From: Keck, Timothy Civ USAF PACAF HO/HO [Timothy.Keck@hickam.af.mil]
Sent: Tuesday, March 17, 2009 1:54 PM
To: HSGtestimony
Subject: Self Help Housing Trust Fund (SB1277)

To whom it may concern:

I am writing in support of SB1277 and the proposed legislation to establish and fund a self help housing trust fund. I urge support of this measure, which addresses one of the greatest and most chronic needs in our community--the need for affordable housing and particularly the need to provide opportunities for people with very limited means to achieve home ownership.

I have worked for the Air Force here in Hawaii for 24 years. For 20 years of that time I have also worked as a construction volunteer for Habitat for Humanity in our islands. For much of that time I have also served on the board of directors for the Honolulu Habitat affiliate and for the state support organization, Hawaii Habitat for Humanity. During this time I have seen firsthand the tremendous value of providing opportunities for the working poor to achieve home ownership. Owning a home provides much more than four walls and a roof overhead. It empowers people to live fuller lives, to be more productive citizens, and to raise their children in a safe, nurturing environment.

A robust self help housing trust fund would enable a variety of organizations to leverage funds to build homes in partnership with needy families. In so doing this fund would serve to enable hundreds if not thousands of families in our islands to have a simple, decent place in which to live. Please support this legislation.

///Signed///

Timothy R. Keck
Command Historian
Pacific Air Forces
25 E ST STE F-137
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From: WMSESSIONS@aol.com
Sent: Tuesday, March 17, 2009 8:14 AM
To: HSGtestimony
Subject: SB1277

To: Committee on Housing and Committee on Water, Land and Ocean Resources

From: Michael Sessions, President of Dreambuilders Foundation, a 501(c)(3) non-profit that has facilitating self help housing at the heart of its mission

Re: SB1277, SD2

Meeting: Wednesday, March 18, 2009 at 9 a.m.

The self help housing trust fund will provide the critical technical assistance money needed to make self help housing a reality. Many self help groups use federal home loan financing that is subsidized according to the family's ability to pay. Interest rates go as low as 1% and terms as long as 38 years. With these loans, the families acquire the land and materials for a home.

Normally, an accompanying federal grant for technical assistance is given. The grant is a crucial element of the program as it pays for the professional supervision and administration to assure completion of the home(s) in a timely manner and according to existing building codes. The loan does not cover this supervision. Since the technical assistance is a grant, it keeps the cost to the family at the lowest level possible.

In recent years, self help housing has not made the strides needed for lack of the grant funds. Families are reluctant to build on their own without this support infrastructure. Lenders are also wary of doing loans to families without this supervision for fear of ending up with collateral that is not done correctly or never finished.

Our Foundation has two projects ready to proceed that are seeking funding for the technical assistance. One is in Maili (63 units) and the other in Nanakuli (24 units). We have a third in Waianae that is on the drawing board. With this funding, we can bring housing to families who will work hard for it and appreciate it. There is not a less expensive way to build housing and the benefits to the family and the community are well documented.

This bill will provide the missing element to opening the door for many families to transition to the next step, home ownership. These are the families that move from public housing and transitional facilities. As more can complete the journey by becoming home owners, it opens up space for others to begin the journey. This is where they transition to from these other programs.

This bill also allows the State to leverage its resources. Every $20,000 allocated could mean a new home being built. What an excellent return on the money. In addition, the family begins paying property taxes, buys insurance and contracts for materials and some professional labor. All these actions put people to work. The results of this bill will be huge dividends for the State and its people on all islands. We are one of many groups ready to use the program and it will being making a difference right away.

I urge you support of this important legislation.

While the availability of mortgage money has increased, particularly with the stimulus bill, the availability of grant money has not.

From: Jean Lilley [jean@honoluluhabitat.org]
Sent: Tuesday, March 17, 2009 2:05 PM
To: HSGtestimony
Subject: SB1277SD@: Relating to Housing

SB1277 SD2: Relating to Housing
Senate
Wednesday, March 17 at the 9 a.m. Conference Room 325

Testimony In Support of SB1277SD1

Honolulu Habitat for Humanity partners with families with income levels of 30% to 60% of the Area Median Income calculated by the US Dept. of Housing and Urban Development for Oahu. We build simple, decent homes in partnership with our family's, whose equity is their labor (500 hours of sweat equity) in the construction of their home. The home is then sold to the family for the cost of the construction (approx. $85,000 for a four-bedroom home), through a 20-year no interest mortgage.

Our challenges in building capacity to serve more families who are living in substandard homes include finding enough funding to serve more families. The Self Help Housing Trust Fund would greatly increase our ability to provide homes for more low income families! Our program offers a sense of hope for working families who simply cannot qualify to purchase, or even rebuild homes through a traditional mortgage process.

Thank you for your consideration!

Sincerely,

Jean Lilley
Executive Director
Honolulu Habitat for Humanity

Jean Lilley, Executive Director
Honolulu Habitat for Humanity
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Honolulu, HI 96813
Phone: 808-538-7373 (direct)
Cell: 808-230-5434
Office: 808-538-7070
www.honoluluhabitat.org
"No Hands but Yours"

Habitat for Humanity®
West Hawaii

Building houses, building hope

Habitat for Humanity
West Hawaii, Inc.
PO Box 4619
Kailua-Kona, HI 96745

Phone (808) 331-8010
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habitatwesthawaii@gmail.com
www.habitatwesthawaii.org

March 16, 2009

Testimony in Support of SB1277SD2
Senate committee on Education and Housing

Mahalo for including the Self Help Housing Trust Fund and a funding mechanism for it in this omnibus housing bill. Self Help Housing offers a housing solution to families who have not only been priced out of the housing market, many of them have been priced out of the rental market also. By using "sweat equity" as they build their own homes, very low and low income families lay the foundation for the security, success and happiness of their families. Most importantly the children have pride in their parents and their new homes. They do better in school. Their parents often go back to school as well. An outcome is that a "legacy for the future" has been created.

SB1277SD2 establishes a Self Help Housing Trust Fund (SHHTF) This fund will make critical money available to the Self Help Housing Programs to enable non-profit programs currently building homes 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), construction and for land acquisition. These funds will make it possible for Habitat for Humanity and others to build with families who are waiting and hoping to have the benefits of homeownership and who are ready, willing and able to build that future with their own hands.

Speaking for Habitat for Humanity, we need access to funds such as these. In the case of Habitat, we don't borrow from banks or from interest baring programs. We carry our own zero percent interest 20 year mortgages with the families. Every penny that the state would make available to us would be paid back to us in the mortgage of the Habitat Homeowner and would be used to build more homes with families in need.

Habitat for Humanity can help do its part in solving the "affordable homes" problem, we can do more with more funds. We help our State, County and community by providing a "Hand Up, not a "Handout."

Mahalo for your consideration of our testimony in support of SB1277SD2.

Vickie Dannals, Executive Director

& Habitat for Humanity West Hawaii, Inc. Board of Directors

Tom Whittemore	Alan Brooks Bram
Diane Quitiquit	Pete Hendricks
Brenda Lam	Bucky Leslie
Chris Krueger	Bob Lindsey
Daisy Mitchell	Rodney Ito
Laura Aquino	Amy Bircher

Hawaii
Habitat for Humanity®
Association

Building houses, building hope

Testimony in Support of SB1277SD2
House Committees on Housing and Water, Land and Ocean Resources
March 18, 2009 9 a.m. Room 325

Self Help Housing offers a housing solution to families who have not only been priced out of the housing market, many of them have been priced out of the rental market also. By using "sweat equity" as they build their own homes, very low and low income families lay the foundation for the security, success and happiness of their families. Children have pride in their parents and their new homes. They do better in school. Parents often go back to school too. A legacy for the future has been created. The house also builds assets for the family and most move out of poverty.

