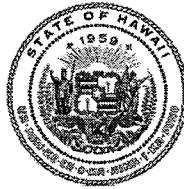


LINDA LINGLE  
GOVERNOR

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  
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**SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & TAXATION**

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

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

**DATE: MARCH 18, 2008**

**TIME: 1:15PM**

**ROOM: 224**

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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 Senate Committees on Commerce, Consumer Protection & Affordable Housing and Human Services & Public Housing passed this measure unamended.

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.**

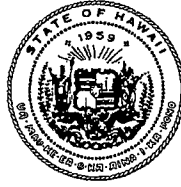
The Department recognizes that affordable housing is an important issue. To properly eliminate the affordable housing crisis, sufficient money must also be available for administration initiatives.

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. According to the Department of Taxation's Annual Report, total conveyance tax revenue for FY2007 was \$46.9 million. It was expected that after Act 100, SLH 2006 was repealed, an additional 20% of the conveyance tax revenue would be deposited into the General Fund. This amount is therefore assumed to be the revenue lost.

Linda Lingle  
GOVERNOR



MAR 17 2008

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 ECONOMIC DEVELOPMENT AND TAXATION**

March 18, 2008, 1:15 p.m.  
Room 224, 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.

**Bryan J. Baptiste**  
Mayor

**Gary K. Heu**  
Administrative Assistant



**KAUA'I COUNTY HOUSING AGENCY**  
Pi'ikoi Building 4444 Rice Street Suite 330  
Lihu'e Hawaii 96766

**Kenneth N. Rainforth**  
Housing Director

**Gary A. Mackler**  
Development Coordinator

March 14, 2008

Senator Carol Fukunaga, Chair  
Senator Will Espero, Vice Chair  
and Committee Members  
Committee on Economic Development and Taxation

The Senate  
The Twenty-Fourth Legislature  
Regular Session of 2008

**SUBJECT: Testimony in Support of House Bill 2514 HD 1, Relating to the  
Conveyance Tax  
Committee: EDT  
Hearing: March 18, 2008 1:15 PM Conference Room 224**

The Kaua'i County Housing Agency strongly supports House Bill 2514 HD1. The Rental Housing Trust Fund is a valuable resource in the development of affordable rental housing. Making the 50 per cent allocation of the conveyance tax to the Trust Fund permanent would provide reliable, much needed funding for the ongoing development of affordable rental housing. Thank you for the opportunity to provide testimony.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to be "KR", is written over the typed name and title.

**KENNETH N. RAINFORTH**  
Housing Director





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Association of  
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March 15, 2008

**The Honorable Carol Fukunaga, Chair**  
Senate Committee on Economic Development and Taxation  
State Capitol, Room 224  
Honolulu, Hawaii 96813

**RE: H.B. 2514, H.D.1, Relating to the Conveyance Tax**  
**Hearing Date: Tuesday, March 18, 2008 @ 1:15 p.m., Room 224**

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



**HB 2514 HD1**  
**Relating to the Conveyance Tax**  
Senate Committee on Economic Development and Taxation

March 18, 2008

1:15 pm

Room 224

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The Office of Hawaiian Affairs supports the purpose and intent of HB 2514, HD 1 (SSCR 2914).

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.

## testimony

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**From:** Kevin Carney [kcarney@eahhousing.org]  
**Sent:** Friday, March 14, 2008 2:24 PM  
**To:** testimony  
**Cc:** Kevin Carney  
**Subject:** Testimony on HB2514 HD1, Hearing March 18, 2008 at 1:15pm

Dear Chair Fukunaga, Vice Chair Espero and members of the Economic Development and Taxation Committee:

Thank you for this opportunity to submit testimony in strong support of HB2514. EAH is a non-profit housing corporation that has been developing, managing and preserving affordable rental housing since 1968. The Rental Housing Trust Fund is one of a limited variety of financing options that are available to us in developing and preserving affordable rental housing. When planning to develop or acquire a property we need to have the assurance that when needed, the funding will be available. We rely on that knowledge and that is why it is so critical to extend the fifty percent of the conveyance tax funding to a date as far as possible into the future.

The development process takes a great deal of time, patience, money and the willingness to take certain calculated risks. Knowing that the funding will be there when we need it will help to reduce some of the risk taking inherent in our business. Reducing risk increases the likelihood that a project will make it to completion. Our State continues to be in a housing crisis, particularly as it applies to rental housing for those at 80% and below of the Area Median Income. Passing this bill will help in the continued production of rental housing to service this income group. Please give it your full support. Thank you.

Sincerely yours,  
Kevin

**Kevin R. Carney, (B)**  
*Vice President, Hawaii*  
EAH Housing  
841 Bishop Street, Suite 2208  
Honolulu, Hawaii 96813  
Phone: 808-523-8826  
Fax: 808-523-8827  
Email: [kcarney@eahhousing.org](mailto:kcarney@eahhousing.org)  
Website: [www.eahhousing.org](http://www.eahhousing.org)



## CATHOLIC CHARITIES HAWAII

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

**TO:** Senator Carol Fukunaga, Chair, Senator Will Espero, Vice Chair,  
And Members, Committee on Economic Development and Taxation

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

**HEARING:** Tuesday, March 18, 2008; 1:15 pm; Conf. Rm. #224

Chair Fukunaga, Vice Chair Espero, and Members of the Committee on Economic Development and Taxation:

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 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 SSL 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 homeless due to a lack of rentals.





# 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 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 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.