

Linda Lingle  
GOVERNOR



ORLANDO "DAN" DAVIDSON  
EXECUTIVE DIRECTOR

**STATE OF HAWAII**

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM  
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION  
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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 WAYS AND MEANS**

February 22, 2008, 11:00 a.m.  
Room 211, State Capitol

In consideration of  
**S.B. 3174**  
**RELATING TO AFFORDABLE HOUSING.**

The HHFDC strongly supports S.B. 3174. We fully support extending the dedication of 50 percent of conveyance tax revenues and an infusion of \$25 million in G.O. Bond funds for the Rental Housing Trust Fund, which provides equity gap financing for the development or preservation of affordable rental housing. We would prefer, however, that instead of extending the sunset date to 2013, the 50 percent allocation is made permanent.

We also fully support the appropriation of \$30 million into the Dwelling Unit Revolving Fund (DURF). 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 production plan to assist in the development of over 7,000 affordable units over the next five years.

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 provide written testimony in support of this bill.

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



KURT KAWAFUCHI  
DIRECTOR OF TAXATION

SANDRA L. YAHIRO  
DEPUTY DIRECTOR

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## SENATE COMMITTEE ON WAYS & MEANS

### TESTIMONY REGARDING SB 3174 SD 1 RELATING TO AFFORDABLE HOUSING

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

DATE: FEBRUARY 22, 2008

TIME: 11:00AM

ROOM: 211

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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 Senate Committees on Commerce, Consumer Protection & Affordable Housing and Human Services & Public Housing made amendments unrelated to the tax provision in this bill.

The Department of Taxation ("Department") **supports this measure, however prefers the administration measure SB 2979.**

#### **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 additional five years. Providing sufficient funding will

assist in remedying the housing shortages in Hawaii. The Department prefers SB 2949 because this bill makes the conveyance tax deposit increase permanent.

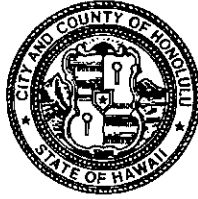
## **II. REVENUE ESTIMATE**

There is an expected revenue loss of approximately \$11.7 million for FY2009 and annually through FY2013 due to the extended sunset date. 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.

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 20, 2008

The Honorable Rosalyn Baker, Chair and Members  
Senate Committee on Ways and Means  
Hawaii State Capitol, Room 210  
Honolulu, Hawaii 96813


Dear Chair Baker and Members:

Subject: SB No. 3174, SD1 Relating to Affordable Housing  
Decision Making: February 22, 2008, 11:00 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 of \$30 million into the Dwelling Unit Revolving Fund to further facilitate affordable housing development; (2) the appropriation of funds for third party permit review for affordable housing projects; and (3) the authorization of general obligation bond issuance and appropriation of \$25 million into the Rental Housing Trust Fund. Thank you for the opportunity to provide this testimony.

Sincerely,

  
Deborah Kim Morikawa  
Director

DKM:gk

**TESTIMONY IN SUPPORT OF SB3174 SD1**

**RELATING TO AFFORDABLE HOUSING**

**Ways and Means Committee – 2/22/2008 - 11:00a.m. Hearing**

**Submitted by Keith Kato, Executive Director, Hawaii Island Community Development Corp.**

We support the passage of Senate Bill 3174 SD1 as it provides significant resources for the development of more affordable housing for the state and island of Hawaii. The appropriations to DURF, RHTF and for the Planning and Development of Affordable Housing would total \$80,500,000. Together these funds will accelerate the development of affordable housing in the state.

The Hawaii Island Community Development Corporation is a 501(c)(3) tax exempt corporation whose mission is to provide affordable housing for low and moderate income residents. In the course of our work we are involved with self help housing as a means of achieving homeownership and in developing rental housing for low income residents.

Thank you for the opportunity to submit testimony on this matter.



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February 21, 2008

**The Honorable Rosalyn H. Baker, Chair**  
Senate Committee on Ways and Means  
State Capitol, Room 211  
Honolulu, Hawaii 96813

**RE: S.B. 3174, SD1 Relating to Affordable Housing**  
**Hearing Date: February 22, 2008 @ 11:00 a.m., Room 211**

On behalf of our 10,000 members in Hawaii, the Hawaii Association of REALTORS® (HAR) supports Section 1 of S.B. 3174, SD1, 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 S.B. 3174, SD1, which makes an appropriation in general obligation bonds for the Dwelling Unit Revolving Fund, (b) Section 3 of S.B. 3174, SD1, which makes an appropriation for expedited third party reviews of affordable housing projects, and (c) Sections 4 and 5 of S.B. 3174, SD1, which authorize general obligation bonds in the sum of \$25,000,000 to be paid into the rental housing trust fund and appropriated from the rental housing trust fund for the Hawaii Housing Finance and Development Corporation to use for the planning, development, and construction of affordable housing in cooperation with private and nonprofit developers.

