive impact; 74% who purchased between 1990-94; and 61.1% who purchased between 1995-97.

The 1997 survey results also indicate that the longer a household has owned the timeshare, the more opportunities it has had to take advantage of exchange opportunities and to realize the savings from using the interval interest in vacation travel. The percentage of owners stating that their timeshare purchase has saved them money on vacations increases with number of years of ownership: 53.7% of owners who purchased before 1990 report having saved money on vacations; 36.4% of owners who purchased between 1990-94; and 18.1% of owners who purchased between 1995-97. By comparison, over half (53.2%) of those who purchased between 1995-97 report the highest expectation of realizing economic benefits over time.

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Source: *The United States Timeshare Industry: 1997 Overview and Economic Analysis*
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Timeshare Ownership Benefits: Results from a Nationwide Survey of Timeshare Owners
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VACATION OWNERSHIP: FLEXIBILITY, QUALITY, AND VALUE

As the fastest-growing segment of the global travel and tourism industry, vacation ownership is redefining consumer travel by setting higher standards in hospitality, revitalizing travel and leisure through new products and services, and elevating consumer expectations of the vacation experience. A 1997 survey of US owners demonstrated that consumers are looking to vacation ownership to receive more value for their vacation dollar.

When asked why they purchased timeshare, US owners cited the flexibility, quality, and value offered by vacation ownership as their primary motivating factors. The opportunity to exchange into other US resorts is considered the most important single motivation for purchasing. The "assurance of good accommodations" and "liked the timeshare unit, resort amenities, or resort features" were also cited as very important motivations. Ranked next was the "good value compared to other options," and that vacation ownership would help to "save money over the long run."

Commonly referred to as vacation ownership, timeshares, interval ownership, and vacation clubs, today's vacation ownership product equals, and in many cases surpasses, accommodations at traditional luxury resorts and puts consumers in the driver's seat when they vacation.

Type of Interests Available

- **One –Week Interests** or **Points Offerings.** The majority of US timeshare resorts (93.7%) provide interval interests sold either in increments of one week of use each year or as points offerings. However, many resorts also offer other options. Florida has the highest percentage of resorts which offer one-week interests or points programs, at 99%. The Mountain region reports the lowest percentage, at 84.6%.

- **Biennial Intervals.** In recent years, there has been substantial growth in biennial intervals, which provide the buyer with a week of use every second year. Biennials are now the next most-common type of interest after single weeks and points programs. The highest proportion of biennial interests by region is in the Pacific, due to the high interval prices and the high cost of travel to this region.

- **Fractional Interests.** Only 8% of US timeshare resorts currently sell fractional interests, or interests in multi-week packages. Fractional interests continue to represent a niche market, appealing to households wanting several weeks of annual use without the expense or other complications of whole-ownership. These types of interests are most prevalent in the Mountain region and the Southeast.

—more—

- **Undivided Interests.** With the undivided interest, shares are sold on a ratio of multiple members per unit. This interval format currently is available at only 6.7% of US timeshare resorts. By far, the largest market providing undivided interests is the Mountain region, with 21.5% of resorts reporting the presence of this type of interval.

Types of Ownership

- **Deeded Week.** The standard type of timeshare ownership is the deeded week, offered by 89.8% of US timeshare resorts. Florida shows the highest percentage of deeded week intervals offered. For many years, the deeded week intervals were one of the only products offered.

- **Right-to-Use.** Currently, 10.1% of US timeshare resorts offer right-to-use interests, up from 4% in 1993. Right-to-use programs are most common in the Pacific region. This increase in a more flexible type of membership interest offered is in keeping with the trend of consumers demanding more alternatives in their vacation ownership purchases.

Total 1996 US Sales by Type of Plan (%)

	US Overall	Florida	Northeast	Southeast	Central	Mountain	Pacific
Fixed	60.8	80.5	72.3	75.0	68.5	50.5	22.7
Float within season	21.1	15.4	17.0	17.3	21.3	28.4	27.7
Float year round	20.3	10.1	11.7	9.6	17.6	23.2	44.7
Points	5.9	10.7	0.0	6.7	4.6	3.2	7.1
Other	8.8	6.0	13.8	8.7	5.6	7.4	12.1

Timeshare Use Plans

The variety of timeshare use plans offers consumers the flexibility of tailoring the product to meet their lifestyle.

- **Fixed Time.** The majority of US timeshare resorts include some weeks on a fixed-week system where the consumer uses the same one-week period each year. This system was the norm among new developments until the mid-1980s. Given its mature market, Florida has the highest percentage of resorts using a fixed time in their plans. However, unlike historical patterns, fixed time is generally now limited to special events or holidays rather than throughout the year.

- **Floating Time within Seasons.** The second most widely utilized plan is floating time within seasons where consumers may book any time they choose within a given seasonal time frame (and usually within a given unit type) at their resort, subject to availability. This type of plan is most common in both the Mountain and Pacific regions.

