

Testimony of the Honorable Neil Abercrombie  
To The

Hawaii State House of Representatives  
Committee on Housing

Rep. Rida Cabanilla, Chair  
Rep. Pono Chong, Vice Chair

**LATE TESTIMONY**

March 17, 2010 at 9:00 am  
Conference Room 325

Regarding SB 2593, SB 2594 & SB 2595

Chair Cabinilla and Vice Chair Chong, thank you for the opportunity to testify before the Housing Committee. I am here to express my support for SB 2593, SB 2594 and SB 2595 which generally curtail the General Excise Tax (GET) exemption for certain housing projects.

These bills (1) require the State to periodically review the eligibility of housing projects for the GET exemption; (2) require housing projects with a GET exemption to meet certain residency requirements; and (3) set income and residency restrictions on housing projects seeking a GET exemption.

In search of the least painful way to balance the State's budget for the coming fiscal year, the Legislature has resurfaced a proposal that is long overdue. The bills mentioned above could help the State to bring in needed revenues from large mainland housing development firms doing business in Hawaii.

In 1996, I co-wrote and passed legislation in the House Armed Services Committee that created military public-private housing partnerships. I pursued this public-private proposal, and subsequent projects in Hawaii, because I believed it was

the fastest way to improve the quality of life for military families in Hawaii. And, as an additional benefit, these projects have employed local contractors, alleviated the strain on Oahu's rental market, and provided a model for energy efficient communities in Hawaii.

It was 2003 when the military began awarding the contracts for three 50-year public-private housing partnerships on Oahu to include the Navy & Marine Corps, the Army, and the Air Force. I was concerned then, as I am today, that the companies awarded these billion dollar contracts pay their fair share of GET.

These large companies are now a part of Hawaii's economy but not fully required to participate in it. While their subcontractors are paying GET on every penny of work they perform, the general contractor does not. Essentially, the 4.6% GET exemption gives these companies an advantage over large - and small - Hawaii firms competing for business in the region. When Hawaii contractors bid on a project in the Pacific, the military housing companies can underbid them by the 4.6% they are making on these multi-billion dollar projects.

If you look over the H-1 viaduct as you drive from Honolulu to the airport, you will see the absolutely fantastic communities that these public-private housing partnerships have created for military families. I am here today to say that our Hawaii families deserve the same high quality, energy efficient, safe neighborhoods that our military now enjoys. To see that vision into reality, there must be a level playing field for all and a contribution from all who benefit in our community to give back to it.

I understand there is ongoing consideration to remove the general excise tax exemption for nonprofits—organizations that help hold the fabric of our local community together. If we are going to talk about scaling back tax exemptions, the GET exemption mentioned in these bills should be at the top of the list if we are to align our priorities with our values.

Mahalo for your time and consideration of my views.

# LATE TESTIMONY



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March 16, 2010

The Honorable Rida Cabanilla, Chair  
House Committee on Housing  
State Capitol, Room 325  
Honolulu, Hawaii 96813

**RE: S.B. 2595 SD1 - Relating to Housing**

HEARING: Wednesday, March 17, 2010 at 9:00 a.m.

Aloha Chair Cabanilla, Vice Chair Chong and Members of the Committee:

I am Craig McGinnis, Vice President of Ford Island Housing, LLC ("FIH"), the ground lessee and owner of The Waterfront at Pu'uloa, a rental housing project located at Iroquois Point/Pu'uloa, Ewa Beach, Hawaii (the "Pu'uloa Housing Project"). FIH **opposes** S.B. 2595 SD1 which requires that the gross annual income of households in a housing project developed by a qualified person or firm be calculated according to the US Department of Housing and Urban Development's method of calculation for determining eligibility for the federal Section 8 program, in order for the person or firm to be considered to receive a General Excise Tax exemption.

S.B. 2595 SD1 modifies HRS §201H-36(a)(4) to require that for project qualification purposes a household's gross annual income must be as calculated by the US Department of Housing and Urban Development in determining eligibility for the Section 8 program (which in the case of the military includes all regular pay, special pay and allowances).

In the case of the military, the Section 8 gross annual income calculation is not an appropriate measurement because that gross annual income is being used to determine eligibility for an additional federal housing subsidy.

FIH is unsure whether the Pu'uloa Housing Project can maintain its current GET exemption if it has to qualify using Section 8 gross annual income.

FIH uses the exemption to service the debt used to renovate homes for current tenants and to maintain community facilities. FIH also intends to use the exemption on community improvements such as bus stops and public restrooms.

The Pu'uloa Housing Project consists of 1,446 two, three and four bedroom rental housing units that were constructed around 1960 (Iroquois Point) and 1975 (Pu'uloa) as federally-owned Navy housing.