Last year Self Help Housing programs in Hawaii came 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 1,500 homes in Hawaii and are poised to build more homes to help alleviate the housing crisis across the islands.

There are currently seven 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 E-ffordable Corporation, Hawaii County Economic Opportunity Council and Lokahi Pacific.

SB 1277SD2 establishes a Self Help Housing Trust Fund (SHHTF) This fund would make critical money available to the Self Help Housing Programs to enable them to ramp up the number of homes they build and would enable three newer programs to begin building. It will accomplish this by making funding available for Technical Assistance (TA), construction and land acquisition. These funds will make it possible for us to build with families who are waiting and hoping to have the benefits of homeownership and who are ready to build that future with their own hands.

This bill also includes a funding mechanism for the self help housing trust fund. While we understand that there needs to be more discussion on the mechanism we also believe that there is a direct nexus between the high cost of homeownership in Hawaii and the fact that home ownership is not available to most working people. There is also a nexus between the fact that so many apartments have been turned into timeshares and vacation homes and the fact that people who are working poor cannot find affordable rentals or houses to purchase as homes for their families.

Speaking for Habitat for Humanity, we need access to funds such as these. In the case of Habitat, we don't borrow from banks or from interest baring programs. We carry our own zero percent interest 20 year mortgages with the families. Every penny that the state would make available to us would be paid back to us in the mortgage of the Habitat Homeowner and would be used to build more homes with families in need.

Thank you for your consideration.

Kathleen Hasegawa
Hawaii Habitat for Humanity Association
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Honolulu, HI 96813
(808) 538-7676
Kathi@hawaiihabitat.org

WRITTEN ONLY

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEES ON HOUSING AND
WATER, LAND, AND OCEAN RESOURCES
ON
SENATE BILL NO. 1277, S.D. 2

March 18, 2009

RELATING TO HOUSING

Senate Bill No. 1277, S.D. 2, increases incentives for the development of affordable housing in Hawaii. Part I, Section 3, establishes a Self-Help Housing Trust Fund to provide a dedicated source of funding for low- and moderate-income families to own their own homes by using "sweat equity" to build their homes. Part I, Section 4, increases the conveyance tax on transfers or conveyances of real property valued in excess of $1,000,000; and Part I, Section 5, dedicates five percent of the conveyance tax to the Self-Help Housing Trust Fund, and increases the percentage of the conveyance tax to be deposited into the Rental Housing Trust Fund, which is used as "gap" financing for the development of affordable rental housing, from 30 percent to 45 percent.

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, Hawaii Revised Statutes, 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, the fund benefits a specific affordable housing program and a portion of the conveyance tax is proposed to fund the program; however, it does not appear that the proposed fund meets the definition of a trust fund.

While we support the intent of Part I, Section 5 of the bill to provide increased funding for the development of affordable rental housing, during these difficult times and considering the grave fiscal condition we are facing, we must oppose Section 5 of this bill as it would result in decreased revenues for the general fund.

Linda Lingle
GOVERNOR

KAREN SEDDON
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
Karen Seddon
Hawaii Housing Finance and Development Corporation
Before the

HOUSE COMMITTEE ON HOUSING
HOUSE COMMITTEE ON WATER, LAND, & OCEAN RESOURCES

March 18, 2009 9:00 a.m.
Room 325, State Capitol

In consideration of
S.B. 1277, S.D. 2
RELATING TO HOUSING.

The Hawaii Housing Finance and Development Corporation (HHFDC) has the following specific comments on S.B. 1277, S.D. 2.

Part I (Self-help housing)
The HHFDC **does not support this Part**, which creates and funds a Self-Help Housing Trust Fund out of a portion of conveyance tax revenues. Additionally, we do not support an increase in conveyance tax rates contained in this Part.

Currently, HHFDC may make loans to qualified nonprofit developers for the acquisition of land for self-help housing projects. Loans for the construction of self-help housing may also be made. These interim loans would be paid off when the owner-builder obtains a permanent mortgage loan. HHFDC does not provide grants or fund pre-development costs, capacity building for nonprofit housing developers, or other services or activities.

Part II (Low-Income Housing Tax Credits)
The HHFDC **supports Part II**, which reduces the period over which state low-income housing tax credits (state LIHTC) are taken from 10 years to 5 years. However, we would prefer the language provided in H.B. 1043, H.D. 1 which also reduces the state LIHTC period to 5 years and allows a qualified low-income building that has been awarded a subaward under section 1602 of the American Recovery and Reinvestment Act of 2009, to be eligible for the state LIHTC (see Section 5 of H.B. 1043, H.D. 1).

Part III (Shared appreciation equity)
The HHFDC **strongly supports this Part.** It would enable the HHFDC to more easily collect the value of shared appreciation equity and other restrictions when an affordable housing property is sold and require advance written notification of intent to foreclose on properties encumbered by such priority liens.

The sale of affordable housing properties sponsored or assisted by the HHFDC is subject to a buyback restriction and a shared appreciation equity (SAE) lien. The HHFDC has also provided deferred sales price liens to assist low or moderate income homebuyers in purchasing a first home. Upon the sale or transfer of an HHFDC-assisted home, the SAE is collected and deposited into the Dwelling Unit Revolving Fund, where it can be used to support the development of additional affordable housing projects. Passage of this bill will protect HHFDC's lien rights in the event of foreclosure, and enable us to recover funds to support the development of additional housing.

Part IV (Mortgage credit certificates)
The HHFDC defers to the Department of Taxation on this Part.

Part V (Tax increment financing)
The HHFDC notes that Act 267, Session Laws of Hawaii 1985 amended Chapter 46, Hawaii Revised Statutes, to authorize the counties to establish tax increment districts and issue tax increment bonds. We learned from the City Department of Planning and Permitting that the City's bond counsel recently opined that Act 267 is not supported by the State Constitution. Therefore, while HHFDC could conduct a study to develop recommendations regarding the use of tax incremental financing, we believe the counties may be in a better position to do so.

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
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HOUSE COMMITTEES ON HOUSING AND WATER, LAND, & OCEAN RESOURCES TESTIMONY REGARDING SB 1277 SD 2 RELATING TO HOUSING

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: MARCH 18, 2009
TIME: 9:00AM
ROOM: 325

This measure, among other things, increases the conveyance tax, increases the amount deposited to the rental housing trust fund, modifies the low-income housing tax credit, and provides a mortgage interest tax credit.

The Department of Taxation (Department) is **concerned with parts** of this measure; **supports parts** of this measure; and **opposes any unbudgeted revenue loss**.

I. THE ISSUE OF AFFORDABLE HOUSING IS IMPORTANT.

The Department recognizes that affordable housing is an important issue; however affordable housing priorities and projects must be budgeted and prioritized just like every other state expenditure through the use of general funds rather than earmarks and diversions of tax revenues.

II. OPPOSED TO INCREASING THE CONVEYANCE TAX

The Department is opposed to the conveyance tax increase in this measure because ultimately the increase will merely make property prices more expensive. Taxes such as the conveyance tax will be recovered through the price the property is sold. This will not help in alleviating the already high real property prices in Hawaii.

III. OPPOSED TO THE INCREASE IN DEPOSITS TO THE RENTAL HOUSING TRUST FUND.

Though the Department and Administration have strongly supported increasing the conveyance tax deposits into the rental housing trust fund in the past, this session such an increase cannot be supported. Every dollar of general fund revenues must be protected.