—more—

- **Floating Time Year-Round.** This access arrangement allows consumers to reserve time in their resort without seasonal restrictions. The percentage of resorts offering this type of plan has increased from 12.7% in 1993 to 20.3% in 1997. This type of use plan is more popular in the Pacific region, especially Hawaii.

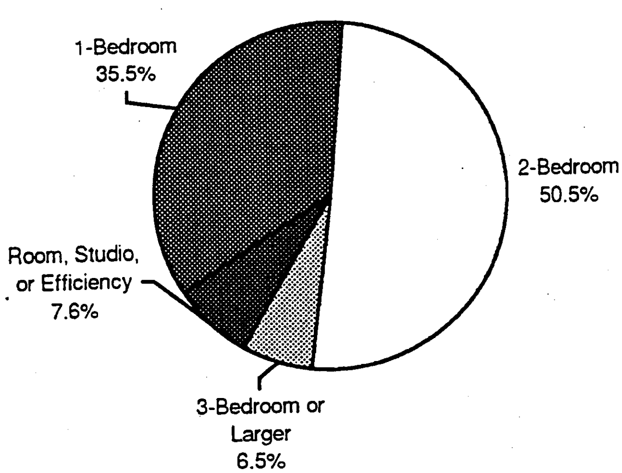
- **Points.** Points programs have gained in popularity in recent years. Under a points-based access plan, the consumer obtains a type of vacation credit redeemable each year for a varying number of accommodation nights depending upon the season, day of week, size of unit, and resort location chosen. Because points programs have entered general use only in recent years, only 5.9% of resorts currently offer them, however they are rapidly becoming more common. Points programs are most widespread in Florida, followed by the Pacific, where the concept originated.

- **Vacation Club.** A travel and use product, the vacation club offers members great flexibility. The buyer receives a single ownership interest (deeded or right-to-use) which entitles the member the right to use accommodations at all resorts in the club's system. Membership may include priority reservation right to the member's home resort. Other typical attributes may include: finite term of membership; common use of "points" to get accommodations or other benefits; benefits other than lodging, such as travel services, hotel discounts, golf packages, health and city club memberships; and different types of lodging, such as condominiums, timeshares, hotels, campgrounds or cruise ships.

- **Split Weeks.** Floating time and points programs make it theoretically possible for consumers to split their total time for the year into multiple increments which are less than seven nights in duration, referred to as split weeks. This plan option has become more widely available, offered by 23.1% of resorts today, up from only 9.7% in 1993. Split weeks are most prevalent at resorts in the Mountain and Pacific regions, and are the least common in the Northeast and Florida. Many urban timeshares allow use by the night.

Spacious and Luxurious Accommodations

U.S. Timeshare Unit Size



The unique value of the vacation ownership product lies in the combination of quality accommodations, the spaciousness, comfort and luxury features of suites, full-service resort amenities, and unparalleled flexibility available to consumers in one resort.

Most vacation ownership units have two bedrooms and two full baths, and can sleep up to six people. One-bedroom units are furnished to sleep up to four people. A recent development is the "lockoff" or "lockout" unit. Such units may consist of two bedrooms and two bathrooms, or three bedrooms and three bathrooms. They are designed so the owner can occupy the living room and one or two bedrooms, and offer the remaining space for rental.

—more—

Units usually include full kitchens outfitted with a variety of amenities, including large refrigerators, dishwashers, microwave ovens, blenders, juicers and informal breakfast nooks or counters. Many also have washers and dryers in the units. Many units include a variety of luxury features, including:

- double-volume ceilings
- terraces
- balconies
- wood-burning fireplaces
- hot tubs
- whirlpool baths
- saunas
- sumptuous master bathrooms
- home entertainment centers with large-screen TV sets
- VCRs
- stereos
- premium cable TV service

A Variety of Resort Amenities

The amenities offered at vacation ownership resorts rival those of many of the top-rated traditional resort properties in the world, and they include:

- fully-equipped exercise facilities
- indoor and outdoor swimming pools
- private beach access
- golf courses
- tennis and racquetball courts
- ski lifts
- bicycles and paths on property
- equestrian facilities
- boats and marina facilities
- fishing piers and tackle
- on-site shopping centers
- gourmet dining
- theaters
- nightclubs
- shuttle to off-site attractions

The Exchange Opportunity

One of the most popular features of vacation ownership is the flexibility offered through the exchange opportunity. Exchange allows the purchaser of a vacation interest at one vacation ownership resort to exchange it for another week owned by someone else at another time or place. Resorts are affiliated with an exchange company, which administers the exchange service for owners at the resort. Owners individually elect to become members of the exchange service company. At many resorts, the developer pays for each new owner's first-year membership in the exchange company; thereafter, the exchange company directly solicits renewals of its memberships.

