

Linda Lingle  
GOVERNOR



ORLANDO "DAN" DAVIDSON  
EXECUTIVE DIRECTOR

**STATE OF HAWAII**

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM  
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION  
677 QUEEN STREET, SUITE 300  
Honolulu, Hawaii 96813  
FAX: (808) 587-0600

IN REPLY REFER TO

Statement of  
**Orlando "Dan" Davidson**  
Hawaii Housing Finance and Development Corporation  
Before the

**HOUSE COMMITTEE ON HUMAN SERVICES AND HOUSING**

February 12, 2008, 8:40 a.m.  
Room 329, State Capitol

In consideration of  
**H.B. 2468**  
**RELATING TO AFFORDABLE HOUSING.**

The HHFDC supports the concept behind H.B. 2468, though for appropriations not included in the Executive Supplemental Budget, we request that these appropriations not displace the priorities contained therein.

We fully support extending the dedication of 50 percent of conveyance tax revenues for the Rental Housing Trust Fund (RHTF). We would prefer, however, that instead of extending the sunset date to 2013, the 50 percent allocation is made permanent, and that it be amended to include our budget request for an infusion of \$25 million in G.O. Bond funds into the RHTF. This dedication of conveyance tax revenues, along with the infusion of \$25 million into the RHTF, would enable the HHFDC to continue to finance a substantial amount of affordable rental housing units.

We also fully support the appropriation of funds to the Dwelling Unit Revolving Fund (DURF) and have made a budget request for an infusion of \$25 million. This measure appropriates \$30 million. The DURF may be used for various purposes, such as the acquisition of real property, the development of infrastructure, and for interim construction and permanent loans for the development of for-sale and rental housing. An infusion of funds into the DURF is a key component of our plan to produce over 7,300 affordable units from 2008 through 2012.

We also support the concept of an appropriation to cover the cost of third party review of permit processing of eligible affordable housing projects. The lengthy permit process is attributable in large part to the shortage of qualified county staff to conduct necessary reviews. The City and County of Honolulu allows certified third party reviewers to check plans. However, the cost for such review may inhibit developers of affordable housing projects from utilizing the service. This appropriation would provide an option to accelerate the review and issuance of permits for affordable housing projects.

Thank you for the opportunity to testify.

DEPARTMENT OF COMMUNITY SERVICES  
CITY AND COUNTY OF HONOLULU

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MUFI HANNEMANN  
MAYOR

DEBORAH KIM MORIKAWA  
DIRECTOR

ERNEST Y. MARTIN  
DEPUTY DIRECTOR

February 8, 2008

The Honorable Maile Shimabukuro, Chair  
and Members of the House Committee on  
Human Services and Housing  
State Capitol, Room 326  
415 South Beretania Street  
Honolulu, Hawaii 96813

Dear Chair Shimabukuro and Members:

Subject: HB No. 2468 Relating to Affordable Housing  
Hearing: February 12, 2008, 8:40 am

The Department of Community Services strongly supports the five-year extension of the sunset date for earmarking a portion of conveyance tax collections for the rental housing trust fund. While we support the proposed extension of the sunset date, we believe it would be preferable to ensure a permanent source of funding for the rental housing trust fund. Sporadic funding of the trust fund has resulted in the current situation where few affordable units are available to low and moderate income renters at this time. The Department administers approximately 4,000 housing choice vouchers and is keenly aware of the dire need for affordable units. As you are aware, the housing development process is a long one requiring several years from project inception to occupancy of dwelling units. In order to address the needs of our citizens, a dedicated source of significant funding must be provided through this and other measures to allow development of much needed housing units statewide.

The Department also supports (1) the authorization of general obligation bond issuance and appropriation in Section 2 of the bill for \$30 million into the Dwelling Unit Revolving Fund and (2) the appropriation of \$500,000 for third party permit review for affordable housing projects. Thank you for the opportunity to provide this testimony.