The Department cannot support the tax provision in this measure because it is not factored into the budget. The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either. Given the forecasted decrease in revenue projections, this measure would add to the budget shortfall.

IV. DEFERAL TO HHFDC ON PART III

The Department defers to the Hawaii Housing Finance & Development Corporation (HHFDC) on Part III of this measure.

V. SUPPORT FOR MODIFICATIONS TO THE LOW-INCOME HOUSING TAX CREDIT

The Department **supports the portion of the measure which enhances the low-income housing tax credit** by accelerating the credit period, which will encourage the development of more affordable housing projects. Under existing law, taxpayers may claim 50% of the aggregate federal low income housing tax credit equally over a 10-year period. This measure allows the taxpayer to claim 50% of the aggregate federal low income housing tax credit equally over a 5-year period.

The Department supports this provision because it is similar to the administration proposal and is already factored into the budget.

The Department recommends that a technical clarification be made to § 235-110.8(c), HRS, to clarify that taxpayers may claim Hawaii low-income housing credit in an amount equal to the federal low-income housing credit that may be claimed for the first five years of the ten-year federal credit period (not to be confused with the adjusted five year credit period defined in § 235-110.8(f), as amended by this measure).[1] Without this technical clarification, taxpayers may mistakenly believe that the federal low-income housing tax credit is first recomputed over a 5-year credit period, and then the provisions of §235-110.8(b) are applied, which would effectively result in doubling the cost of the credit to Hawaii (i.e., result in paying 100% of the aggregate federal credit).

1 §235-110.8(c) should be amended to read as follows (amendments noted in bold):

c) The amount of the low-income housing tax credit that may be claimed by a taxpayer as provided in subsection (b) shall be [~~fifty per cent of the applicable percentage of the qualified basis of each building located in Hawaii. The applicable percentage shall be calculated as provided in section 42(b) of the Internal Revenue Code.~~] equal to the amount of the federal low-income housing tax credit that the taxpayer claimed or could have claimed pursuant to section 42 of the Internal Revenue Code for the same taxable year with respect to each qualified low-income building located in Hawaii; provided that, for purposes of subsection (b), the taxpayer may claim a low-income housing tax credit only with respect to the amount of federal low-income housing tax credit claimed for the first five years of the credit period, as defined in section 42(f)(1) of the Internal Revenue Code **(without regard to section 235-110.8(f))**, for each respective qualified low-income building that is located in Hawaii; provided further that the amount of the low-income housing tax credit claimed by a taxpayer shall be computed without regard to any federal low-income housing tax credit that is carried forward from a prior taxable year.

Notwithstanding the above, it should be noted that the American Recovery and Reinvestment Act of 2009 (the "Federal Stimulus Bill") allows states to elect to receive grants instead of tax credits to finance low-income housing for 2009 (the grants reduce the amount of the state credit allocation). Therefore, the attractiveness of accelerating Hawaii's low-income housing tax credit (as a means of encouraging affordable housing for at least 2009) is somewhat dependent on the Housing and Finance Development Corporation's decision regarding the grant election.

VI. OPPOSED TO MORTGAGE INTEREST CERTIFICATES

The intent of this measure is to provide meaningful mortgage interest relief to low- and moderate-income taxpayers that are acquiring a principal residence. The legislation establishes a Qualified Mortgage Credit Certificate Program, which, among other things, charges the Department of Taxation with the obligation to determine qualified mortgage amounts and issue a certificate for an income tax credit.

The Department opposes and objects to this method of providing relief to homebuyers that are subject to paying mortgage interest. The target demographic of this legislation is the low- and moderate-income homebuyer of Hawaii. **The Department would like to point out that this legislation is overly complicated as presented and would likely unnecessarily burden taxpayers applying for this incentive**. The complicated nature of this legislation may force these poor homebuyers to hire a tax professional who will decipher this tax law for a fee. The Department's mission is to simplify tax laws and their application for taxpayers. This bill is not simple and likely outside the grasp of the average taxpayer.

The Department also points out the real estate reality of Hawaii. Hawaii's average house prices for current acquisitions are hundreds of thousands of dollars in many places. This legislation applies only to acquisitions of principal residences and the mortgages thereon. The Department questions this legislation's intent to provide acquisition incentives for mortgage interest when low- and moderate-income taxpayers cannot pay rent—let alone a mortgage on a $600,000 home.

The Department recognizes the importance of the high cost of housing in Hawaii and the need to provide relief and incentives for the low- and moderate-income taxpayers to likewise obtain the "American Dream" of home ownership.

QUALIFIED MORTGAGE CERTIFICATE PROGRAM—The Department is not in a position to certify mortgages. First, the Department opposes having to make uncertain determinations, which is provided in this legislation. To be certified, the residence must "reasonably" be expected to be the residence within a "reasonable" amount of time. The Department opposes the terms "reasonable" as this term is subject to multiple interpretations. The Department suggests amending these terms to reflect certain dates.

AGGREGATE AMOUNT—The Department opposes that there is an aggregate amount as provided for in the proposed § 235-D. It is unreasonable to have the aggregate cap subject to legislative enactment. The legislature, theoretically, is never bound to pass any law or resolution.

The Department feels this requirement may jeopardize the success of this program if an aggregate amount is subject to annual legislative control.

CARRY FORWARD—The Department finds this section overly complicated. A taxpayer should be able to carry forward a credit for the 3 years and terminate.

VII. REVENUE IMPACTS

This bill results in the following revenue impacts, assuming current effective dates—

GENERAL FUND IMPACT

Low-Income Housing Credit: Annual revenue loss is estimated at $1.3 million in FY2010, $2.6 million in FY2011, $3.2 million in FY2012, $3.4 million in FY2013, $3.7 million in FY2014 and $3.9 million in FY2015.

Conveyance Tax Allocation & Increase in Conveyance Tax: Annual revenue gain is estimated at $15.0 million for FY2010 and after.

Mortgage Credit Certificates: Annual revenue loss is estimated at $4.0 million for FY2010 and after.

SPECIAL FUND IMPACT

Conveyance Tax Allocation & Increase in Conveyance Tax: Starting in FY 2010, Land Conservation Fund increases $10.0 million per year; Rental Housing Trust Fund increases $48.0 million per year; Natural Area Reserve Fund increases $18.0 million per year; Self-Help Housing Trust Fund (New) receives $6.0 million per year.

OFFICE OF HAWAIIAN AFFAIRS
Legislative Testimony

SD 1277, SD 2

Relating to Housing

Committee On Housing
Committee on Water, Land, & Ocean Resources

March 18, 2009 9:00 a.m. Room 325

The Office of Hawaiian Affairs **supports** the purpose and intent of SB 1277, SD 2.

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 continued increased pressure on government to provide financing assistance for the development of affordable housing will not end until government can show what has been done to attract partnerships to assist with affordable rentals and affordable for-sale developments. This self-help housing trust fund would be a viable government partnership to assist established organizations with much needed matched funding.

OHA's experience with Hawaii Habitat for Humanity is a 5 year contract to provide self-help housing for 15 families a year at $20,000 per family. The cost per home has risen from $65000 to $85000. The demand exceeds the funding availability, however, much more time is needed for homes located on Hawaiian Home Lands.

We recognize that physical solutions by themselves will not solve social and economic problems, but neither can economic vitality, community stability, and environmental health be sustained without a coherent and supportive physical framework. A Self-Help Housing Trust Fund could be part of a physical framework.

Mahalo nui loa for the opportunity to provide this testimony.

