



STATE OF HAWAII

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
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Honolulu, Hawaii 96813
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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**

January 30, 2008, 9:00 a.m.
Room 229, State Capitol

In consideration of
S.B. 2736
RELATING TO HOUSING

The HHFDC opposes S.B. 2736. 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.

S.B. 2736 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.

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SUBJECT: CONVEYANCE, Disposition for self help housing trust fund

BILL NUMBER: SB 2736; HB 3427 (Identical)

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The amendments made by this act shall not be repealed when this section is reenacted on June 30, 2008 pursuant to Act 222, SLH 2007.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

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



SB 2736 Relating to Housing

Senate Committee on Commerce, Consumer Protection, and
Affordable Housing

January 30, 2008

9:00 am

Room 229

The Office of Hawaiian Affairs supports SB 2736. Our interest in this legislation is based on our own experience with Habitat for Humanity. In today's housing market, many Native Hawaiians with low or very-low incomes find it virtually impossible to become homeowners. This is true even for those families receiving Hawaiian Home Land leases, State leases, and others who have land on which they can build. For these families, the main obstacle to becoming homeowners is their lack of access to financing. Their low incomes and related credit problems make them ineligible for home construction financing from most lenders.

Self-help housing projects have proven to be the most affordable means for low and very low income Native Hawaiians to achieve their dreams of homeownership. We are in the third year of program with Habitat for Humanity. Their reports indicate to OHA the need to fund these programs by more than one agency with leveraged funds can help to meet the demand for the families of Hawaii with incomes from thirty to sixty per cent of the median income.

The establishment of a self-help housing trust fund will provide some of the necessary funds for leveraging to encourage partnerships with public and private sectors to help sustain homeownership particularly among low-income homeowners to ensure that homeownership remains a key vehicle for household financial security and neighborhood stability.

Mahalo nui loa for the opportunity to present testimony.



January 29, 2008

LATE TESTIMONY

Senator Russell S. Kokubun, Chairman
Senator David Y. Ige, Vice Chairman
Committee on Commerce, Consumer Protection and Affordable Housing
Wednesday, January 29, 2008
Time: 9:00 a.m.
Conference Room 229

IN SUPPORT: SB 2736 – Housing; Self-help Housing Trust Fund; County Budgets; Tax Funds

We support this measure because

- Because housing is such a dear commodity in our state, we need a dedicated funding source for affordable housing. What kind of place will Hawaii become if teachers, police, nurses, artists can no longer afford to live here? Already we are in a health care crisis on our island because the cost of housing has become an obstacle to getting **doctors** and **dentists** to come here. And Hawaii County is supposedly the county with the most affordable housing!
- Moreover, it makes sense that the acts of real estate transfer (part of the source of our housing problems) should support the production of affordable housing for Hawaii's people.
- With a source of funding for Technical Assistance we would be able to produce 8 to 10 self-help homes per year.
 - 1) Homeownership is one of the fastest ways to create wealth/increase family net worth/ lift a family out of poverty and Habitat homes and self help housing are about the only economically feasible options for low and very low income families to become homeowners in Hawaii today.
 - 2) Self help housing can often be produced for less than the rent families have to pay to live in Hawaii today.
 - 3) Homebuilding adds to local economy.
 - 4) Turning families from renters to owners brings hope to our next generation of citizens and creates sustainable island communities.
 - 5) Self-help projects create outlets for friends and neighbors who want to help/provides opportunities to build strong communities.
 - 6) State TA money would provide the missing critical piece that would allow us to produce 8 to 10 units per year of self-help housing. Low and very low income families we work with would be able to obtain financing of self help homes with funding that's available from USDA Rural Development 502 Direct Loan Program.

As part of HCEOC's mission to prevent, alleviate and eliminate poverty, we have helped to facilitate the production of 76 units of self-help housing in Keaukaha (east Hawaii) and Milolii (west Hawaii) county c. 1991 - 2000.

Please support the Self Help Housing Trust Fund bill because there is no better way to solve Hawaii's severe affordable housing crisis. Thank you for the opportunity to testify on this matter.

If there are any questions, please contact Mary Finley at 961-2681 Extension 413 or email hceocgy@hawaii.rr.com.

George Yokoyama, Executive Director

2736

LATE TESTIMONY

January 29, 2008

Chair, Senator Russell S. Kokubun
Senate Committee

Subject: Letter of Support

SB 2736: Relating to Housing

SB 2560: Relating to Affordable Housing

Dear Senator Russell S. Kokubun:

As the executive director of the Molokai Habitat for Humanity I want to give my Support to bill SB 2736 and SB 2560.

On Molokai we are building two houses a year for low income families, these families were living in substandard housing and overcrowded housing situation. We need your help! We want to increase our capacity of building more affordable houses for families in need-- not only on Molokai but also for families statewide.

We need your support on the proposed Self-Help Housing Trust Funds as one small, but potentially important part of the solution.

Thank you for all you do in supporting affordable housing in Hawaii.

Sincerely,

Jean Han
Executive Director
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