

SB188

WRITTEN ONLY

TESTIMONY BY GEORGINA K. KAWAMURA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE SENATE COMMITTEE ON EDUCATION AND HOUSING  
ON  
SENATE BILL NO. 188

February 9, 2009

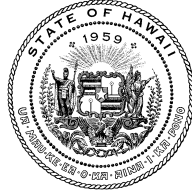
RELATING TO HOUSING

Senate Bill No. 188 requires a percentage of general excise and conveyance taxes to be deposited into the rental housing trust fund.

The Department of Budget and Finance **opposes** this measure because the amounts to be deposited into the rental housing trust fund would otherwise be deposited into the general fund. Given the current financial situation, the department cannot support any measure that reduces general fund collections and negatively impact the State's general fund financial plan.

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



KURT KAWAFUCHI  
DIRECTOR OF TAXATION

SANDRA L. YAHIRO  
DEPUTY DIRECTOR

STATE OF HAWAII  
DEPARTMENT OF TAXATION  
P.O. BOX 259  
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510  
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**SENATE COMMITTEE ON EDUCATION & HOUSING  
TESTIMONY REGARDING SB 1188  
RELATING TO HOUSING**

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

**DATE: FEBRUARY 9, 2009**

**TIME: 9AM**

**ROOM: 325**

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This measure amends the current depositing of general excise tax (GET) revenue to include a certain percent of revenues from leased property to be deposited to the rental housing trust fund. This measure also increases the amount of conveyance tax deposited to the rental housing trust fund.

The Department of Taxation (Department) **supports the intent** and purpose of this measure; however **must oppose any diversion of general excise tax revenue away from the general fund.**

**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. THE DEPARTMENT OPPOSES THE GET REDIRECT.**

This legislation requires a certain percentage of GET realized from the leasing of real property to be deposited to the rental housing trust fund. The Department does not currently track the types of activities that generate the GET revenues to the detail contemplated by this measure. The Department would have to make form modifications to track this one specific industry to ensure the revenues are properly allocated for this one purpose. The Department's computer would also require costly modifications that have not been factored into the Department's budget.

Also, this measure would siphon off important general fund revenues. Though the cause of funding affordable housing is important, the Department cannot jeopardize any general fund revenues this session in order to ensure a balanced budget.

**III. THE DEPARTMENT OPPOSES 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.

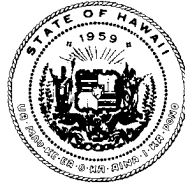
The Department cannot support the tax provision in this measure because it is not factored into the budget. The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either. Given the forecasted decrease in revenue projections, this measure would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

**IV. REVENUE IMPACT.**

This measure would result in an indeterminate revenue loss to the general fund from the lease rent provision.

This measure would result in a revenue loss of \$8.7 million in FY 2010 to the general fund and gain to the rental housing trust fund from the conveyance tax increase.

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  
**SENATE COMMITTEE ON EDUCATION AND HOUSING**

February 9, 2009 1:15 p.m.  
Room 225, State Capitol

In consideration of  
**S.B. 188**  
**RELATING TO HOUSING.**

The Hawaii Housing Finance and Development Corporation **appreciates the intent** of this measure, which would provide additional funding for the Rental Housing Trust Fund. However, given the current fiscal difficulties, it would not be prudent to pursue enactment at this time.

Thank you for the opportunity to testify.

**Bernard P. Carvalho, Jr.**  
Mayor

**Gary K. Heu**  
Administrative Assistant



**KAUAI COUNTY HOUSING AGENCY**  
Pi'ikoi Building 4444 Rice Street Suite 330  
Lihu'e, Hawai'i 96766

**Eugene K. Jimenez**  
Housing Director

**Kenneth N. Rainforth**  
Executive Assistant

February 6, 2009

Senator Norman Sakamoto, Chair  
Senator Michelle Kidani, Vice Chair  
and Committee Members  
Committee on Education and Housing  
The Senate, State of Hawai'i  
The Twenty-Fifth Legislature  
Regular Session of 2009

**SUBJECT: Testimony Supporting Senate Bill 188, Relating to Housing**  
**Committee: EDH**  
**Hearing: February 9, 2009 1:15 PM Conference Room 225**

Senate Bill 188 would allocate an unspecified amount of general excise tax revenues and fifty per cent of the conveyance tax for the Rental Housing Trust Fund established pursuant to HRS Section 201H-202. The Rental Housing Trust Fund is a valuable resource in the development and rehabilitation of affordable rental housing. The proposed bill would provide a reliable, much needed source of funding for the ongoing development of affordable rental housing.

Thank you for the opportunity to provide testimony.

Sincerely,

A handwritten signature in black ink that reads "Eugene K. Jimenez".

**EUGENE K. JIMENEZ**  
Housing Director



# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, CONVEYANCE, Disposition for rental housing trust fund

BILL NUMBER: SB 188

INTRODUCED BY: Chun Oakland, Sakamoto and 4 Democrats

BRIEF SUMMARY: Amends HRS section 237-31 to provide that \_\_\_\_% in general excise tax revenues generated by the leasing of real property shall be deposited into the rental housing trust fund.

