

SB2584

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEES ON EDUCATION AND HOUSING AND
WATER, LAND, AGRICULTURE, AND HAWAIIAN AFFAIRS
ON
SENATE BILL NO. 2584

February 5, 2010

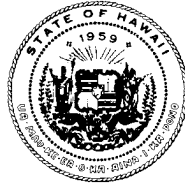
RELATING TO SELF-HELP HOUSING

Senate Bill No. 2584 establishes a Self-Help Housing Trust Fund which will receive an unspecified portion of the conveyance tax revenues. The Fund will be used to provide loans or grants for the development or rehabilitation of self-help housing units.

We oppose this bill because it diverts conveyance tax revenues which are currently deposited into the General Fund.

Further, as a matter of general policy, this department does not support any special fund (or in this case any trust fund) which does not meet the requirements of Section 37-52.3 of the Hawaii Revised Statutes. Funds should: 1) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries of the program; 2) provide an appropriate means of financing for the program or activity; and 3) demonstrate the capacity to be financially self-sustaining. It is difficult to determine whether the proposed Self-Help Housing Trust Fund would meet these criteria.

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
SENATE COMMITTEE ON WATER, LAND, AGRICULTURE,
AND HAWAIIAN AFFAIRS**

February 5, 2010, 1:30 p.m.
Room 225, State Capitol

In consideration of
S.B. 2584
RELATING TO SELF-HELP HOUSING.

The HHFDC opposes S.B. 2584, which creates and funds a Self-Help Housing Trust Fund out of a portion of conveyance tax revenues.

We believe that self-help housing is a way for low- and moderate-income families to achieve homeownership and are supportive of such efforts. However, we oppose this measure because it diverts conveyance tax revenues, which are currently deposited into the General Fund, at a fiscally austere time. Currently, HHFDC may make interim loans to qualified nonprofit developers to acquire land for self-help housing projects, as well as loans to construct self-help housing. 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.

Thank you for the opportunity to provide written comments on this bill.

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: CONVEYANCE, Disposition for self-help housing trust fund

BILL NUMBER: SB 2584

INTRODUCED BY: Sakamoto and 2 Democrats

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

Adds a new section to HRS chapter 201H to establish a self-help housing trust fund.

EFFECTIVE DATE: July 1, 2010

STAFF COMMENTS: The conveyance tax was enacted by the 1966 legislature after the repeal of the federal law requiring stamps for transfers of real property. It was enacted for the sole purpose of providing the department of taxation with additional data for the determination of market value of properties transferred. This information was also to assist the department in establishing real property assessed values and at that time the department stated that the conveyance tax was not intended to be a revenue raising device. The conveyance tax is imposed each time property changes title or ownership.

Prior to 1993, the conveyance tax was imposed at the rate of 5 cents per \$100 of actual and full consideration paid for a transfer of property. The legislature by Act 195, SLH 1993, increased the conveyance tax to 10 cents per \$100 and earmarked 25% of the tax to the rental housing trust fund and another 25% to the natural area reserve fund. Currently, 10% of conveyance tax revenues is earmarked for the land conservation fund, 25% for the rental housing trust fund and 20% for the natural area reserve fund with the remainder deposited into the general fund. Depending on the percentage delineated in this measure, this will reduce the remainder of conveyance tax revenues that will be deposited into the general fund.

While the proposed measure would yet again tap conveyance tax revenues for another “worthy” program, it should be remembered that the collections of this tax were originally a receipt of the general fund. That is the problem with earmarking the conveyance tax. With a hot real estate market, the collections of this tax soar. However, as the market cools, as it did after the Japanese bubble burst in the mid 1990’s and now in the aftermath of the subprime credit crisis, the collections of this tax will wane. The conveyance tax is one of the least dependable sources upon which to rely for funding with collections rising and falling with the fortunes of the real estate market. Any amount collected under this tax will depend on activity in the real estate market. When the housing market slows down, revenues may not be sufficient to meet the expectations of the fund. If the additional revenues are not sufficient or another “important” program needs funding, will the conveyance tax be increased to generate even more revenue?

If the legislature deems any of the programs for which conveyance tax revenues are earmarked to be such a high priority, then it should maintain the accountability for these funds by appropriating the funds as it

does with other programs. Earmarking revenues merely absolves elected officials from setting priorities. When the legislature dipped into housing special funds to maintain funding for programs like education and social services, that was poor tax policy. When general fund revenues wane, will elected officials once more dip into special funds or repeal this earmarking or in the alternative raise taxes? Earmarking revenues restricts the flexibility in utilizing these revenues.

Finally, what is the right percentage to earmark for self-help housing? Even the author of this proposal has left that blank as the need will change from year to year and that is why the annual appropriation process is much more transparent and accountable. As noted above, should the percentage earmarked not be sufficient for the needs of this program, will lawmakers once again raise what was merely an indicator of value and not a source of income?

In its great wisdom, the legislature has already imposed a hefty burden on many affordable housing projects because of the much higher rates imposed on the transfer of residential property that will not be owner occupied. Will they again raise those rates and bring new development of affordable housing and rental housing to a stand still? Unfortunately, the target of that hefty increase on sales of residential real property will target those who are least likely to afford their shelter, the renter. Unintended consequences as they may be, this proposal, like many others that have sought to nickel and dime taxpayers to fund motherhood and apple pie ideas, will have just the opposite effect on the outlook for affordable housing in Hawaii. This proposal cannot be justified.

Digested 2/4/10

Hawaii Habitat for Humanity Association

Committee on Education and Housing
Committee on Water, Land, Agriculture and Hawaiian Affairs

Friday, February 5, 2010 1:30 p.m.
Conference Room 225

SB2584: Relating to Self Help Housing Testimony in Support

Self help housing programs such as Habitat for Humanity and Hawaii Self Help Housing offer low and moderate income families an opportunity to own their own homes through using “sweat equity” to build their homes. Families who have built their homes show greatly improved financial stability and a rise in their education and job opportunities. Children do better in school and families rarely move. Self Help Housing is a hand up from circumstances that frequently lead to homelessness. In fact a number of Habitat and other self help housing homeowners in Hawaii have been homeless prior to building their homes.

Homelessness has been growing rapidly and new shelter accommodations have not been able to keep up with the numbers of newly homeless. One problem that is frequently pointed out is that there is nowhere for people to transition to from being in a shelter. Self help housing offers homeless prevention to families who are living in precarious circumstances.

A Self Help Housing Trust Fund, similar to the Rental Housing Trust Fund, would provide critical grant funding for technical assistance and construction materials. It could also provide grants or loans for predevelopment costs and the purchase of land to build on.

Given the state’s financial crisis we know that it is not likely that the legislature could provide money for such a fund in the current year. However, we would ask you to establish the Self Help Housing Trust Fund at Hawaii Housing Finance and Development Corporation. Setting up the mechanisms to make such a fund work well and establishing the administrative rules could well take a year or more. Then when the economy turns the state will have a mechanism that will be ready to assist families with a hand up into safe, decent and secure housing.

Self Help Housing has been very effective as an alternative for very low income native Hawaiian families without the person funds to build. It is not only more cost effective than shelters or rental housing, it also provides economic and community development in neighborhoods and is one of the very best sources of asset building with very low, low and moderate income households.

Thank you for your support. Kathleen Hasegawa, Executive Director