The Owners' Association

A benefit of vacation ownership is that those who buy into a recreational environment also purchase the privilege of ownership of that environment. Specifically, the owners of vacation weeks sold on a fee-simple condominium basis or as shares in a not-for-profit corporation become members of their resort's owners association, often called the Condominium Owners' Association (COA) or Homeowners' Association (HOA). When a stipulated percentage of the unit-weeks in the resort—usually about 75%—has been sold, control of the association passes to the owners who elect a board of directors to oversee the resort's operations. The owners' association of a vacation ownership resort operates in exactly the same manner as any typical whole ownership residential condominium association.

# # #

Source: *The United States Timeshare Industry 1997: Overview and Economic Analysis*
© 1997 by the American Resort Development Association

Timeshare Purchasers: Who They Are, Why They Buy, 1995 Edition
© 1995 by the American Resort Development Association

Financial Performance Digest 1997: A Survey of Timeshare and Vacation Ownership Resort Developers ©1997 by the American Resort Development Association

Financial Performance 1996, A Survey of Timeshare and Vacation Ownership Resort Developers
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VACATION OWNERSHIP: A SIGNIFICANT ECONOMIC IMPACT

The timeshare industry directly contributes $8 billion to the US economy. It directly employs 50,086 personnel. When indirect and induced impacts are factored in, the total national annual impact for the industry reaches $18 billion, with the generation of 270,000 jobs.

The industry has experienced growth, wider recognition, increased diversity of product, and broader involvement. Thus, the impacts are not only larger today, but they are increasingly more diverse on a sector and a geographic basis. Although the more obvious sectors of the economy, such as service and retail, experience the largest impact, industries such as manufacturing, finance, insurance, real estate, transportation, and public utilities reap large benefits from the industry in terms of employment and dollars.

Contributions to Local Economies

On the local level, the economic benefits which vacation ownership resorts accrue are significant and surpass those offered by more traditional types of resorts. For instance, vacation ownership resorts bring more visitors to the resort area on a per-unit basis than the typical resort hotel. Vacation owners also spend a considerable sum both in reaching the resort area and during their stay. In addition, the return visitation patterns of vacation owners are high, and their lengths of stay are longer.

Vacations owners also contribute to the community through sales taxes and real estates taxes—dollars that help support the local schools, hospitals, roads, libraries, fire and police departments, and a variety of other municipal services that the vacation owners themselves use little if at all.

Larger Party Size, Longer Visits

According to a 1997 survey of 2,650 US owners, the average timeshare party is comprised of 3.8 persons. Of this party, 2.9 are adults, and 0.9 are children under 18 years or younger. The average length of stay for US timeshare vacations is seven days in the household's own timeshare. Including all other options, the average stay in the resort area is 8.6 nights, with 81% of the time spent in the household's own timeshare. The remaining 19% of time is most often spent in a hotel, motel, condominium, or another timeshare unit that is not owned by the household.

—more—

The average size of the timeshare visitor parties and length of stay varies significantly by region. Florida shows the largest average party size, at 4.1 persons. Florida visitor parties also reported the most children, at an average of 1.1 per party. Timeshare vacations to the Pacific show the longest average length of stay, at 7.4 days. Florida reports the next highest average, at 7.2 days.

Considerable Consumer Expenditures

While in the local resort area, the average timeshare visitor party spends considerably more than the traditional traveler, averaging expenditures of $1,181 during the course of the entire stay, not including an additional $387 per party for airfares. Their local expenditures translate to an average of approximately $137 per night per party, or $36 per person per night.

According to US vacation owners surveyed in 1997, an average of $369 per party is spent on airfares between the residence and the timeshare resort area. The survey revealed that over half of timeshare owners travel to the resort via other means, as only 39.6% of respondents cited airfare as an expenditure. Owners also spend an additional $18 on other airfares, such as to nearby resort areas. (This average is small due to only four percent of vacationing parties reporting such expenditures.)

Timesharing also brings more business to area hoteliers and other operations: 25.2% of owners surveyed cited expenditures for other lodging. An average of $64 was spent for lodging in the resort area before or after the owner's timeshare interval.

Average US Timeshare Vacation Expenditures	
Food & beverage	$475
Airfare	387
Entertainment	245
Shopping	217
Transportation	148
Other Lodging	64
Other expenses & services	32

The largest single category of expenditure while in the resort area is for food and drink consumed in restaurants, bars, and other hospitality establishments, at an average of $475 per party. Entertainment, including sports activities, sightseeing, tours, and admissions to attractions, museums, movies, and rides, is the second largest expenditure in the local area, at an average of $245 per party. Shopping for clothing, souvenirs, art, and similar items represents $217. An average of $148 per party is spent on transportation costs in the region.

Timeshare Resorts Build a Loyal Visitor Base

The significant and positive economic impact which vacation ownership has on the surrounding area is underscored by the change in travel patterns in the resort area by vacation owners after their purchase of a vacation interval. Timesharing builds loyalty to the vacation area. U.S. owners surveyed in 1997 report having taken 2.5 vacations in the resort area where their first timeshare purchase is located during the five years prior to purchasing. By contrast, as current timeshare owners, they plan to take an average of 3.7 vacations in the resort area over the next five years.