Amends HRS section 247-7 to increase the amount of conveyance tax revenues earmarked to the rental housing trust fund from 30% to 50%.

EFFECTIVE DATE: Upon approval

**STAFF COMMENTS:** The proposed measure earmarks an unspecified percentage of general excise tax revenues derived from the leasing of real property into the rental housing trust fund. It should be noted that as with any earmarking, the legislature will be giving their stamp of approval for another “automatic funding” mechanism, in this case, the earmarking of general excise tax revenues into the rental housing trust fund. Funds would be diverted to the fund without any legislative intervention. Without legislative scrutiny, it would be difficult to ascertain the effectiveness of the reimbursement program and whether or not the fund has too little or too much revenue. More importantly, the diversion of general excise tax revenues, as proposed, would mean that there would be that much less in general funds for other programs and services.

The danger in adopting this measure is that it may spawn additional requests for funding of other “needy” programs through the earmarking of general excise tax revenues.

How soon lawmakers have forgotten how earmarking general fund revenues can get the state into trouble. It was only 1989 when lawmakers approved earmarking \$90 million for educational facilities as the “commitment” to education and only three years later took back the earmarking because general fund revenues started to dwindle. Further, rather than spurring on construction of classrooms, the earmarking merely created apathy as school officials knew they would receive \$90 million off the top and they didn’t have to justify a request for funding. Instead of proposing measures like this, lawmakers should go back and read a little of their own history and learn from their mistakes.

Rather than perpetuating the earmarking of general funds, lawmakers should repeal all earmarking and utilize the appropriation process which would be more accountable than any earmarking scheme. At least lawmakers will be able to evaluate how the program is working and whether not the program is being fully utilized.

It should be noted that not only is the general excise tax tapped but this measure also proposes to increase the earmarking of conveyance tax revenues for the rental housing trust fund from 30% to 50%.

Further, 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 from the general excise tax and the conveyance tax merely absolves elected officials from setting priorities. When the legislature dipped into housing special funds to maintain funding for programs like education and social services, that was poor tax policy. This proposal represents the obverse, lawmakers are stealing from the general fund all in the name of affordable housing. When general fund revenues wane, will elected officials once more dip into special funds or repeal this earmarking or in the alternative raise taxes? Earmarking revenues restricts the flexibility in utilizing these revenues. The question that lawmakers must ask themselves is whether or not all of the currently earmarked funds are being used wisely and accomplishing the intended goals. With earmarked funds that can only be used for a designated purpose, lawmakers tend to overlook how those earmarked funds are being used.

Before earmarking any more funds for affordable rental housing, lawmakers should assess the success of the affordable rental housing program. Further, they should take into consideration the fact that during the past decade the homes revolving fund was raided to shore up general fund expenditures and that if the concern is affordable housing in Hawaii, then the homes revolving fund should be made whole again with an appropriation of general funds.

Digested 2/6/09



**Sovereign Councils**  
of the



**Hawaiian Homelands**  
**Assembly**

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89-188 Farrington Highway  
Wai'anae, Hawai'i 96792  
Phone & Fax: (808) 668-0441

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Executive Director

**February 7, 2009**

To: **Senator Norman Sakamoto Hee, Chair**  
**Senator Michelle Kidani, Vice Chair & Members of the**  
**Committee on Education and Housing**

From: **Kali Watson**  
**Chairman of Statewide Economic Development Committee**  
**SCHHA**  
**Honolulu, Hawaii 96792**

Re: **Hearing on SB -188 Relating to Rental Housing Trust Fund**  
February 9, 2009 at 1:15 pm  
Conference Room 225, State Capitol

**TESTIMONY IN SUPPORT**

Dear Chair Sakamoto, Vice Chair Kidani and Members:

Thank you for the opportunity to provide testimony **in support** to SB 188-relating to the Rental Housing Trust Fund. This bill requires a percentage of state conveyance and excise taxes to be paid into the Rental Housing Trust Fund. If the State is serious about addressing the affordable housing problem in Hawaii, then it needs to continue this most effective method of providing gap financing for housing, especially in the rental market. This is especially true in some of the most depressed areas of Hawaii. In particular, the need for affordable housing in the homesteading areas is very great. While regular homestead homes are being purchased using fairly standard mortgage practices, for many, homeownership is unavailable and renting is necessary. While there are two rental projects on DHHL lands, the demand is growing. With the anticipated eviction of 200 homeless people off of Nanakuli Beach, the Hale Makana O Nanakuli is a perfect example of the need for such low-income rental housing projects. This project is stalled because there is a shortage of funds in the RHTF. Continued funding is critical.

The Sovereign Councils of the Hawaiian Homelands Assembly, formerly the State Council of Hawaiian Homestead Associations was founded more than 20 years ago to unite homestead communities and to advocate for the beneficiaries of the Hawaiian Homes Commission Act of 1921. The SCHHA is the oldest statewide advocacy organization representing the interests of more than 30,000 beneficiaries and families residing in the communities of the Hawaiian Home Land Trust. Its mission is to promote the self determination of native Hawaiians and the well being of homestead communities. I urge you to please pass this measure, SB 188.