Sincerely,

  
Deborah Kim Morikawa  
Director

DKM:gk

## L E G I S L A T I V E

80-82

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** CONVEYANCE, Earmarking for rental housing trust fund

**BILL NUMBER:** SB 2979/HB 3057 (Identical); SB 2225/HB 2050 (Identical); SB 3174/HB 2468 (Identical); HB 2514 and HB 2668 (Similar)  
*2/1 CPH 2/1 HSH 2/1 CPH*

**INTRODUCED BY:** SB 2979 by Hanabusa by request; HB 3057 by Say by request; SB 2225 by Chun Oakland, Gabbard, Espero and Sakamoto; HB 2050 by Mizuno, Awana, Marumoto, Meyer, Thielen, Ward, and 3 Democrats; SB 3174 by Chun Oakland, Baker, English, Espero, Fukunaga, Gabbard, Hanabusa, Hooser, Ige, Ihara, Inouye, Kim, Kokubun, Menor, Nishihara, Sakamoto, Taniguchi, Tokuda, Tsutsui and 2 Democrats; HB 2468 by Shimabukuro; HB 2514 by Shimabukuro, Belatti, Bertram, Caldwell, Chang, Chong, Evans, Green, Har, Herkes, Karamatsu, Lee, Luke, Magaoay, Manahan, Mizuno, Morita, Nishimoto, B. Oshiro, M. Oshiro, Rhoads, Saiki, Say, Sonson, Takai, Tsuji, Wakai, Waters, Yamane, Yamashita and 7 Democrats; HB 2668 by Say  
*1/31 HSH*

**BRIEF SUMMARY:** SB 2979/HB 3057 and HB 2668 amend Act 100, SLH 2006, as amended by Act 222, SLH 2007, to repeal the June 30, 2008 sunset provision to make the increase in the earmarking of the conveyance tax revenues to the rental housing trust fund permanent.

SB 2225/HB 2050 and SB 3174/HB 2468 and HB 2514 amend Act 100, SLH 2006, as amended by Act 222, SLH 2007, to extend the sunset date of the increase in the earmarking of the conveyance tax revenues to the rental housing trust fund from June 30, 2008 to June 30, 2013. Makes various appropriations with unspecified amounts for various homeless and housing programs and projects in the state.

**EFFECTIVE DATE:** SB 2979/HB 3057 - Upon approval; SB 2225/HB 2050; SB 3174/HB 2468; HB 2514 - June 29, 2008; HB 2668 - July 1, 2008

**STAFF COMMENTS:** SB 2979/HB 3057 are administration measures submitted by the department of business, economic development and tourism BED-01(08). The legislature by Act 195, SLH 1993, earmarked 25% of the conveyance tax revenues to the rental housing trust fund and another 25% to the natural area reserve fund. In 2005, the legislature by Act 156, SLH 2005, increased this earmarking to 30%. The legislature by Act 100, SLH 2006, again increased the earmarking to 50% until June 30, 2007 and provided that the earmarked amount was to revert back to 30% on June 30, 2007. Last year the legislature by Act 222, SLH 2007, extended the sunset date to June 30, 2008. The proposed measures continue the increased earmarking of conveyance tax revenues to the rental housing trust fund by either repealing or extending the sunset date of the increased earmarking.

The conveyance tax was enacted by the 1966 legislature after the repeal of the federal law requiring stamps for transfers of real property. It was enacted for the sole purpose of providing the department of taxation with additional data for the determination of market value of properties transferred. This

SB 2979/HB 3057; SB 2225/HB 2050; SB 3174/HB 2468; HB 2514; HB 2668 - Continued

information was also to assist the department in establishing real property assessed values and at that time the department stated that the conveyance tax was not intended to be a revenue raising device. The conveyance tax is imposed each time property changes title or ownership.

