

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

**SENATE COMMITTEE ON COMMERCE, CONSUMER PROTECTION, AND
AFFORDABLE HOUSING
SENATE COMMITTEE ON HUMAN SERVICES AND PUBLIC HOUSING**

March 12, 2008, 9:00 a.m.
Room 229, State Capitol

In consideration of
H.B. 2514, H.D. 1
RELATING TO THE CONVEYANCE TAX.

The HHFDC supports H.B. 2514, H.D. 1 which extends for an unspecified period the sunset date of the allocation of 50 percent of the conveyance tax to the Rental Housing Trust Fund, after which the allocation reverts to 30 percent. However, we would prefer that the 50 percent allocation is made permanent.

The Rental Housing Trust Fund provides equity gap financing for the construction or preservation of affordable rental housing projects throughout the State. Through the end of calendar year 2007, the HHFDC has leveraged the Rental Housing Trust Fund to facilitate the development or preservation of 2,391 rental housing units in 32 projects statewide.

Pursuant to section 247-7, HRS, 30 percent of conveyance tax revenues is deposited into the Rental Housing Trust Fund. Legislation enacted in 2006 and 2007 increased the share of conveyance tax revenues for the Rental Housing Trust Fund from 30 percent to 50 percent until June 30, 2008. As a result of this increase, along with an appropriation of \$15 million in 2007, there are 1,021 additional rental units in 12 projects in the production pipeline.

A permanent dedication of 50 percent of conveyance tax revenues, along with an infusion of \$25 million into the Rental Housing Trust Fund as requested in the Executive Supplemental Budget will allow the HHFDC to continue to finance a substantial amount of affordable rental housing units.

Thank you for the opportunity to testify.

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

**SENATE COMMITTEES ON COMMERCE, CONSUMER PROTECTION &
AFFORDABLE HOUSING AND HUMAN SERVICES & PUBLIC HOUSING**

**TESTIMONY REGARDING HB 2514 HD 1
RELATING TO CONVEYANCE TAX**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: MARCH 12, 2008
TIME: 9:00AM
ROOM: 229

This bill proposes to extend the increased amount of conveyance tax deposited into the Rental Housing Trust Fund from Act 100, Session Laws of Hawaii 2006. Act 100 increased the amount of conveyance tax deposited to 50% of revenues realized through June 2008.

The House Committee on Finance amended the measure to extend the conveyance tax increase to an unspecified date.

The House of Representatives passed this measure on third reading.

The Department of Taxation ("Department") **supports this measure, however prefers the administration measure HB 3057.**

I. THE DEPARTMENT DEFERS TO THE HOUSING AGENCIES ON THE MERITS.

The Department defers to the various executive housing agencies on the merits of this bill in general. Hawaii is currently facing an affordable housing crisis. It will take meaningful initiatives on behalf of the Legislature, as well as the Governor, in order to eliminate the shortage of affordable housing suitable for Hawaii residents.

II. THE ISSUE OF AFFORDABLE HOUSING IS IMPORTANT.

The Department recognizes that affordable housing is an important issue. To properly eliminate the affordable housing crisis, sufficient money must also be available for administration initiatives.

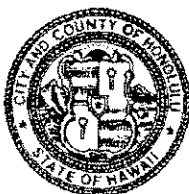
This legislation is a positive solution. The Department appreciates that this bill extends the conveyance tax revenues increase for an unspecified period of years. Providing sufficient funding will assist in remedying the housing shortages in Hawaii. The Department prefers HB 3057 because this bill makes the conveyance tax deposit increase permanent.

III. REVENUE IMPACT.

If this bill should take effect in FY2009, there will be no impact on overall tax collections, however the allocation of funds will be affected. There is an expected General Fund tax revenue loss of approximately \$9.4 million for FY 2009 and annually thereafter. The Rental Housing Trust Fund will increase by the same amount.