The region in which this trend is most pronounced is the Central region. In the five years prior to purchasing an interval interest, owners reported an average of only 1.6 vacations to the area. After purchasing a timeshare, the number of vacations planned to the area over the next five years increased by 1.8 to an average of 3.4 vacations.

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Source: *The United States Timeshare Industry 1997: Overview and Economic Analysis*
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Timeshare Purchasers: Who They Are, Why They Buy, 1995 Edition
© 1995 by the American Resort Development Association

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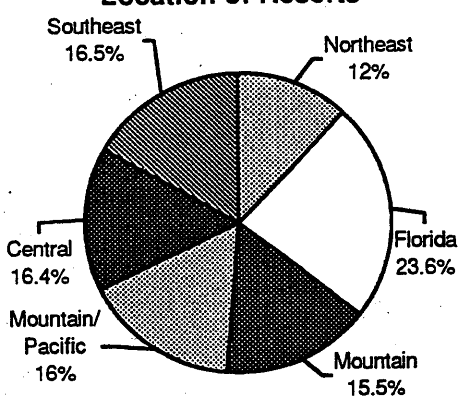
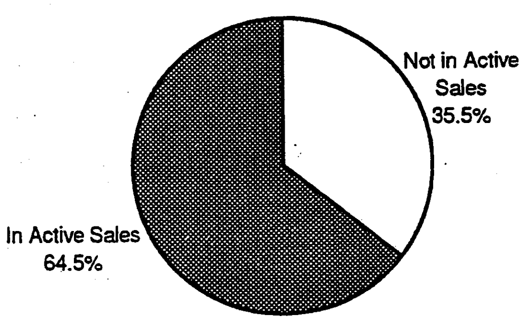
VACATION OWNERSHIP: FINANCIAL PERFORMANCE OF THE US INDUSTRY

During 1996, the US timeshare industry sold a total of 218,000 intervals at an average price of $10,000 per week. The result was a total sales volume of $2.18 billion. This reflects a substantial increase from 1992, when sales were reported at $1.3 billion based on 168,840 intervals sold at $7,000 per interval. The number of timeshare intervals owned by consumers is growing at an annual compounded rate of 9%. The industry's rapid expansion, high profitability, and phenomenal growth potential position it as a solid investment opportunity.

Location of Resorts



Majority in Active Sales



The US continues to dominate the world vacation ownership market. According to a 1997 survey of US timeshare developers, Florida continues to lead the US in the number of resorts, with 284, or 23.6%, of resorts.

With a 1997 sales volume of $817 million, Florida also leads the country in timeshare sales, followed by the Pacific region, with $507 million, the Central region, with $303 million, the Mountain region, with $239 million, the Northeast, with $138 million, and the Southeast, with $176 million.

Over 60% of US timeshare resorts are almost or completely sold out. The average percentage of unit-weeks sold per resort is 76%. The average number of interval weeks existing and under construction is 3,787 weeks, and the median number is 2,550 weeks.

The average planned size for a resort is approximately 100 units, indicating a larger average size for the new resorts than those historically built.

Timeshare Sales 1996			
Region **State**	**Intervals Sold**	**Average Price by Region (millions)**	**Sales Volume (millions) ($)**
Florida	**81,700**	**$10,000**	**817**
Northeast	**15,800**	**$8,750**	**138**
Connecticut	<100		<1
Massachusetts	2,200		19
Maine	1,100		10
New Hampshire	1,800		16
New Jersey	3,400		30
New York	400		4
Pennsylvania	5,300		46
Rhode Island	1,000		9
Vermont	600		5
Southeast	**18,500**	**$9,500**	**176**
Delaware	<100		<1
Georgia	100		1
Maryland	<100		<1
North Carolina	3,200		30
South Carolina	6,300		60
Virginia	8,900		85
West Virginia	<100		<1
Central	**33,700**	**$9,000**	**303**
Alabama	200		2
Arkansas	13,200		119
Illinois	2,600		23
Indiana	400		4
Iowa	400		4
Louisiana	1,900		17
Michigan	200		2
Minnesota	1,000		9
Mississippi	100		<1
Missouri	3,900		35
Ohio	100		<1
South Dakota	<100		<1
Tennessee	4,800		43
Texas	4,200		38
Wisconsin	700		6
Mountain	**24,400**	**$9,750**	**239**
Arizona	7,700		75
Colorado	4,700		46
Idaho	100		1
Montana	400		4
New Mexico	200		2
Nevada	9,200		90
Utah	2,100		21
Wyoming	<100		<1
Pacific	**43,800**	**$11,500**	**507**
California	17,200		189
Hawaii	12,900		181
Oregon	200		2
Washington	13,500		135
Total	**218,00**	**$10,000**	**$2,180**