It should be remembered that the conveyance tax is one of the least dependable sources upon which to rely for funding with collections rising and falling with the fortunes of the real estate market. Any amount collected under this tax will depend on activity in the real estate market. If the housing market slows down, revenues may not be sufficient to meet the expectations of the fund. If the additional revenues are not sufficient or another "important" program needs funding, will the conveyance tax be increased to generate even more revenue?

If the legislature deems affordable housing to be such a high priority, then it should maintain the accountability for these funds by appropriating the funds as it does with other programs. Earmarking revenues merely absolves elected officials from setting priorities. When the legislature dipped into housing special funds to maintain funding for programs like education and social services, that was poor tax policy. This proposal represents the obverse, lawmakers are stealing from the general fund all in the name of affordable housing. When general fund revenues wane, will elected officials once more dip into special funds or repeal this earmarking or in the alternative raise taxes? Earmarking revenues restricts the flexibility in utilizing these revenues. The question that lawmakers must ask themselves is whether or not all of the currently earmarked funds are being used wisely and accomplishing the intended goals. With earmarked funds that can only be used for a designated purpose, lawmakers tend to overlook how those earmarked funds are being used.

Before earmarking any more funds for affordable rental housing, lawmakers should assess the success of the affordable rental housing program. Further, they should take into consideration the fact that during the past decade the homes revolving fund was raided to shore up general fund expenditures and that if the concern is affordable housing in Hawaii, then the homes revolving fund should be made whole again with an appropriation of general funds.

While the fortunes of the rental housing fund, natural area reserves program, and the legacy lands program have been greatly enhanced because of the recent boom in the real estate market, the ebullience of the collections of this tax have also been bolstered by the fact that lawmakers enacted a schedule of rates that basically punishes larger transactions be they residential or nonresidential and if residential, higher rates if the residence is not to be owner-occupied. This strategy of trying to punish larger transactions and transactions of residential property that will not be owner-occupied is childish and reflects the ignorance of lawmakers about the reality of the real estate market. First, not all transactions of \$1 million or more involved residential property. As a result the higher rates on transactions of \$1 million or more penalizes the transfer of commercial, industrial, and agricultural property - all types of nonresidential property - most of which are of values greater than \$1 million. Thus, lawmakers have added yet another nail in the coffin for businesses in Hawaii. Second, just because residential property that is sold is not to be owner-occupied does not infer that something bad is taking place. Do lawmakers realize where rental housing comes from - it does not just drop out of the sky. With policies like this there is no wonder that there is such a scarcity of rental housing in Hawaii. Further, the highest conveyance tax rate is imposed on residential real property that will not be owner-occupied where the transaction value is more than \$1 million. A recent transaction of dilapidated rental housing which the purchaser proposes to redevelop into affordable rentals was subject to this highest rates. Thus, all the punitive conveyance tax will do is make this affordable housing development less affordable. So as long

SB 2979/HB 3057; SB 2225/HB 2050; SB 3174/HB 2468; HB 2514; HB 2668 - Continued

as the rental housing trust fund is dependent on this earmarking, there is no likelihood that the conveyance tax will ever be looked upon as anything but a cash cow ripe for even more tax increases.

What is so characteristic of the legislature is reflected in the conflicting and contradictory policies embodied in the conveyance tax law. On one hand, lawmakers seem to make a "commitment" to affordable rental housing by earmarking the receipts of the tax for the trust fund while at the same time punishing those purchasers of residential property that will not be owner-occupied with higher confiscatory rates. This type of thinking is an indication of the lack of understanding of where the state's rental inventory originates. As long as this thought pattern continues, taxpayers can rest assured that the legislature will never truly address the problem, let alone come up with rational solutions.