DEPARTMENT OF COMMUNITY SERVICES
CITY AND COUNTY OF HONOLULU

715 SOUTH KING STREET, SUITE 311 • HONOLULU, HAWAII 96813 • AREA CODE 808 • PHONE: 768-7762 • FAX: 768-7792



MUFI HANNEMANN
MAYOR

DEBORAH KIM MORIKAWA
DIRECTOR

ERNEST Y. MARTIN
DEPUTY DIRECTOR

March 10, 2008

The Honorable Russell Kokubun, Chair
and Members of the Committee on Commerce,
Consumer Protection and Affordable Housing
The Honorable Suzanne Chun Oakland, Chair
and Members of the Committee on Human Services
and Public Housing
State Capitol, Room 407
Honolulu, Hawaii 96813

Dear Chairs Kokubun and Chun Oakland and Members:

Subject: HB No. 2514, HD1 Relating to the Conveyance Tax
Hearing: March 12, 2008, 9:00 am

The Department of Community Services strongly supports H.B. No. 2514's proposed amendment of Act 100, Session Laws of Hawaii 2006, amended by Act 222, Session Laws of Hawaii 2007, to extend the sunset date for earmarking of 50 percent of the conveyance tax to the Rental Housing Trust Fund. Ideally, the allocation of conveyance tax revenues to the Rental Housing Trust Fund would be made permanent; however, until such allocation is made permanent, we support an extension. The need for affordable housing is as acute as it was in 2006 when Act 100 was passed. With the ever increasing costs of land and development and no decline in the number of Hawaii households in need of affordable rental units, a continuing source of funds for the trust fund is critical.

Thank you for the opportunity to provide this testimony.

Sincerely,


Deborah Kim Morikawa
Director

DKM:gk



**Hawaii
Association of
REALTORS®**
www.hawaii Realtors.com

The REALTOR® Building
1136 12th Avenue, Suite 220
Honolulu, Hawaii 96816

Phone: (808) 733-7060
Fax: (808) 737-4977
Neighbor Islands: (888) 737-9070
Email: har@hawaii Realtors.com

March 12, 2008

The Honorable Russell S. Kokubun, Chair

Senate Committee on Commerce, Consumer Protection,
And Affordable Housing

The Honorable Suzanne Chun Oakland, Chair

Senate Committee on Human Services and Public Housing
State Capitol, Room 229
Honolulu, Hawaii 96813

RE: H.B. 2514, HD1 Relating to the Conveyance Tax
Hearing Date: Wednesday, March 12, 2008 @ 9:00 a.m., Room 229

On behalf of our 10,000 members in Hawaii, the Hawaii Association of REALTORS® (HAR) **supports Section 1 of H.B. 2514, HD1** 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 of an unspecified year.

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 Hirai".

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

A JOINT LEGISLATIVE EFFORT

E-Mail to: testimony@Capitol.hawaii.gov
Regarding: Senate CPH/HSP hearing
Hearing on: March 12, 2008 @ 9:00 a.m. in room 229

HAWAII FAMILY FORUM BOARD

Francis Oda
President

Austin Imamura
Vice-President

Gill Berger
Secretary

Brogan, Mary Lou
D'Olier, H. Mitchell
Pace, Dr. Nancy
Papandrew, Tom
Paty, William
Pflueger, Nancy
Tsujimura, R. Brian
Young, Sandra

HAWAII CATHOLIC CONFERENCE BOARD

Most Reverend Clarence Silva
Bishop of Honolulu

Alexander, Very Rev. Marc
Andrade, Eva
Chung, Sr. Earnest
Coleman, David
Downes, Patrick
Himenes, Dr. Carmen
Ignacio, Carol
Pilar, Prudencio
Larson, Betty Lou
Rauckhorst, Jerome
Tong, Myron
Yoshimitsu, Walter

Date: March 10, 2008

To: Senate Committee on Commerce, Consumer Protection & Affordable Housing
The Honorable Russell S. Kokubun, Chair
The Honorable David Ige, Vice Chair

Senate Committee on Human Services & Public Housing
The Honorable Suzanne Chun Oakland, Chair
The Honorable Les Ihara, Jr., 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 2514 HD 1 Relating to the Conveyance Tax

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 2514 HD 1 which extends the sunset date for the allocation of 50% of the conveyance tax to the Rental Housing Trust Fund from 06/30/08 to 06/30 of an unspecified year.

Along with our community partner, Catholic Charities Hawaii, **we also support increasing the percentage of the conveyance tax allocated to the Rental Housing Trust Fund (RHTF) to 65% to provide consistent funding which is critical for developers to bring greater numbers of affordable rental projects forward.** Increasing the share of the conveyance tax to the Rental Housing Trust Fund and making it permanent is a direct avenue for the development of low-income rental housing. The working poor need this housing. Currently there are too many residents of Hawaii who are currently homeless or living in substandard or crowded conditions. The development of low cost rental housing must be a priority. This funding needs to be permanent to address ongoing housing needs.