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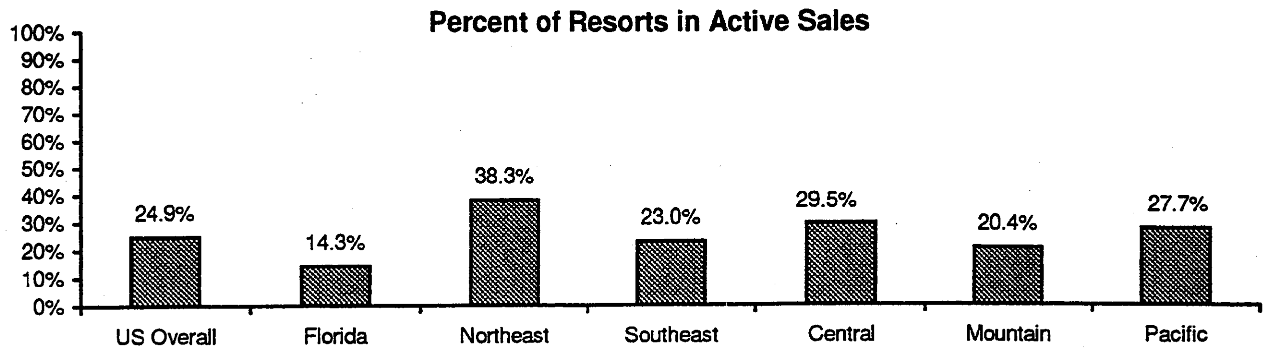
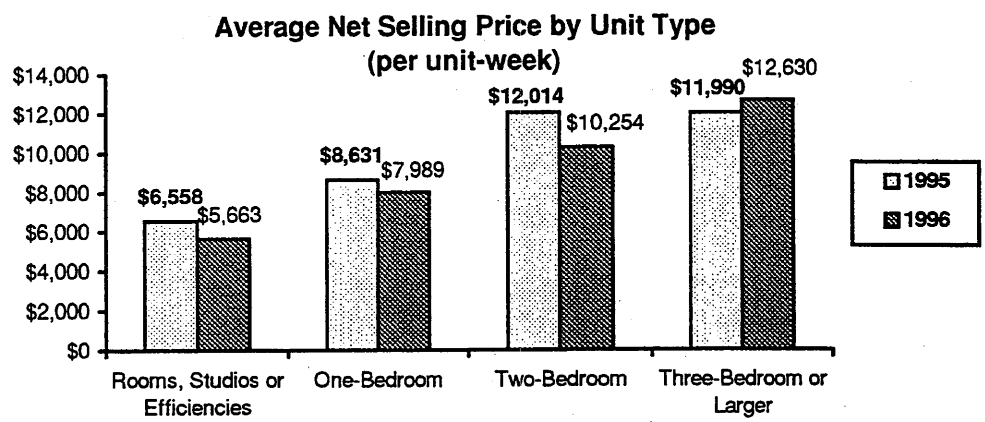


The largest percentage of resorts reported net dollar sales between $1 million and $5 million in 1996. The average net sales figure was $6.6 million. The largest percentage of resorts (27.1%) report that the cost of product is between 15% and 20% of net sales, having increased from 1995. Over 23% of resorts now report that the cost of product now exceeds 30% of revenue. The cost of product for the majority (53.7%) of resorts averaged between $50,000 and $100,000. Almost 20% now report costs exceeding $150,000 per unit. This is partially due to the introduction of more high-end products in the luxury niche.



Resorts are experiencing higher closing percentages than in recent years. The average net closing percentage for 1996 was 12.3%. This reflects an increase from the 1995 net closing percentage of 11%. Approximately 30% of resorts report recission (i.e., new buyers who reconsider their purchase) rates between 15% and 19.9%.

Developers Explore New Financial Opportunities

Financing has become increasingly easier for timeshare developers to obtain in recent years. Close to 90% of developers obtained construction loans, compared with just over 70% in 1994. Only 32% developers surveyed were required by lenders to put equity into projects of more than 20%. The percentage of developers obtaining acquisition loans decreased from 68% in 1994 to 47% in 1995.

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Developers are exploring new opportunities for positioning their timeshare products and strengthening their companies, including brand-name affiliation, consolidation, IPOs, acquisitions, and mergers. In a 1997 survey of US developers, 25% reported having considered merging their timeshare company with another regional timeshare company, 22% considered taking the company public, 19% have contemplated conducting a securitization of some type, and 17% have thought about selling the company or inventory to an established timeshare company.

Consumer Financing

Almost 80% of timeshare developers report a minimum down payment requirement of 10% for financed sales, exclusive of special financing packages. Over 75% of developers have required this minimum for the past five years. Despite this minimum down payment, 92% of consumers make down payments that exceed 10%. This is a significant increase from 1995, when approximately 75% of consumers reported making down payments of 10% or less.

Approximately three-quarters (77.3%) of developers report their consumer receivables portfolio is extended on a fixed basis rather than a variable basis. This has dropped considerably from the 96% reported in 1995. The majority of developers (53%) charge an interest rate between 13.1% and 15%. This represents an increase from 1995, when only 37% charged interest rates in this range. The industry is witnessing a substantial increase in longer financing terms: the majority (63.6%) of developers report the average terms of their receivables is greater than 6 years, compared to only 40% in 1995.