DEPARTMENT OF PLANNING AND PERMITTING
CITY AND COUNTY OF HONOLULU
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MUFI HANNEMANN
MAYOR

DAVID K. TANOUE
DIRECTOR

ROBERT M. SUMITOMO
DEPUTY DIRECTOR

March 18, 2009

The Honorable Rida Cabanilla, Chair
and Members of the Committee on Housing

The Honorable Ken Ito, Chair
and Members of the Committee on Water,
Land, & Ocean Resources
State House of Representatives
State Capital
Honolulu, Hawaii 96813

Dear Chairs Cabanilla, Ito and Members:

Subject: Senate Bill 1277, SD2
Relating to Housing

The Department of Planning and Permitting (DPP) has **comments** on Part V of Senate Bill 1277, SD2. It directs the Hawaii Housing Finance and Development Corporation (HHFDC) to make recommendations on the use of tax increment financing (TIF).

We appreciate the legislature's passage of Act 266 in 1985 that allows the counties to administer a TIF program. However, the question has been raised that this Act may not be supported by the state constitution. Specifically, while the constitution authorizes granting the counties the ability to issue bonds (Article VII, Section 12), it is unclear whether this applies to tax increment financing bonds. Therefore, while we feel this is a strong financing incentive, and are anxious to offer it to appropriate developers, particularly for transit-oriented developments, this issue needs to be resolved before we can do so. Perhaps an opinion from the Attorney General would be helpful. If Part V of Senate Bill 1277 SD2 can be revised to resolve this matter, it would be greatly appreciated.

Thank you for the opportunity to comment.

Very truly yours,

David K. Tanoue, Director
Department of Planning and Permitting

DKT: jmf
sb1277sd2-kst.doc

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 16, 2009

The Honorable Rida Cabanilla, Chair
and Members of the Committee on Housing
The Honorable Ken Ito, Chair
and Members of theCommittee on Water,
Land & Ocean Resources
The House of Representatives
State Capitol
Honolulu, Hawaii 96813

Dear Chairs Cabanilla and Ito and Members:

Subject: Senate Bill 1277, SD2
RELATING TO HOUSING

The Department of Community Services strongly supports Section 5, and Parts II and III of S.B. 1277, SD2.

We have no comment on the proposed increase in conveyance tax rates; however, we strongly support Section 5 of the bill which increases the percentage of conveyance tax collections to be paid into the rental housing trust fund from 30 to 45 percent. The rental housing trust fund requires an ongoing source of funds to ensure the continued development of affordable rental housing for our residents.

We support Part II of the bill to increase the value of state low-income housing tax credits. Such increase in value will assist in efforts to stimulate the production of affordable rental housing in our state.

We strongly support Part III of the bill to more easily allow collection of the State's share of sales proceeds when an assisted housing unit is foreclosed upon. Section 46-15.1, Hawaii Revised Statutes, gives to the counties the same housing powers as HHFDC pursuant to Chapter 201H. Part III enables the HHFDC and counties to more easily collect the value of shared appreciation equity and other restrictions when an affordable housing property is sold and requires advance written notification of intent to foreclose on properties encumbered by such priority liens.

The sale of affordable housing properties sponsored or assisted by the HHFDC or a county is subject to a buyback restriction and a shared appreciation equity (SAE) lien. In recent years, the HHFDC and counties have not been receiving sufficient prior notice of foreclosure proceedings on assisted properties. This measure would afford the HHFDC or county with notice of intent to foreclose 45 days before commencement of the foreclosure, providing sufficient time to conduct due diligence and when appropriate to do so, prepare to bid at the foreclosure sale.

Additionally, because SAE or other government entity liens are priority liens (following the purchase money mortgage), the mortgagee pursuing the foreclosure must satisfy the amount due to the HHFDC or county before claiming the property at the auction. Passage of this bill will protect HHFDC or the county's lien rights in the event of foreclosure, and enable the respective agency to recover funds to support the development of additional housing.

We respectfully request your favorable consideration of Section 5 and Parts II and III of this bill. Thank you for the opportunity to provide testimony.

Sincerely,

Deborah Kim Morikawa

Deborah Kim Morikawa, Director
Department of Community Services

DKM:gk
SB1277SD2

HAWAII COUNTY ECONOMIC OPPORTUNITY COUNCIL

47 Rainbow Drive
Hilo, Hawaii 96720-2013

Telephone 961-2681 Ext.413 Fax 935-9213 Email marymiho.finley@gmail.com

March 2009

Representative Rida Cabanilla, Chair
Representative Pono Chong, Vice Chair
Committee on Housing, Water Land &
Wednesday, March 18, 2009
Time: 1:15 pm
Conference Room 225 State Capitol

IN SUPPORT: SB 1277 - Affordable Housing Omnibus

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.

With about the highest cost housing in the nation, the state of Hawaii needs to do more to support the production of affordable housing for Hawaii's working families. We support this measure because:

1) Homeownership is one of the fastest ways to create wealth/lift a family out of poverty.
2) Habitat for Humanity & self help developers are ready to use this money now.
3) Habitat and self help homes are the best economically-feasible option for low and very low income families to become homeowners in Hawaii today. (Hilo Habitat produced 3 bedroom-2 bath homes with solar hot water & computer for $85,000 last year. Self-help technical assistance would add $20,000/home for self help method of home production.)
4) Homebuilding is a major driver of our economy, locally and nationally.
5) A family's monthly payments for a Self help home is often less than what most families are forced to pay to rent in Hawaii.
6) Turning families from renters to owners creates hope, critical during these hard times.
7) Communities become more stable and sustainable when you increase the proportion of homeowners.
8) **Right now the scarcity of loan financing and technical assistance funding are both critical missing pieces to be able to increase the production of affordable, self help housing.**

This bill will increase the production of homes for Hawaii's hard-working people.

Mahalo 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

Hawaii Island Community Development Corporation
100 Pauahi Street Suite 204 Hilo, Hawaii 96720 Phone 808-969-1158 Fax 808-935-6916

TESTIMONY IN SUPPORT OF SB1277 SD2
RELATING TO AFFORDABLE HOUSING
HSG March 18, 2009 9:00a.m. Hearing in Room 325
Submitted by Keith Kato, Executive Director, Hawaii Island Community Development Corp.

We support the passage of Senate Bill 1277 SD2 as it provides significant resources for the development of more affordable housing for the state and island of Hawaii. The appropriations to support the Rental Housing Trust fund and the establishment of a Self Help Housing Fund 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 have developed over 390 affordable housing units on the island in a series of self help (214 units) and rental housing (179 units) projects for low income residents.

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

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, CONVEYANCE, Increase rate, disposition; low-income housing tax credit, mortgage credit certificates

BILL NUMBER: SB 1277, SD-2

INTRODUCED BY: Senate Committee on Ways and Means

BRIEF SUMMARY: Amends HRS section 247-2 to propose the following conveyance tax rates for properties (eligible for a home exemption as well as all non-residential property) with a value of $1 million and over:

Rate Per $100	Property Value
$ .50	$1,000,000 but less than $2,000,000
1.00	$2,000,000 but less than $4,000,000
2.00	$4,000,000 but less than $6,000,000
3.00	$6,000,000 but less than $10,000,000
4.00	$10,000,000 and greater

Proposes the following conveyance tax rates for residential properties ineligible for a home exemption with a value of $1 million and over:

Rate Per $100	Property Value
$1.00	$1,000,000 but less than $2,000,000
2.00	$2,000,000 but less than $4,000,000
4.00	$4,000,000 but less than $6,000,000
6.00	$6,000,000 but less than $10,000,000
8.00	$10,000,000 and greater

Amends HRS section 247-7 to: (1) increase the amount of conveyance tax revenues earmarked to the rental housing trust fund from 30% to 45%; (2) reduce the amount of conveyance tax revenues earmarked to the natural area reserve fund from 25% to 20%; and (3) provide that 5% of conveyance tax revenues shall be earmarked to the self-help housing trust fund.