Sincerely,

*Kali Watson*

Kali Watson  
Chairman of Economic Development



## KAMEHAMEHA SCHOOLS

February 6, 2009

Testimony to the Senate Committee on Education and Housing

By: Michael G. Dang, Director  
Endowment / Planning & Development

Hearing Date: Monday, February 9, 2009  
1:15 p.m. – Conference Room 225

To: Senator Norman Sakamoto, Chair  
Senator Michelle Kidani, Vice Chair  
Members of the Committee

Re: SB 188: Relating to Housing.

Kamehameha Schools **supports the purpose and intent of this bill.** We support policies that encourage and support the actual building of more housing for Hawaii's people.

Thank you for the opportunity to testify on this legislation.

567 South King Street • Honolulu, Hawai'i 96813-3036 • Phone 808-523-6200

*Founded and Endowed by the Legacy of Princess Bernice Pauahi Bishop*

February 7, 2009

**The Honorable Norman Sakamoto, Chair**  
Senate Committee on Education and Housing  
State Capitol, Room 225  
Honolulu, Hawaii 96813

**RE: S.B. 188 Relating to Housing**

**HEARING DATE: Monday, February 9, 2009 at 1:15 p.m.**

Aloha Chair Sakamoto and Members of the Committee on Education and Housing.

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 **supports** S.B. 188, which requires that a percentage of the Conveyance Tax and the General Excise Tax on real estate rents be paid into the Rental Housing Trust Fund.

We believe that 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 has historically supported 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.

The Rental Housing Trust Fund currently receives 30% of Conveyance Tax collections. The Rental Housing Trust Fund Program, coupled with federal and state low income housing tax credits, is the most productive of all government assistance programs. However, there is never enough money in the Rental Housing Trust Fund to satisfy the need for low-income rentals. The allocation of Conveyance Tax collections to the Rental Housing Trust Fund should be restored to 50%.

Furthermore, homeowners are allowed to deduct mortgage interest and real property taxes on their Hawaii income tax returns, which can be viewed as a subsidy from the General Fund. However, 4% of a tenant's rent paid to a landlord is paid into the General Fund when the landlord pays General Excise Tax on the rent. This inequity is only partially remedied by the Income Tax Credit for Low-Income Household Renters under HRS § 235-55.7. However, inasmuch as S.B. 199, which was heard by the Committee on Ways and Means on February 5, 2009, proposes to repeal the Income Tax Credit for Low-Income Household Renters, it would certainly be appropriate to allocate a percentage of the General Excise Tax collected on real estate rents to the Rental Housing Trust Fund.



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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.



# Housing Hawaii

Advocating Creating Maintaining Affordable Housing

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February 4, 2009

The Honorable Norman Sakamoto, Chair  
Senate Committee on Education and Housing  
Hawaii State Capitol, Room 230  
Honolulu, HI 96813

Dear Chair Sakamoto and Members:

## **RE: SB 188, RELATING TO HOUSING**

I am Nani Medeiros, Executive Director of Housing Hawaii, testifying in support of Senate Bill 188, Relating to Housing. This bill requires a percentage of general excise and conveyance tax revenues be deposited in the state rental housing trust fund.

Housing Hawaii **strongly supports** this measure. Thank you for the opportunity to comment.

Nani Medeiros  
Executive Director

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**Executive Director**  
Nani Medeiros

*Housing Hawaii, 841 Bishop Street, Suite 2208, Honolulu, HI 96813*

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*Email: [housinghawaii@hawaii.rr.com](mailto:housinghawaii@hawaii.rr.com)*

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**From:** [Joel Fischer](#)  
**To:** [EDH Testimony](#)  
**Subject:** SB188; Edu & Housing; 2/9/09; 1:15PM; Rm 225  
**Date:** Wednesday, February 04, 2009 12:48:05 PM  
**Importance:** High

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SB188, Relating to Housing  
Education and Housing; Chair, Sen Sakamoto

**PLEASE PASS THIS BILL!**

I want to thank Sens Chun-Oakland and Sakamoto and the signers of this bill for introducing it and holding this hearing.

This bill, along with its companion bills, SB 1294 and SB 757, are some of the clearest examples of a compassionate Legislature doing whatever is possible to preserve the safety net. We are going to see a huge outpouring of need over the next 2 years, and we should do everything possible to help our people with their most basic needs, especially housing.

Thank you so much.

Aloha, joel

Dr. Joel Fischer, ACSW  
President, 19-3, Democratic Party

Professor  
University of Hawai'i, School of Social Work  
Henke Hall  
Honolulu, HI 96822

"It is reasonable that everyone who asks justice should DO justice."  
Thomas Jefferson

"There comes a time when one must take a position that is neither safe, nor politic, nor popular, but one must take it because one's conscience tells one that it is right."

Dr. Martin Luther King, Jr.

"Never, never, never quit."  
Winston Churchill