Only 36% of developers report selling any portion of their 1996 contracts to a lender. There has been a dramatic increase in the proportion of developers who have not hypothecated any of their contracts, from 0% in 1995 to 28.9% in 1996. This sharply underscores the developers' focus on the portfolio profitability and secondarily indicates liquidity in the developers' operations. Almost half (45.2%) of developers report a weighted average floating interest rate of 200 to 250 basis points above the prime rate. Developers report that they consider more than 85% of their receivables to be current. A little more than half (51.3%) of the respondents report an average actual bad debt expense between 3.1% to 6% of net sales for 1996.

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Source: *The United States Timeshare Industry 1997: Overview and Economic Analysis* © 1997 by the American Resort Development Association

Financial Performance Digest 1997: A Survey of Timeshare and Vacation Ownership Resort Developers ©1997 by the American Resort Development Association

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THE VACATION OWNERSHIP INDUSTRY IN THE US

The US timeshare industry includes 1,204 timeshare resorts and an estimated 64,300 timeshare units. Three hundred, or 25%, of all US timeshare resorts are in active sales. In 1996, the number of weeks sold was 218,000 at an average price of $10,000 per week, resulting in a total dollar sales volume of $2.18 billion. The industry has seen an average increase in timeshare sales volume of approximately 13.8% per year. The average occupancy rate for US timeshare resorts is 87.5%.

The industry's impressive and consistent growth is a result of a variety of factors, including higher standards of accommodation, quality and service, flexibility, the involvement of well-recognized hotel companies, increased availability of financing, and the industry's improved overall image. Consumer demand is driving timeshare product differentiation and quality, as consumers require more choices in destinations, time of use, and lengths of stay. In addition, developers are increasingly using price segmentation and branding as a competitive tool to position their products to targeted consumer segments.

As of 1997, a total of 1,767,000 households own timeshares in the United States. The number of US timeshare intervals owned by consumers is growing at a compounded rate of 9% per year. As an aggregate profile, the typical vacation owner is an upper-middle-income, middle-aged, well-educated couple: 77% have incomes over $50,000; 69.2% are 45 years of age or older; and 64% have at least a bachelor's degree. The home region of purchasers has become increasingly diverse, with demand not concentrated in any particular region, but rather spread throughout the country.

The industry directly employs 50,086 people. Including indirect and direct employees, timesharing generated close to 270,000 jobs. It contributed $18 billion to the U.S. economy through employment, consumer and business expenditures, and taxes. Timeshare has a positive economic impact on a variety of industries, including: service and retail; manufacturing; finance; insurance and real estate; and transportation and public utilities.

Regional Overview of US Timeshare Industry

The major vacation ownership markets in the US are primarily located in established resort destinations. Except for Florida, they are evenly distributed in major resort areas around the country. Timeshare resort characteristics vary from region to region. Due to seasonality, resort area activities, and location characteristics, resorts in different regions offer different amenities, unit types, and ownership options.

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Location of US Timeshare Resorts		
Region State	Number of Resorts	Percent of Total US Resorts (%)
Florida	**284**	**23.6**
Northeast	**145**	**12.0**
Connecticut	1	0.1
Maine	15	1.3
Massachusetts	39	3.2
New Hampshire	27	2.2
New Jersey	9	0.8
New York	10	0.8
Pennsylvania	24	2.0
Rhode Island	11	0.9
Vermont	9	0.8
Southeast	**199**	**16.5**
Delaware	2	0.2
Georgia	14	1.2
Maryland	19	1.6
North Carolina	51	4.2
South Carolina	85	7.1
Virginia	26	2.2
West Virginia	2	0.2
Central	**197**	**16.4**
Alabama	10	0.8
Arkansas	16	1.3
Illinois	1	0.1
Indiana	2	0.2
Iowa	3	0.3
Kentucky	3	0.3
Louisiana	17	1.4
Michigan	9	0.8
Minnesota	13	1.1
Mississippi	4	0.3
Missouri	27	2.2
Ohio	3	0.3
South Dakota	1	0.1
Tennessee	20	1.7
Texas	46	3.8
Wisconsin	22	1.8
Mountain	**187**	**15.5**
Arizona	23	1.9
Colorado	67	5.6
Idaho	9	0.8
Montana	14	1.2
Nevada	33	2.7
New Mexico	14	1.2
Utah	23	1.9
Wyoming	4	0.3
Pacific	**192**	**16.0**
California	88	7.3
Hawaii	61	5.1
Oregon	19	1.6
Washington	24	2.0
Total	**1,204**	**100.0%**

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Total 1996 Sales							
	US Overall	Florida	Northeast	Southeast	Central	Mountain	Pacific
Total Dollar Sales Volume (in millions)	$2,180	$817	$138	$176	$303	$239	$507
Weeks Sold	$218,000	81,700	15,800	18,500	33,700	24,400	43,800
Average Price Per Week	$10,000	$10,000	$8,750	$9,500	$9,000	$9,750	$11,500
Note: (1) Average prices by region rounded to nearest $150 (2) Sales volumes rounded to nearest $1 million							

Florida. With 23.6% of total US timeshare resorts, Florida remains the most significant and developed market in the US. Florida led in sales in 1996, with 81,700 intervals sold and a sales volume of $817 million. Florida has the second highest average price per timeshare interval, at $10,000. Orlando is the world's largest vacation ownership destination. With 1996 sales of $549 million and 54,900 interval weeks sold, the Orlando region alone represented approximately 25% of total US vacation ownership sales.