Amends HRS section 235-110.8 to provide that the low-income housing credit may be claimed equal to the amount of the federal low-income housing tax credit that the taxpayer claimed or could have claimed under IRC section 42 for the same taxable year with respect to each qualified low-income building located in Hawaii; provided that the low-income housing tax credit may be claimed with respect to the amount of federal low-income housing tax credit claimed for the first five years of the credit period for each respective qualified low-income building, as defined in IRC section 42(f)(1) that is located in Hawaii. Further stipulated that the amount of the low-income housing tax credit claimed by a taxpayer shall be computed without regard to any federal low-income housing tax credit that is carried forward from a prior taxable year.

The definitions and special rules relating to credit periods in IRC section 42(f) shall be operative for the purposes of this section; except that IRC section 42(f)(1) shall be modified as follows: the term "credit period" means, with respect to any building, the period of five taxable years beginning with: (1) the taxable year in which the building is placed in service; or (2) at the election of the taxpayer, the succeeding taxable year. This section shall be applicable to tax years beginning after December 31, 2008.

Adds a new part to HRS chapter 235 to allow taxpayers to claim an income tax credit in an amount equal to the product of: (1) the certificate credit rate; and (2) the interest paid or accrued by the taxpayer during the taxable year on the remaining principal of the certified indebtedness amount; provided that if the certificate credit rate exceeds 20%, the amount of credit shall not exceed $2,000. The taxpayer must purchase a single family residence in the state and have no prior interest in a residence in the three years prior to the closing mortgage and the purchase does not exceed $____ and the income of the taxpayer does not exceed $______. This part shall apply to tax years beginning after December 31, 2008.

The certificate credit rate specified in any mortgage credit certificate shall not be less than 10% or more than 50% and shall not exceed the amount authorized by the legislature for that year by a concurrent resolution.

Credits in excess of a taxpayer's tax liability shall be carried over to each of the three succeeding years and shall be added to the credit allowable for the succeeding tax year. Stipulates that the amount of the unused credit shall not exceed the amount by which the applicable tax limit for the tax year exceeds the sum of: (1) the credit allowable under this part for the tax year determined without regard to this section; and (2) the amounts, by reason of this section, that are carried to the taxable year and attributable to tax years before the unused credit year.

The credit shall not be applicable to any indebtedness that does not meet the requirements of this section. Delineates the period a mortgage credit certificate shall be in effect and reporting requirements of the program.

The director of taxation may adopt rules pursuant to HRS chapter 91 to carry out the purposes of this act, including rules that may require recipients of mortgage credit certificates to pay a reasonable processing fee to defray the expenses incurred in administering the program.

Appropriates an unspecified amount of general funds for each fiscal year 2010 and 2011 for the mortgage credit certificate program.

Directs the Hawaii housing finance and development corporation to report to the 2010 legislature regarding the use of tax incremental financing as an economic tool to leverage private development investment, including experiences of other jurisdictions, the establishment of tax incremental districts, and any legislation that may be required to implement tax incremental financing in the state.

EFFECTIVE DATE: July 1, 2035

STAFF COMMENTS: The proposed measure increases the conveyance tax and increases the amount earmarked to the rental housing trust fund, reduces the earmarking to the natural area reserve fund and proposes an additional earmarking of conveyance tax revenues to the self-help housing trust fund. While the measure proposes another tap of the conveyance tax revenues, it should be noted that as with any earmarking, the legislature will be giving their stamp of approval for another "automatic funding" mechanism for the particular program - the self-help housing trust fund. It should be noted that while funds would be diverted to the fund without any legislative intervention, they will also avoid legislative scrutiny, and it will be difficult to ascertain the effectiveness of the program. It would also be difficult to ascertain whether or not the fund has too little or too much revenue.

Further, while this measure also proposes to increase the conveyance tax rates, 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. As 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?

This increase appears to target more expensive properties being bought and sold perhaps in the belief it will target wealthy prospective homeowners because the increase initiates at the $1 million level. However, it should be remembered that this schedule also applies to non-residential properties covering everything from a mom and pop supermarket in Waialua to the Ala Moana Shopping Center to the car repair shop in Kaka'ako to the farm lot in Waimanalo, all of which probably are valued at greater than $1 million. Thus, this proposal makes it even more expensive to do business in Hawaii. At a time when other committees of the legislature are hearing legislation to spur economic activity, this measure does just the opposite. Even the existing schedule of conveyance tax rates that apply to residential property that will not be owner-occupied misses the boat in that it imposes the highest conveyance tax rate on properties with values greater that $1 million. While lawmakers struggle to provide affordable rental housing, they are imposing the highest conveyance tax rate on properties that could provide that affordable rental housing as most apartment complexes are valued at greater than $1 million or raw land suitable for developing an affordable rental housing development would probably be hit with the highest rate. Thus, this increase demonstrates the lack of thought given to this issue.

If the legislature deems that housing programs be of 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. So for example, because the housing market slowed last year, the rental housing trust fund realized only $21 million in FY 2008 as compared to the $23 million it received in the prior year. If asked, housing officials would probably say that is not enough to carry out their mandate, thus the program is underfunded. If the money were appropriated, lawmakers could then evaluate the real or actual needs of this particular program.

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. It is also unfortunate that the beneficiaries of this largesse can only see the benefit to their respective programs without understanding the overall impact of such a tax increase and the effect it will have on the cost of living and doing business in Hawaii. Perhaps they believe that anyone who can afford the acquisition of property worth a couple of million dollars or more can afford a few more thousand dollars in conveyance taxes. What they do not realize is that this cost will ultimately filter down to the family living in the condominium built on that property or to the small business owner in a strip mall or to the customer purchasing the tomatoes in the supermarket built on that property. So instead of improving the quality of life in Hawaii, the advocates of this tax increase have just made it that much more difficult to survive in Hawaii. All the advocates care about is how much more funding their particular program will get, a very egocentric and selfish perspective.

This measure also proposes to alter the application of the low-income housing tax credit under IRC section 42. While the measure proposes to reduce the time period from 10 years to five years within which to claim the credit for Hawaii income tax purposes, the measure contains unclear language relating to the claiming of the amount of the low-income housing credit "only with respect to the amount of federal low-income housing tax credit claimed for the first five years of the credit period."

This measure proposes to establish a mortgage credit certificate program to assist low and moderate-income taxpayers with purchasing a principal residence by allowing such taxpayers to claim an income tax credit of 20% or $2,000 of their annual mortgage interest payment. While the specific details to apply for and receive a state mortgage certificate are not delineated, it is questionable how taxpayers are to obtain a state mortgage certificate.

On the federal level, the Mortgage Credit Certificate (MCC) reduces the amount of federal income tax the borrower must pay, which in turn, frees up income to qualify for a mortgage. Home buyers must not exceed household income and home purchase price limits set according to federal tax law. The MCC will allow the borrower to take a tax credit equal to 25% of the annual interest paid on the mortgage loan for a single family conventional residence. The remainder - 75% of the mortgage interest - will continue to qualify as an itemized tax deduction. The specific dollar amount of the tax credit depends on how much interest the borrower pays on a mortgage loan. The amount of the credit cannot be more than their annual federal income tax liability after all other credits and deductions have been taken into account. In no case can the tax credit exceed $2,000 per year.