With the state's commitment to reducing homelessness, we are excited about the possibilities to come. The passage of HB 2514 HD 1 would help provide the resources to create low income rentals and provide the supportive services that are needed to help individuals and families who are homeless. Mahalo for the opportunity to testify.

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: HB 2514, HD-1

INTRODUCED BY: House Committee on Finance

BRIEF SUMMARY: Amends 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, ____.

EFFECTIVE DATE: June 29, 2020

STAFF COMMENTS: 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 measure continues the increased earmarking of conveyance tax revenues to the rental housing trust fund.

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 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 penalize 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 then \$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 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 3/10/08



CATHOLIC CHARITIES HAWAII

TESTIMONY IN SUPPORT OF HB 2514, HD1: RELATING TO THE CONVEYANCE TAX

TO: Senator Russell Kokubun, Chair; Commerce, Consumer Protection & Affordable Housing; and Senator Suzanne Chun Oakland, Chair, Human Services and Public Housing; and Members of both Committees.

FROM: Betty Lou Larson, Housing Programs Director, Catholic Charities Hawai'i

HEARING: Wednesday, March 12, 2008; 9:00 am; Conf. Rm. #229

Chair Kokubun, Chair Chun Oakland, and Members, Committees on Commerce, Consumer Protection & Affordable Housing, and Human Services and Public Housing:

Thank you for the opportunity to provide testimony on this housing bill. I am Betty Lou Larson, from Catholic Charities Hawai'i. We also are members of Partners in Care and Housing Hawaii. We strongly support this bill, which would extend the sunset date for the conveyance tax allocation to the Rental Housing Trust Fund.

It is critical to stabilize the funding for the Rental Housing Trust Fund (RHTF). Consistent and adequate funding is critical for development of more affordable projects. This fund is a vital resource to expand the number of rental units that can be created in the next 5 years. Catholic Charities Hawai'i receives hundreds of calls each month for housing help. Over half of the seniors who come to Catholic Charities Hawai'i's Housing Assistance Program are facing homeless. Families with children are still ending up on beaches or in cars. We need to continue to focus on creating a large number of affordable housing units.

We also urge you to delete the Sunset Date for the allocation to the RHTF, and make this allocation permanent. This repeal of the sunset date would enhance developers' ability to look for land and other funds needed to make affordable projects pencil out. Establishing ongoing funding is critical for developers to continue to seek opportunities for affordable housing. Due to the long time frame needed to create these projects, developers need to know that funds will be available in the future to ensure feasibility. The Legislature always has the right and opportunity to review this allocation of funds in the future, as needed. Repeal of the sunset date sends a signal now that the State intends to address the affordable housing crisis on a long-term basis.

We also urge you to increase the allocation to the Trust Fund to 65%, from the current 50% of the conveyance tax. The RHTF has allocated virtually all the funds from last year. More funding is needed to address the crisis in affordable housing. The Trust Fund is unique in that it mandates that 5% of the units built must be targeted to persons at 30% of the median income or below. These units are the only new rental units being produced to help our elders on SSI, or families earning the minimum wage or other low income families.

Thank you for your support to address the increasing need for affordable housing. As the Baby Boomers age, there will be increased needs for senior housing. We need to prepare now in order to ensure that our seniors are not left in substandard housing or homelessness due to a lack of rentals.





HB 2514, HD 1 (HSCR 790-08) Relating to the Conveyance Tax
Senate Committee on Commerce, Consumer Protection, and
Affordable Housing
Committee on human Services and Public Housing

March 12, 2008

9:00 am

Room 229

The Office of Hawaiian Affairs supports the purpose and intent of HB 2514, HD 1(HSCR 790-08).

The growing affordable housing problem is one of the most critical issues faced by our communities, especially our Native Hawaiian communities. This issue seems to have many of our families struggling to find adequate housing and to make ends meet.

The 2006 Housing Study confirms the need to do affordable rental housing and doing innovative housing types. Policies addressing the need to develop and create partners to do affordable rentals timely need to be adopted. The resources obtained need to be able to devote full time attention to this process along with the appropriate funding. The needed rental housing units have not been met, therefore, more time is needed to accumulate the necessary funding.

OHA also advocates a commitment to reestablishing the relationship between the art of building and the making of community, through citizen-based participatory planning and design. Therefore, the resources obtained to devote full time attention to the process of developing partners to do affordable rentals timely need to include the related communities.

Mahalo nui loa for the opportunity to provide this testimony.