Pacific. (AK, CA, HI, OR, WA) The Pacific region is the fastest-growing timeshare market in the US. In 1996, resorts in the region sold 43,800 intervals, resulting in sales of $507 million. Average prices for timeshare intervals are highest in the Pacific region, at $11,500. New resorts have opened, are under development, or are being planned for every state in this region, particularly in the popular resort destinations in this region, such as Hawaii, Southern California, and Lake Tahoe.

Northeast. (CT, ME, MA, NH, NJ, NY, PA, RI, VT) In 1996, 15,800 intervals were sold at resorts in the region, resulting in sales of $138 million. Northeast timeshare resorts include locations in mountain and beach areas. Many of the owners at these resorts reside in the region. With an average price of $8,750, intervals in the Northeast are the least expensive in the country.

Southeast. (DE, DC, GA, MD, NC, SC, VA, WV) In 1996, timeshare resorts in the Southeast reported 18,500 intervals sold and $176 million in sales. Like the Northeast, resorts in this region include locations in mountain and beach areas, and resorts attract owners residing in the region. The average price per interval at resorts in the region is $9,500.

Central. (AL, AR, IL, IN, IA, KS, KY, LA, MI, MN, MS, MO, NE, ND, OH, OK, SD, TN, TX, WI) The Central region is the smallest of all the regions in terms of number of resorts and total sales volume. However, growth potential in this region is high, as the number of resorts currently in active sales are above the national average. In 1996, resorts in the region sold 33,700 intervals, producing sales of $303 million. The average price of an interval in the region is $9,000.

Mountain. (AZ, CO, ID, MT, NV, NM, UT, WY) The Mountain region is also a growing timeshare market. In 1996, 24,400 intervals were sold in the region, resulting in $239 million in sales. Resorts in this region are concentrated in the mountain ski areas of Colorado and Utah and in the desert region of Arizona and Las Vegas. They have the third highest average price per interval in the country, at $9,750.

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Source: *The United States Timeshare Industry 1997: Overview and Economic Analysis* © 1997 by the American Resort Development Association

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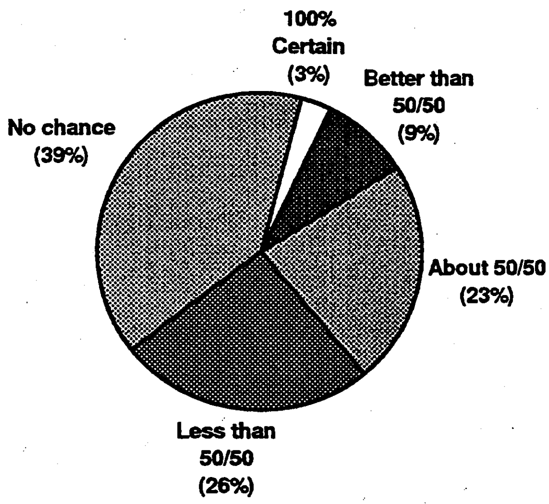
RECREATIONAL PROPERTY IN THE UNITED STATES

Chances of Purchasing Recreational Property During Next 10 Years



American interest in ownership of recreational property is on the rise. According to a February, 1995 telephone survey of 1,000 U.S. households not owning recreational property, 60.3% of Americans believe they have a chance of purchasing recreational property of some type during the next ten years.

The survey results revealed that over one-third (34.6%) of Americans rate their chances of purchasing during the next ten years as "about 50-50 or better," compared to 25.5% in 1993 and 15.5% in 1990. Among those optimistic respondents, the strongest interest was found among residents of the West region, where 40% responded their chances were high during the next 10 years, as compared to 33.7% in the South region, 33.7% in the North Central region, and 31.4% in the Northeast region.

Age is Strongest Factor of Estimated Chance of Purchasing

Age is the most significant factor in establishing rates of optimism regarding the possible purchase of recreational property during the next 10 years. Survey respondents under age 40 were by far the most likely to believe they will purchase, with 47.4% of positive responses. Interest drops in the 40-to-54-age bracket to 41.8%, and declines still further in the 55-and-over bracket to 13.3%.

Household income ranks second as a factor. For example, 48.6% of households with incomes of $75,000 or more believe they have at least a 50-50 chance of purchasing recreational property within the next 10 years.