To receive an immediate benefit from the MCC, the borrower must file a revised W-4 withholding form with their employer, which should reduce their yearly tax contribution and increase the borrower's take-home pay, or take the benefit once a year through the federal income tax return when it is filed.

It should be remembered that the taxpayer is able to take the mortgage interest deduction for federal and state income tax purposes. Thus, if this measure is enacted, purchasers of their principal residence will enjoy a double tax benefit. Unlike the federal credit, there is no limitation on taking both the credit based on the percentage of the interest and the mortgage interest deduction and, thus, the double tax benefit.

Although the federal stimulus package also contains a first-time home-buyer tax credit of $8,000 for low-income families as a means to stimulate the housing market, the state is hardly in a financial position to offer either the mortgage credit certificate program or a similar stimulus tax credit.

If the intent of this measure is to help families and individuals struggling to purchase their first home, this tax credit program is not the answer. The rise in the cost of housing is directly related to the supply or inventory of affordable housing. Until the inventory is sufficient to meet the demand, the demand will dictate the cost of that housing. With the cost of money at historic lows, persons who would otherwise be shut out of the market are now bidding on what limited inventory there is, driving the cost higher and higher. Providing a tax credit to basically subsidize the interest paid on a mortgage will merely exacerbate the situation as taxpayers will figure the benefit of the credit into what they can afford for the monthly mortgage payment allowing them to bid even higher for what inventory there is. Thus, this subsidy makes the problem worse rather than better.

The proposed tax credit would be administered by the department of taxation and it is questionable whether the department of taxation is the appropriate agency to assist in the purchase of a principal residence. It would appear that the housing finance development corporation (HHFDC) would be the appropriate state agency who, in turn, would be able to provide assistance in the purchase of a residence through the "Hula Mae" program.

The proposed measure also directs the HHFDC to develop recommendations regarding the use of tax increment financing in the state. The concept of tax increment financing is based on increased property tax revenue generated from rising property tax assessments which result from the improvements. Under a tax increment financing plan, a specific geographic area would be designated as a tax increment district whereupon tax increment bonds would be sold to cover capital improvement project costs within that district. While this concept provides another means for the financing of capital improvements, it should be remembered that while the taxation of real property has been transferred to the counties, it is questionable how this provision will work at the state level.

Digested 3/17/09

KAMEHAMEHA SCHOOLS

March 18, 2009

Testimony to the House Committee on Housing
and the House Committee on Water, Land, & Ocean Resources
Hearing Date: Wednesday, March 18, 2009
9:00 a.m. – Conference Room 325

By : Paul Quintiliani, Director
Endowment/Commercial Assets Division
Kamehameha Schools

To: Representative Rida Cabanilla, Chair
Representative Pono Chong, Vice Chair
Members of the Committee on Housing

Representative Ken Ito, Chair
Representative Sharon Har, Vice Chair
Members of the Committee on Water, Land, & Ocean Resources

Thank you for the opportunity to comment on SB No. 1277 SD2 Relating to Housing.

Kamehameha Schools respectfully supports this measure.

Kamehameha Schools broadly supports the increasing availability of affordable housing throughout Hawai'i. We believe that the housing crisis in Hawai'i is real and requires immediate action. We also believe it is critically important to implement policies that will result in the construction of new affordable units (or retention of existing supply) and not have the unintended and ironic consequence of inhibiting construction altogether.

Our overarching comment is that provisions in statute, rules and policies concerning affordable housing must be viewed collectively for their contribution to an overall effective policy that promotes actual development of affordable housing. To achieve this desired outcome, we believe that a range of tools and strategies are needed.

SB No. 1277 SD2 is positive legislation that promotes many of the tools and strategies we believe can facilitate development of more affordable housing in Hawai'i. We commend the legislature for its forward thinking approach to providing many value-added tools to encourage and support affordable housing development.

We appreciate the opportunity to express our views on this measure.

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March 16, 2009

The Honorable Rida Cabanilla, Chair
House Committee on Housing
The Honorable Ken Ito, Chair
House Committee on Water, Land, & Ocean Resources
State Capitol, Room 325
Honolulu, Hawaii 96813

RE: S.B. 1277, S.D. 2, Relating to Housing

HEARING DATE: Wednesday, March 18, 2009 at 9:00 a.m.

Aloha Chair Cabanilla, Chair Ito and Committee Members.

I am Craig Hirai, a member of the Subcommittee on Taxation and Finance of the Government Affairs Committee of the Hawai'i Association of REALTORS® ("HAR"), here to testify on behalf of the HAR and its 9,600 members in Hawai'i. HAR **strongly opposes Section 4** of S.B. 1277, S.D.2, Relating to Housing, which increases the Conveyance Tax on real property transfers in the State of Hawaii.

Section 4 proposes to increase the maximum Conveyance Tax rate on the sale of a condominium or single family residence for which the purchaser is ineligible for a county homeowner's exemption on the Real Property Tax from 35 cents per $100 (0.35%) to $8 per $100 (8%), **an increase of 2,285%;** and to increase the maximum Conveyance Tax rate on the sale of all other real property from 30 cents per $100 (0.30%) to $4 per $100 (4%), **an increase of 1,333%.**

Please note that the Conveyance Tax applies whether or not a property is sold at a gain or a loss and only applies to properties that are being sold at any given time. Please note that Section 4 could also have the immediate effect of reducing the value of a $10,000,001 commercial property to a business owner by 4% or $400,000, the Conveyance Tax due on a sale of the property.

Furthermore, it is not clear to the HAR whether a deed in lieu of foreclosure to a lender of a $10,000,001 commercial property would be subject to a $400,000 Conveyance Tax under Section 4, and whether a subsequent sale of the $10,000,001 real estate owned by the lender would be subject to another $400,000 Conveyance Tax. If this were the case, the State of Hawaii will receive $800,000 which would otherwise have been applied against amounts already owed to the lender.

HAR believes that, while self-help housing may have value, the Conveyance Tax increases set forth in S.B. 1277, S.D.1, will drastically increase the already high cost of housing, living and doing business in Hawaii inasmuch as the proposed Conveyance Tax increase will apply to the conveyance of multi-family rentals, land for residential subdivisions, mixed-income and multi-use properties, commercial properties, resort properties, and agricultural lands, as well as condominium and single-family homes worth more than $1,000,000.

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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.

The Nature Conservancy
Protecting nature. Preserving life.

The Nature Conservancy
Hawai'i Program
923 Nu'uanu Avenue
Honolulu, HI 96817

tel (808) 537-4508
fax (808) 545-2019
www.nature.org/hawaii

Testimony of The Nature Conservancy of Hawai'i
Commenting on S.B. 1277 SD2 Relating to Housing
House Committee on Housing
House Committee on Water, Land & Ocean Resources
March 18, 2009, 9:00AM, Room 325

The Nature Conservancy objects to Section 4 of this bill where it proposes to amend HRS §247-7 by reducing the portion of the conveyance tax paid into the Natural Area Reserve Fund from 25% to 20%.

We certainly appreciate the effort to create a funding source for very worthy self-help housing programs. However, we are concerned that as drafted the bill could have very negative impacts on the NAR Fund's conservation programs, even considering the increased conveyance tax rates on high end sales proposed in the bill. High end sales are particularly depressed in the current real estate market and may not generate significant conveyance tax collections. Others will certainly argue that the proposed tax rates in S.B. 1277 SD 2 are excessively high.

The Department of Taxation estimates significant revenue generation from the proposed tax increase. However, we recommend that the Committees ask the Bureau of Conveyances for a summary of transactions in the relevant price ranges over the last 2-3 years to be able to do a better projection of revenues from this bill.

