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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. 3427
RELATING TO HOUSING.

The HHFDC opposes H.B. 3427. We appreciate the over-all concept of this bill, as it includes initiatives supportive of our goals and objectives, but we are concerned about the cost implications generated by this proposal.

The HHFDC does support self-help housing as an effective means to assist low- and moderate-income families in becoming homeowners. The HHFDC has provided land, development assistance and financing to self-help housing organizations statewide to assist them in this mission. We also have the authority to lease state lands to self-help housing nonprofits for lease rent of \$1 a year for 99 year terms, and are continuing to evaluate state lands that may be suitable for that purpose.

H.B. 3427 would create and establish a new self-help housing trust fund administered by the HHFDC to provide technical assistance grants, construction grants, long-term zero-interest loans, and long-term loans for land acquisition and predevelopment costs to self-help housing organizations. This new trust fund would be funded by the dedication of an unspecified percentage of conveyance tax revenues. The HHFDC would prefer that the Rental Housing Trust Fund be allocated 50 percent of conveyance tax revenues on a permanent basis.

Thank you for the opportunity to testify.

WRITTEN ONLY

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON HUMAN SERVICES AND HOUSING
ON
HOUSE BILL NO. 3427

February 12, 2008

RELATING TO HOUSING

House Bill No. 3427 establishes a Self-Help Housing Trust Fund to provide technical grants, not to exceed \$20,000 per home; construction grants or long-term zero interest loans; and long-term loans for land acquisition and predevelopment costs. The bill provides that a percentage of the conveyance tax is to be deposited into the trust fund.

As a matter of general policy, this department does not support the creation of any trust fund that does not meet the definition in Section 37-62, HRS, which states that a trust fund is a fund in which designated persons have a beneficial interest or equitable ownership; or which was created or established by a gift, grant, contribution, devise, or bequest that limits the use of the fund to designated objects or purposes. Under this bill, a percentage of public monies, the Conveyance Tax, is proposed for deposit into the fund to be utilized by a specific, private sector, affordable housing segment. It does not appear that the proposed fund meets the definition of a trust fund and requires on-going funding from the general fund.

L E G I S L A T I V E

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SUBJECT: CONVEYANCE, Disposition for self help housing trust fund

BILL NUMBER: SB 2736; HB 3427 (Identical)
1/30 CPH

INTRODUCED BY: SB by Chun Oakland; HB by Shimabukuro, McKelvey, Morita, Waters & 3 Democrats

BRIEF SUMMARY: Amends HRS section 247-7 to provide that ____% of conveyance tax revenues shall be paid into the self-help housing trust fund established under HRS section 201H-_____.

The amendments made by this act shall not be repealed when this section is reenacted on June 30, 2008 pursuant to Act 222, SLH 2007.

EFFECTIVE DATE: June 29, 2008

STAFF COMMENTS: 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.

Prior to 1993, the conveyance tax was imposed at the rate of 5 cents per \$100 of actual and full consideration paid for a transfer of property. The legislature by Act 195, SLH 1993, increased the conveyance tax to 10 cents per \$100 and earmarked 25% of the tax to the rental housing trust fund and another 25% to the natural area reserve fund. Currently, 10% of conveyance tax revenues is earmarked for the land conservation fund, 30% for the rental housing trust fund and 25% for the natural area reserve fund with the remainder deposited into the general fund. Depending on the percentage delineated in this measure, this will reduce the remainder of conveyance tax revenues that will be deposited into the general fund.

While the proposed measure would yet tap conveyance tax revenues for another "worthy" program, it should be remembered that the collections of this tax were originally a receipt of the general fund. That is the problem with earmarking the conveyance tax. With a hot real estate market, the collections of this tax have soared. However, should the market cool, as it did after the Japanese bubble burst in the mid 1990's, the collections of this tax will wane. 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?

SB 2736; HB 3427 - Continued

If the legislature deems any of the programs for which conveyance tax revenues are earmarked 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. 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.