FIH acquired the Pu'uloa Housing Project from the Navy in 2003 by way of a long-term lease under which FIH agreed to make renovations to all of the rental housing units over a period of time. The final phase of the renovations was completed in 2009. About half of the units in the Pu'uloa Housing Project are still occupied by active duty military personnel.

FIH paid GET on the renovation costs and all of the Pu'uloa Housing Project rents until 2009, when the project received an exemption from GET for a portion of its rents from the Hawaii Housing Finance and Development Corporation under HRS §201H-36(a)(4). Under HHFDC rules, the project must pay GET on rents received from units occupied by households with incomes above 140% of the area median income.

FIH believes that with the income limits imposed by its current GET exemption, the Pu'uloa Housing Project is an excellent model for the preservation of affordable workforce housing in Hawaii.

Mahalo for the opportunity to testify. We recommend that you hold this bill for the foregoing reasons.

# LATE TESTIMONY

THE CHAMBER OF COMMERCE OF HAWAII  
1132 Bishop Street, Suite 402  
Honolulu, HI 96813

Testimony to the House Committee on Housing  
Wednesday, March 17, 2010  
9:00 AM

Conference Room 325

RE: SENATE BILL NO. 2595, SD 1, RELATING TO HOUSING

Chair Cabanilla, Vice Chair Chong, and members of the committee.

My name is Charles Ota and I am the Vice President for Military Affairs at The Chamber of Commerce of Hawaii (The Chamber). I am here to state The Chamber's **opposition** to Senate Bill 2595, SD1, Relating To Housing.

The Chamber's Military Affairs Council (MAC) serves as the liaison for the state in matters relating to the US military and its civilian workforce and families, and has provided oversight for the state's multi-billion dollar defense industry since 1985.

The measure proposes to require that the gross income of households in a housing project developed by a qualified person or firm be calculated according to the US Department of Housing and Urban Development's (HUD) method of calculating gross annual income in determining eligibility for the federal housing choice voucher (section 8) program, in order for the person or firm to be considered to receive a state general excise tax exemption.

The measure proposes to apply rules adopted for a federally funded and administered low income rental housing program to a totally unrelated state program that receives no federal funding nor provides funding assistance for low income families.

Under the HUD low income rental housing choice voucher program, the government provides a subsidy to help offset the rental cost for the participating family. This kind of funding subsidy is not provided for under Section 201H-36,

(a ) (4), which is the provision being amended by this bill. We question the appropriateness of unilaterally applying rules specifically adopted for a federally funded and administered program.

We understand that part of the rationale for using HUD procedures was to include the US Government's payment of the basic allowance for housing (BAH) in calculating annual gross income for military families. We believe that this is inappropriate for reason outlined below.

1. For active duty members of the military, the US government is responsible for providing government housing for single and married personnel. Typically, members are provided housing on the base with single members in dormitory-type or apartment-type facilities and married members in family-type housing.
2. When housing is not available on base, the government authorizes members to live off-base in housing that is subsidized by the government using the BAH. This is the government's subsidy to the military member for having to live off-base. It should be noted that this subsidy is nontaxable to the member.
3. In recent years, the government elected to privatize this housing responsibility in a public-private venture (PPV) referred to as the Military Housing Privatization Initiative, or MHPI, wherein a private developer partners with the military in the management of the military housing program. This includes construction, renovation, maintenance and repair, and property management. The cost of this PPV program is subsidized by the government by transferring BAH payments to the private developer in a joint venture. It is the government's method of enabling financing for these PPV projects.

The above discussion is provided to demonstrate that the BAH should not be considered a part of a military member's monthly pay. Rather, it is a government subsidy that is intended to cover the government's cost in providing government housing to an active duty military member.

The only current GET exemption approved by the Hawaii Housing and Finance Development Corporation under Section 210H-36, ( a ) (4) is a single housing community at the US Navy's former Iroquois Point housing area. This rental housing project was established by the owner under a 99-year lease

agreement with the US Navy. The owner completely renovated and reconstructed this rental housing area. It applied for and received a GET exemption under Section 210H-36, ( a ) (4) to keep rental rates affordable for low income families. This enables the firm to keep occupancy rates at an acceptable level and generate sufficient revenues to maintain and repair the 327 acre property and the 1,461 family housing units, and provide for capital improvements over the 99 year lease. It should be mentioned that the owner does not receive a federal (or state) housing assistance subsidy as provided under HUD's choice voucher program.

In light of the above, we oppose this measure and recommend that it be held.

Thank you for the opportunity to testify on this measure.