Under HRS §247-7(3), a portion of existing conveyance tax revenue has been appropriately used for forested watershed conservation via the Natural Area Reserve Fund. While the development and sale of real estate can have very positive effects on the state's economy, it also poses some significant challenges. For example, fresh water in this state is not a limitless resource that can forever be tapped to support developed real estate.

The source of fresh water is not the faucet, pipe, or even the well or stream it's drawn from. The real source is a system of healthy forested watersheds that capture rain and cloud moisture and deliver it efficiently to aquifers and surface sources for subsequent consumption in our daily lives. We now know from the Waiahole contested case that the demand for fresh water on O'ahu will exceed supply by 2020. In recent years, enormous amounts have been invested in the development and sale of real estate, and there are plans for continued investment in development and construction to help lift our economy out of the current recession. Yet, we make a comparatively tiny investment in protecting the forested watersheds that provide the most basic resource to support that development—clean fresh water.

Unfortunately, with the slumping real estate market and dramatically reduced conveyance tax collections, the forest conservation programs of the Natural Area Reserve Fund likely will suffer 50-60% reductions in FY2010. The partnerships that receive these funds and manage our natural resources have already stopped filling open positions, are planning to cut staff in the coming months, and have pulled back on protection efforts (see attached). They cannot afford additional cuts that may occur if we don't have an accurate projection of revenue generated from this bill.

Attachments

CONVEYANCE TAX TRANSFERS FOR FY 2009

Month	Total Monthly Conveyance Tax Collections to General Fund - 100%	**DLNR** S-09-342-C NARS Trf In - 25%	**DLNR** S-09-317-C Land Conservation Trf In - 10%	**HCDCH** T-09-930-B Rental Housing Trust Trf In - 30%	**TAXATION** G-00-000-C General Fund Balance Remaining - 35%
July	$2,192,465.87	$548,116.47	$219,246.59	$657,739.76	$767,363.05
August	$1,774,945.34	$443,736.34	$177,494.53	$532,483.60	$621,230.87
September	$2,514,102.90	$628,525.73	$251,410.29	$754,230.87	$879,936.01
October	$1,825,468.79	$456,367.20	$182,546.88	$547,640.64	$638,914.07
November	$1,233,090.89	$308,272.72	$123,309.09	$369,927.27	$431,581.81
December	$2,074,566.26	$518,641.57	$207,456.63	$622,369.88	$726,098.18
January	$1,738,521.89	$434,630.47	$173,852.19	$521,556.57	$608,482.66
February					$0.00
March					$0.00
April					$0.00
May					$0.00
June					$0.00
Grand Totals	$13,353,161.94	$3,338,290.50	$1,335,316.20	$4,005,948.59	$4,673,606.65

TOTAL CONVEYANCE TAX COLLECTIONS		
FY08	$	38,408,022
FY07	$	48,328,508
FY06	$	56,646,115
FY05	$	24,318,038
FY04	$	18,432,214

F/data/FISCAL/convey tax trfs/convey tx trf wksht FY09

CONVEYANCE TAX COLLECTIONS & TRANSFERS FOR FY 2008

Month	Total Monthly Conveyance Tax Collections to General Fund - 100%	**DLNR** S-08-342-C NARS Trf In - 25%	**DLNR** S-08-317-C Land Conservation Trf In - 10%	**HCDCH** T-08-930-B Rental Housing Trust Trf In - 50%	**TAXATION** G-00-000-C General Fund Balance Remaining - 15%
July	$2,213,212.44	$553,303.11	$221,321.25	$1,106,606.22	$331,981.86
August	$3,025,234.70	$756,308.68	$302,523.47	$1,512,617.35	$453,785.20
September	$4,492,022.48	$1,123,005.62	$449,202.25	$2,246,011.24	$673,803.37
October	$3,573,776.52	$893,444.13	$357,377.65	$1,786,888.26	$536,066.48
November	$2,959,259.75	$739,814.94	$295,925.98	$1,479,629.88	$443,888.95
December	$3,079,131.57	$769,782.89	$307,913.16	$1,539,565.79	$461,869.73
January	$3,478,274.45	$869,568.61	$347,827.45	$1,739,137.23	$521,741.16
February	$1,871,282.33	$467,820.58	$187,128.23	$935,641.17	$280,692.35
March	$2,952,992.29	$738,248.07	$295,299.23	$1,476,496.15	$442,948.84
April	$4,051,020.17	$1,012,755.04	$405,102.02	$2,025,510.09	$607,653.02
May	$2,860,587.29	$715,146.82	$286,058.73	$1,430,293.65	$429,088.09
June	$3,851,227.53	$962,806.88	$385,122.75	$1,925,613.77	$577,684.13
Grand Totals	$38,408,021.52	$9,602,005.38	$3,840,802.17	$19,204,010.79	$5,761,203.18

TOTAL CONVEYANCE TAX COLLECTIONS	
FY07	$48,328,508
FY06	$56,646,115
FY05	$24,318,038
FY04	$18,432,214

PROGRAM	OBJECTIVE	TOTAL # OF STAFF	STAFF SUPPORTED BY STATE FUNDS	RESULTS OF ANTICIPATED 60% REDUCTION IN STATE FUNDS IN FY10
WATERSHED PARTNERSHIPS	The Hawaii Association of Watershed Partnerships (HAWP) is comprised of nine Watershed Partnerships on six islands. Watershed Partnerships are voluntary alliances of landowners and other partners working collaboratively to protect more than 1 million acres of forested watersheds for water recharge, conservation, and other ecosystem services.	67	43	• **Layoff 24 Staff** • Reduced weed/ungulate control activity • Only maintain current fences • Gains of prior years severly eroded • Loss of species, habitat and water recharge capacity • Increased exposure to fire • Decreased outreach • Increased cost to repair environmental degradation downstream and on reefs
NATURAL AREA PARTNERSHIP PROGRAM	The Natural Area Partnership Program was established in 1991 to provide state funds on a two-for-one basis with private funds for the management of private lands that are dedicated to conservation. With over 30,000 acres enrolled, this innovative program complements the protection efforts on state lands - a partnership essential for the success of conservation in Hawai`i.	28	19	• **Layoff 11 staff** • Reduce forest mangement activity by 60% • Lose investment in staff training and expertise • Increased future costs to control identified invasive species • Feral pig damage will increase significantly causing degredation to native ecosystems, rare plants and watershed • Invasive weeds will significantly displace native ecosystems • Lose ground gained by removing ungulates from newly fenced area
NATURAL AREA RESERVES SYSTEM	The Natural Area Reserves System (NARS) was established in 1970 to preserve in perpetuity Hawaii's most unique ecosystems. There are currently 19 reserves on five islands, encompassing more than 109,000 acres. The diverse areas found in the NARS range from marine and coastal environments to lava flows, tropical rainforests, and an alpine desert. The reserves also protect major watershed areas, which are vital sources of fresh water.	39	39	• **Layoff 8-13 staff** • No ability to conduct necessary archaeological/cultural surveys or design services necessary for effective management of resources within the NARS • Reduced ability to maintain existing fences and special mgmt units, control priority weeds/ungulates, or outplant rare plants • Significantly reduced ability to coordinate volunteers and outreach • Reduced support/funding for educational/outreach programs • No ability to provide consistent presence and reduced ability to accomplish management priorities at ORMP areas: Kaena Point NAR and Ahihi Kinau NAR • Reduced ability to maintain and repair infrastructure such as fences, trails, roads, boardwalks, helipads, and management shelters.
YOUTH CONSERVATION CORPS	The Youth Conservation Corps (YCC) is a hands-on summer learning experience aimed at educating Hawaii's youth on the many conservation issues that threaten Hawaii's unique environment. Students are mentored by and work alongside some of Hawaii's premiere conservation leaders. Nearly 170 local youth participated in the 2008 summer program.	8	4	• **Layoff 2 staff** • Summer program will be reduced from 120 students to 58 • Summer program leaders will remain at 24 as they are funded by federal dollars, but for half of the managers, duties will change from mentoring youth to working as an intern for 7 weeks • Natural resources will suffer from less human assistance to mitigate for ungulates, invasives and other impacts