Finally, what is the right percentage to earmark for self-help housing? Even the author of this proposal has left that blank as the need will change from year to year and that is why the annual appropriation process is much more transparent and accountable. As noted above, should the percentage earmarked not be sufficient for the needs of this program will lawmakers once again raise what was merely an indicator of value and not a source of income? In its great wisdom, the legislature has already imposed a hefty burden on many affordable housing projects because of the much higher rates imposed on the transfer of residential property that will not be owner occupied. Will they again raise those rates and bring new development of affordable housing and rental housing to a stand still? Unintended consequences as they may be, this proposal, like many others that have sought to nickel and dime taxpayers to fund motherhood and apple pie ideas, will have just the opposite effect on the outlook for affordable housing in Hawaii. This proposal cannot be justified.

Digested 1/29/08



*Building
houses,
building
hope*

Testimony in Support of HB3427: Relating to Housing
Committee on Human Services and Housing
Tuesday, February 12, 2008
8:45 a.m. Conference Room 329

This year Self Help Housing programs in Hawaii have come together in a coalition to increase the number of homes being built with low and very low-income families in our state. Self Help Housing programs have built approximately 1,150 homes in Hawaii but are poised to build more homes to help alleviate the housing crisis across the islands.

There are currently six Self Help Housing programs building or hoping to soon build. They are: Self Help Housing Corporation of Hawaii, Hawaii Habitat for Humanity, Hawaii Island Community Development Corporation, Hawaii Intergenerational Community Development Corporation, Molokai Home Ownership Made Affordable Corporation and Hawaii County Economic Opportunity Council. Additionally the Cosuelo Zobel Alger Foundation built 73 homes in Waianae in the 1990s.

What Self Help Housing programs have in common is that they are non-profit organizations which work with low and very low income families to build their own homes. All together we are a vital piece of the housing solution.

HB342736 establishes a Self Help Housing Trust Fund (SHHTF) This fund will make critical money available to the Self Help Housing Programs to enable programs currently building to ramp up the number of homes we build and would enable three newer programs to begin building. **It does this by making funding available for Technical Assistance (TA), such as construction site supervision and the recruiting and training self-help housing builders at a rate of \$20,000 per home. It also makes funding available for construction grants, long term zero interest loans and long term loans for land acquisition and predevelopment costs.**

Funding for the Self Help Housing Trust Fund is through a percent of the conveyance tax. Currently, conveyance tax money are allocated as 50% for the Rental Housing Trust Fund, 35% for environmental, and 15% for the general fund. That 15% was equivalent to approximately \$3.6 million last year. That 15% is the money we are requesting to provide and on-going dedicated source of funding for the Self Help Housing Trust Fund.

Dedicated funding is particularly important in construction because it is needed to be able to plan construction, commit to going through the permitting process etc. For profit developers go to banks for their funding. Non-profit self help housing developers need to turn to the state for a portion of the cost.

The TA funds are important to all of the Self Help Housing programs because it allows us to have the person who plans the build, supervises and trains the families, orders the materials, etc. For many of the Self Help Housing programs it also enables them to access housing loans from the U.S. Department of Agriculture to build homes at low interest rates. Some of these monies that would be so helpful in Hawaii are now going back to Washington because we self help housing programs in Hawaii don't have access to TA funds to staff the housing construction.

Habitat for Humanity, has seven home building programs across the islands. They are located in Honolulu and Leeward Oahu, Hilo and West Hawaii on the Big Island, Maui, Kauai and Molokai. We need the TA funds but we also need access to zero interest grants or loans to build. We are not able to access the USDA funds because they are short term interest bearing loans. Most Self Help Housing programs link their families with banks or the USDA for low interest mortgages and then they can repay the USDA construction loans from the mortgage repayments.

In the case of Habitat for Humanity we do not borrow funds with interest and we hold our mortgages so that we can provide them at zero interest for 20 years. We have to find the funds to build and piece them together. The cost of a Habitat home is averaging \$75,000 to build. We might get \$10,000 from Home Depot, \$10,000 from a housing development corporation, \$5,000 from a church, \$5,000 from a civic group etc. Finding funds to build several homes with such small sums is a possible but daunting task and means that homes are built more slowly than need be. If we can put together larger sums from entities such as the State of Hawaii and the Office of Hawaiian Affairs we can begin building more quickly and can build more homes with more families. With an average mortgage of \$75,000 most Habitat mortgages payments are under \$300 a month. These affordable mortgages make it possible for low income families to afford their property taxes and home repairs and to afford transportation to work and school supplies for their children.

With your help we can help more low income families have homes. Thank you.

Kathleen Hasegawa

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