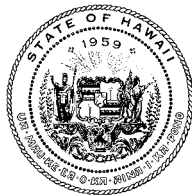


SB2595

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

STANLEY SHIRAKI
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
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**SENATE COMMITTEE ON EDUCATION AND HOUSING
TESTIMONY REGARDING SB 2595
RELATING TO HOUSING**

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

DATE: FEBRUARY 10, 2010

TIME: 1:20 PM

ROOM: 225

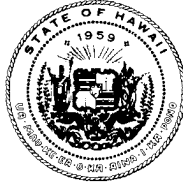
This measure requires that the gross annual income of households in a housing project developed by a qualified person or firm be calculated according to the United States Department of Housing and Urban Development's method of calculation for determining eligibility for the federal housing choice voucher (section 8) program, in order for the person or firm to be eligible for the general excise tax exemption.

The Department **defers to the Hawaii Housing Finance and Development Corporation** on the merits of this legislation. The Department has the following specific comments on this measure:

1. The measure adds a new definition of "qualified person or firm" to Section 237-1, Hawaii Revised Statutes although it appears that the definition is intended to apply only to Section 237-29, Hawaii Revised Statutes. Defining that term for purposes of Chapter 237 is superfluous, since the definition would be set forth in Chapter 201H and thus applicable to Section 201H-36, Hawaii Revised Statutes, which provides the general excise tax exemption. The Department suggests that the definition be omitted from Chapter 237 to limit its applicability to Chapter 201H only.

2. It appears that the intent of the measure is to limit the exemption from the general excise tax solely to that portion of rental income attributable to rentals to households that meet the gross income requirements set forth in the proposed amendments to Section 201H-36, Hawaii Revised Statutes. It should be noted that a disparity will exist between low income housing providers since an organization which is exempt from income tax under Internal Revenue Code Section 501(c)(3) is fully exempt from the general excise tax on its rental income under Section 237-23(a)(4), whereas this measure would exempt only the rental income attributable to households that meet the gross income requirements as set forth in the proposed amendments to Section 201H-36, Hawaii Revised Statutes..

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 10, 2010, 1:20 p.m.
Room 225, State Capitol

In consideration of
S.B. 2595
RELATING TO HOUSING.

The HHFDC **opposes** S.B. 2595, because we do not believe that this bill is necessary. This bill requires the HHFDC to, in certifying affordable rental projects for the General Excise Tax (GET) exemptions under sections 201H-36 and 237-29, Hawaii Revised Statutes (HRS), utilize a "gross annual income, as calculated by the United States Department of Housing and Urban Development in determining eligibility for the federal housing choice voucher (section 8) program. . ." The HHFDC currently uses gross income to determine income level for purposes of this program.

As previously stated in our testimony in opposition to S.B. 2592 and S.B. 2594, the HHFDC also has concerns about the fairness of establishing a specific eligibility criteria for only one of the four types of housing projects eligible for the GET exemption under section 201H-36(a), HRS. For fairness reasons, as well as for reasons of uniform program administration, if it is the Committee's intent to move this bill forward, we suggest that the desired changes be applied to all projects eligible for GET exemptions. This includes government assistance projects, which constitute nearly all projects certified for GET exemptions by the HHFDC and its predecessors.

Thank you for the opportunity to testify.



FORD ISLAND HOUSING, LLC

737 Bishop Street, Mauka Tower, Suite 2750 • Honolulu, Hawaii 96813 • 808 585-7900 • FAX 808 585-7910

February 9, 2010

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

RE: S.B. 2595 Relating to Housing

HEARING: Wednesday, February 10, 2010 at 1:20 p.m.

Aloha Chair Sakamoto, Vice Chair Kidani 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 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 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).

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.

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 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. However, if this Committee is inclined to pass S.B. 2595, FIH respectfully requests that you consider a delayed implementation date of January 1, 2011 to allow FIH time to comply.

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

Testimony to the Senate Committee on Education and Housing
Wednesday, February 10, 2010

1:20 PM

Conference Room 225

RE: SENATE BILL NO. 2595, RELATING TO HOUSING

Chair Sakamoto Vice Chair Kidani, 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, 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 method of calculation for determining eligibility for the requirement for households in a federal housing choice voucher (section 8) program, in order for the person or firm to be considered to receive a general excise tax exemption.

The gross income provision outlined in this measure would dramatically change how the state would treat housing eligibility for military personnel living in Hawaii and could have negative impact on the state's affordable housing program.

It is our understanding that the calculation of annual gross income for military members would include the US Government's payment of the basic allowance for housing (BAH) in fulfilling its responsibility in providing government

housing for military members. We believe that this is inappropriate for reason outlined below.

For active duty members of the military, the US government is responsible for providing government housing for single and married personnel. Typically, members are housed in government provided housing on the base, with single members in dormitory-type or apartment-type facilities and married members in family-type housing. When housing is not available on base, the government authorizes members to live off-base in housing that is paid for by the government using the BAH, **which is non-taxable to the member.**

In recent years, the government elected to privatize this 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 covered by the government 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 is not a part of a military member's monthly pay. Rather, it is an allowance that is intended to cover the government's cost of providing government housing to an active duty military member.

Based on our review of this measure, we believe that the inclusion of the BAH is inappropriate and that the measure could have negative impact on the state's affordable housing program.

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