PROGRAM	OBJECTIVE	TOTAL # OF STAFF	STAFF SUPPORTED BY STATE FUNDS	RESULTS OF ANTICIPATED 60% REDUCTION IN STATE FUNDS IN FY10
FORESTRY/ FOREST STEWARDSHIP PROGRAM	The Forest Stewardship Program (FSP), administered by the Department of Land and Natural Resources, Division of Forestry and Wildlife (DLNR-DOFAW), provides technical and financial assistance to owners of nonindustrial private forest land that are interested in conservation, restoration, and/or timber production. The Forestry Program manages 55 forest reserves comprising more than 640,000 acres, or 16% of Hawaii's land area. The program also provides financial incentives to agricultural landowners to covert fallow or open land to trees, shrubs, and forest habitat, conducts control and monitoring efforts in each county for existing and incipient invasive species, and coordinates T&E species management.	17	12	• **Layoff 4-6 staff** • Limited ability to maintain existing fences and special management units, control priority weeds, or control ungulates • Decreased ability to mitigate known threats to federally endangered species, interruption of restoration and data collection projects • No new FSP projects. Two projects in development to be placed on hold • Limited ability to continue multi-year fence construction projects • Unmitigated degredation of existing road, trail and fencing infrastructure • Possible loss of federal funds due to lack of matching, including loss of up to 2.5 FTE state funded staff supporting these projects; more positions may be lost if federal grants are lost due to lack of funding • Erosion of existing rare plant restoration/ research projects, further loss of Hawaii's natural heritage due to extinction
INVASIVE SPECIES COMMITTEES	The Invasive Species Committees (ISCs) are island-based partnerships of government agencies, NGOs, and private businesses working to protect each island from the most threatening invasive pests. The ISCs address the need for rapid response and control work on new invasive pests that have the ability to severely impact our economy, ecosystem, watersheds, human health, and quality of life. A driving objective of the ISCs is to control the most threatening pests while populations are still relatively small and it is economically feasible to control or eliminate them.	64	29	• **Layoff 19 staff** • Increased future costs to control identified invasive species (*e.g*., estimated cost impacts from delaying miconia work on Maui range from $22M-$34M) • Inability to respond to new coqui reports resulting in island-wide infestations • Inability to assist with HDOA nursery surveys to prevent spread of Little Fire Ant, nettle caterpillars, and coqui frogs
HAWAII INVASIVE SPECIES COUNCIL	The Hawaii Invasive Species Council (HISC) was established to provide policy level direction, coordination, and planning among state departments, federal agencies, and international and local initiatives for the control and eradication of harmful invasive species infestations throughout the State, and to prevent the introduction of other invasive species that may be potentially harmful.	35	35	• **Layoff 13 staff** • Cease operation of SuperSucker, and lose 5-year investment in technology/research • Reduced capacity to conduct risk assessments for new plants • Lose ballast water management data collection • Reduced ability to conduct vessel hull inspections • Reduced capacity to respond to new pest incursions • Reduced community outreach • 50% reduction in West Nile Virus sample collection (mosquito traps, dead birds, bird sera), testing and detection

Programs Supported by the DLNR Natural Area Reserve Fund	FY09 State Funding	FY10 Expected 60% Reduction in State Funds	Staff Funded with State Funds	Expected Layoffs
HAWAII ASSOCIATION OF WATERSHED PARTNERSHIPS				
Kauai Watershed Alliance	$294,190	$117,676	5	5
Koolau Mountains Watershed Partnership	$227,514	$91,006	6	3
East Molokai Watershed Partnership	$124,740	$49,896	8	1
Lanai Forest & Watershed Partnership	$75,000	$30,000	0.5	0
W. Maui Mountains Watershed Partnership	$217,500	$87,000	5	4
E. Maui Watershed Partnership	$441,900	$176,760	5	4
Leeward Haleakala Watershed Restoration Partnership	$343,830	$137,532	6	4
Kohala Watershed Partnership	$235,500	$94,200	2	0
Three Mountain Alliance	$448,320	$179,328	6	3
HAWP Subtotal	**$2,408,494**	**$963,398**	**43.5**	**24**
NATURAL AREA PARTNERSHIP PROGRAM				
Waikamoi Preserve	$220,000	$88,000	4.5	4
Kapunakea Preserve	$125,000	$50,000	2.5	2.5
Kanepuu Preserve	$16,667	$6,667	0.5	0.5
Kamakou Preserve	$218,737	$87,495	3	0
Pelekunu Preserve	$96,289	$38,516	0.5	0.5
Moomomi Preserve	$52,455	$20,982	0.5	0
Kau Preserve	$119,910	$47,964	2.5	1
Puu Kukui Preserve	$281,216	$112,486	5	3
NAPP Subtotal	**$1,130,274**	**$452,110**	**19**	**11.5**
NATURAL AREA RESERVES SYSTEM				
Hawaii Island NARS			12	5
Maui Nui NARS			12	6
Oahu NARS	$4,590,000	$1,836,000	7	1
Kauai NARS			3	0
Statewide Administration			5	1
NARS Subtotal	**$4,590,000**	**$1,836,000**	**39**	**13**
YOUTH CONSERVATION CORP	**$474,588**	**$189,835**	**4**	**2**
FORESTRY / FOREST STEWARDSHIP				
Forest Stewardship	$453,516	$181,406	0.5	0
Watershed Management in Forest Reserves	$1,000,000	$400,000	1	0
Conservation Reserve Enhancement Program	$300,000	$120,000	1	0
DLNR Invasive Species Program Operations	$244,898	$97,959	4	0
T&E Species Management	$400,000	$160,000	5.5	5.5
FORESTRY / FS Subtotal	**$2,398,414**	**$959,366**	**12**	**5.5**
INVASIVE SPECIES COMMITTEE				
Big Island Invasive Species Committee (BIISC)	$375,094	$150,038	9	5
Kauai Invasive Species Committee (KISC)	$374,249	$149,700	6	4
Maui Invasive Species Committee (MISC)	$430,700	$172,280	7	4
Oahu Invasive Species Committee (OISC)	$437,200	$174,880	7	6
ISCs Subtotal	**$1,617,243**	**$646,897**	**29**	**19**
HAWAII INVASIVE SPECIES COUNCIL				
AIS / Hull Fouling	$579,800	$231,920	11.5	4.5
DOA / USDA	$129,200	$51,680	3	3
Bishop Museum	$160,000	$64,000	1	1
Invasive Species Research Grants	$330,000	$132,000	10	0
HISC Support	$135,000	$54,000	1.5	0.5
Weed Risk Assessment	$97,700	$39,080	2	1
Invasive Species Outreach	$97,700	$39,080	4	1
West Nile Virus Detection & Suppression	$307,300	$122,920	2	2
HISC Subtotal	**$1,836,700**	**$734,680**	**35**	**13**
GRAND TOTAL	**$14,455,713**	**$5,782,285**	**182**	**88**