Digested 1/31/08



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February 12, 2008

**The Honorable Maile S.L. Shimabukuro, Chair**  
House Committee Human Services & Housing  
State Capitol, Room 329  
Honolulu, Hawaii 96813

**RE: H.B. 2468 Relating to Affordable Housing**  
**Hearing Date: February 12, 2008 @ 8:40 a.m., Room 329**

On behalf of our 10,000 members in Hawaii, the Hawaii Association of REALTORS® (HAR) **supports Section 1 of H.B. 2468** which extends the sunset date for the allocation of 50% of the Conveyance Tax to the Rental Housing Trust Fund from June 30, 2008 to June 30, 2013. HAR also supports the intent of: (a) Section 2 of H.B. 2468 which makes an appropriation in general obligation bonds for the Dwelling Unit Revolving Fund, and (b) Section 3 of H.B. 2468 which makes an appropriation for expedited third party reviews of affordable housing projects .

We believe Smart Growth is our road map to sustaining and enhancing the quality of life in our communities and we believe that this bill aligns with our core principle of *providing housing opportunities*.

HAR supports mechanisms to help increase the supply of low and moderate income affordable housing such as the Rental Housing Trust Fund Program which can help integrate the use of mixed-income and mixed-use projects, special purpose revenue bonds, low-interest loans, block grants, low-income housing tax credit programs and deferred loan programs to provide rental housing opportunities.

HAR looks forward to working with our state lawmakers in building better communities by supporting quality growth, seeking sustainable economies and housing opportunities, embracing the cultural and environmental qualities we cherish, and protecting the rights of property owners.

Mahalo for the opportunity to testify.

Sincerely,

A handwritten signature in black ink, appearing to read "Craig K. Hirai", written over a light grey rectangular background.

Craig Hirai, Member  
Subcommittee on Taxation and Finance  
HAR Government Affairs Committee

A JOINT LEGISLATIVE EFFORT

E-Mail to: [testimony@Capitol.hawaii.gov](mailto:testimony@Capitol.hawaii.gov)

Regarding: House HSH hearing

Hearing: February 12, 2008 @ 8:40 a.m. in room 329

**Date:** February 11, 2008

**To:** House Committee Human Services & Housing  
The Honorable Maile Shimabukuro, Chair  
The Honorable Karl Rhoads, Vice Chair

**From:** Kelly M. Rosati, JD  
Executive Director, Hawaii Family Forum  
Lobbyist, Roman Catholic Church in the State of Hawaii

**Re:** **Support for HB 2468 Relating to Affordable Housing**

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Honorable Chair and members of the House Committee on Human Services & Housing, I am Kelly Rosati, representing both the Hawaii Family Forum and the Roman Catholic Church in the State of Hawaii. Hawaii Family Forum is a non-profit, pro-family education organization committed to preserving and strengthening families in Hawaii. The Hawaii Catholic Conference is the public policy voice for the Roman Catholic Church in Hawaii, which under the leadership of Bishop Larry Silva, represents over 210,000 Catholics in Hawaii.

We support HB 2468, which extends sunset of allocation of conveyance tax to the rental housing trust fund, makes appropriation in general obligation bonds for dwelling unit revolving fund and makes appropriation for expedited third party review of affordable projects.

Along with our community partner Catholic Charities, we suggest one amendment to Section 30: **We urge you to delete the sunset date for the allocation of conveyance tax to the rental housing trust fund.** This will create an ongoing source of funding for affordable rentals. This is a critical to ensure a consistent source of funding for developers of these units as they plan their projects.

We support the infusion of \$30 million from GO bonds to the Dwelling Unit Revolving Fund (DURF) as one resource to expand the number of rental units that can be created in the next 3-5 years.

This bill also suggests a creative way to help reduce some of the backlog in processing at the county level. In HB 2468, there is an appropriation to assist developers in contracting for third party review and certification. We support the appropriation of \$500,000 to for third party review and certification to expedite the processing and issuance of building permits for affordable housing projects. It is important to not only put funds into construction, but also to address the need to speed up the permitting process. This bill would provide the funding necessary to demonstrate the effectiveness of this approach. Mahalo for the opportunity to testify.