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

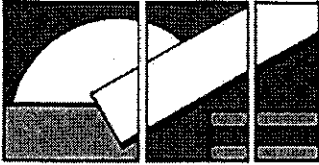


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## **PACIFIC HOUSING ASSISTANCE CORPORATION**

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**TESTIMONY ON S.B. 3174, S.D. 1, RELATING TO AFFORDABLE HOUSING**  
**Before the Senate Committee on Ways & Means**  
**February 22, 2008, 11:00 am; CONFERENCE ROOM 211**  
**Submitted By: Marvin Aways, Executive Director**

Section 1: Pacific Housing Assistance Corporation recommends that the sunset date of the conveyance tax allocation to the Rental Housing Trust Fund be repealed as in SB 2225, SD2 thus making it permanent.

It is documented that the Rental Housing Trust Fund has been most effective in providing "gap financing" for affordable rental housing projects. An important element in ensuring the continued effectiveness of this program is by providing a permanent source of financing as a base of revenue. The conveyance tax by itself is insufficient to fund the projects that are necessary to address the affordable rental housing crisis and periodic general revenue infusions will continue to be needed but funds from the conveyance tax provides an important program financial base.

Section 2: Pacific Housing supports the appropriation of \$30 million to the Dwelling Unit Revolving Fund (DURF).

DURF was the first housing revolving fund enacted by the State in 1970 (Act 105) to be used for the development and construction affordable housing. Since then its history of production of for-sale and rental units have been remarkable. It unfortunately went through a period where the corpus of the fund was transferred to the general fund and is now much reduced from its original \$125 million funding.

Appropriations to the DURF will be welcome and we hope that the State Legislature will consider restoring the DURF to at least its original amount. We would hope that the \$30 million contemplated in HB 2513 is the first installment to the DURF in the investment of affordable housing through out Hawaii.



Section 3: Pacific Housing supports the appropriation of \$500,000 to expedite building permitting through third party reviews.

Building permitting in the City and County of Honolulu can take over 12 months and is making it difficult to hold budgets in line for affordable housing projects. Unfortunately, because of the delay more developers and builders are resorting to starting their projects with foundation permits (only) and “courtesy inspections” by City inspectors. This is not the preferred way of doing things but because the delay can cause budgets to become “unbalanced”, it’s either taking the risk of starting with a foundation permit (and without the building permit) or canceling the project.

Use of third party reviews in the City and County of Honolulu has been allowed for a few years now and has proven an effective method of reducing permitting time. However, affordable housing projects have largely been unable to use this because of the fees charged for these reviews. The appropriation will allow affordable housing developers to access this service without impacting their already tight budgets.

Sections

4 and 5: Pacific Housing supports an appropriation to the Rental Housing Trust Fund. However, we question whether the use of general obligation bonds rather than general revenues will be an effective appropriation for the RHTF when coupled with the 9% “competitive” Federal Low Income Housing Tax Credit program.

Tax exempt GO bonds are disallowed for use with the 9% tax credit program. Therefore, the State RHTF will not be able to use these funds for affordable rental housing projects using this type of tax credits.

GO Tax exempt financing from the RHTF can be used in conjunction with the 4% “non-competitive and perhaps should be contemplated in combination with the Hula Mae MF revenue bonds for targeted apartments in housing projects where rents set for households with less than 50% of median income. In this way the GO bonds will cover the debt of those units least able to afford it.

A combination of a general revenue and GO appropriation is perhaps best.

We urge this committee pass this bill with amendments.

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

**TAXBILLSERVICE**

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Honolulu, Hawaii 96813 Tel. 536-4587

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

**BILL NUMBER:** SB 3174, SD-1

**INTRODUCED BY:** Senate Committees on Commerce, Consumer Protection and Affordable Housing and Human Services and Public Housing

**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, 2013. Makes various appropriations for homeless and housing programs and projects in the state and authorizes \$25 million in general obligation bonds for the rental housing trust fund.

**EFFECTIVE DATE:** June 29, 2008

**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 by extending the sunset date of the increased earmarking to June 30, 2013.

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

## SB 3174, SD-1 - Continued

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 punish 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 involve 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 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 2/21/08