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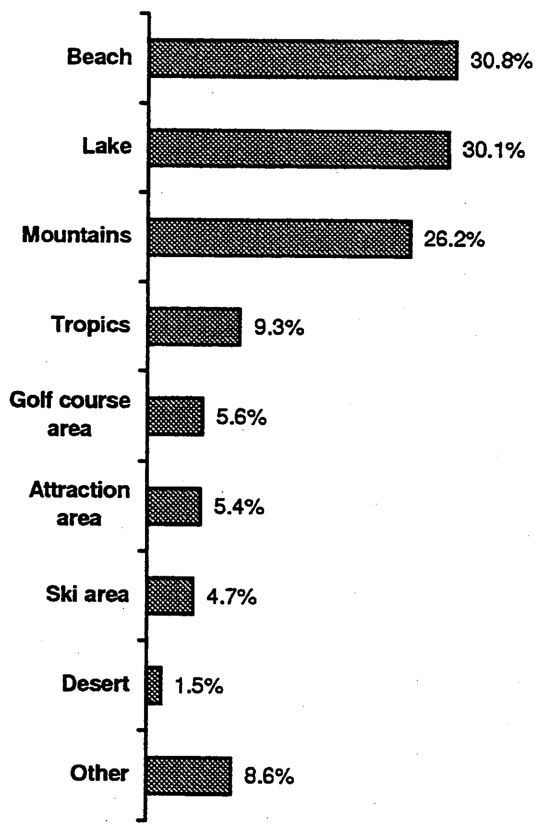
Marital status and gender represent the final demographic variables that affect optimistic attitudes toward purchasing recreational property. Single males voiced the strongest belief in their purchasing ability, with 43.1% of those surveyed responding they had a 50-50 or better chance of such a purchase. By contrast, this indicator was lowest among single females, at only 24.5%. It is 34.6% among married couples. It is much higher among all (married and single) male respondents than among all female respondents, at 45.2% and 28.9%, respectively.

Preferred Type of Location



Florida and Beaches Rank First as Preferred Site and Location

Americans cite Florida (15.4%), more than any other state or foreign country, as the location of choice for a recreational property purchase. The next five most frequently cited locations are: California, at 8.5%; Colorado, at 5.5%; North Carolina, at 4.9%; Texas, at 4.2%; and Arizona, at 3.4%. Florida and California ranked first and second in similar phone surveys conducted in 1993 and 1990. A total of 5.6% of survey participants cited a foreign location, with the Caribbean ranking first among them at 2.6%.

The beach is the most preferred type of location for recreational property, selected by almost one-third (30.8%) of respondents. It narrowly edges out lake locations (30.1%) and mountain areas (26.2%). These top three are far preferred over other options, such as the tropics (9.3%), golf courses (5.6%), attraction areas (5.4%), ski areas (4.7%), or the desert (1.5%). Each type of location tends to be most popular where it is available: beach areas are most popular among Americans who live in the West or Northeast; lakes among those who live in the North Central region; and mountains among those who live in the West.

Demographics also have an impact on preferred locations for recreational property ownership. Beach areas tend to be most popular among married couples, younger persons, and the more affluent. Mountains and ski areas tend to attract those who are younger. Golf locations are most attractive to the more affluent.

Two-bedroom Unit Outranks Others as Preference by Two-to-One

Americans interested in purchasing recreational property prefer the standard two-bedroom unit, sleeping six, over any other single unit size by more than a two-to-one margin (45.7%). Other preferences break out as follows: one-bedroom with 22.6%; three-bedroom with 15.5%; studio or efficiency with 8.9%; and 7.3% for more than three bedrooms.

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Married couples and more affluent Americans are more interested than their counterparts in the largest units, particularly units with three or more bedrooms. Over one-third (35.8%) of respondents with incomes over $20,000 would prefer a studio or one-bedroom unit as compared to only 21.1% of those with incomes over $75,000. These proportions were 64.2% and 79%, respectively, for two-bedroom or larger units. Among respondents over 55 years of age, 41.6% would prefer a studio or one-bedroom unit as compared to only 28.2% of those under 40. These proportions are 58.4% and 71.7%, respectively, for two-bedroom or larger units.

An American Dream: The Single-family Vacation Home or Cabin

A single-family vacation home or cabin is the dream of more Americans than any other type of recreational property. Well over half (61.7%) of responding households expressed some level of interest in this option, including 23.1% who were "very interested." Ranking second in popularity was a vacant parcel of land for construction of a second home, cited by 48.9%, with 18% "very interested." Third in popularity were resort condominiums, which were cited by 34.7% of survey participants, with 5% "very interested."

The majority of Americans (51.7%) believe that an attractive and realistic price for recreational property is in the $25,000 to $100,000 range. The median desired price is about $48,000. Recreational properties are certainly available in this price range, however they tend not to be the most popular options, such as a cabin or detached vacation home. More often, they are homesites, older or smaller condominiums, timeshares, or camping facilities.

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Source: *The 1995 American Recreational Property Survey*