

NEIL ABERCROMBIE
GOVERNOR



KAREN SEDDON
EXECUTIVE DIRECTOR

STATE OF HAWAII

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IN REPLY REFER TO:

Statement of
Karen Seddon
Hawaii Housing Finance and Development Corporation
Before the

HOUSE COMMITTEE ON HOUSING

February 16, 2011 at 10:45 a.m.
Room 325, State Capitol

In consideration of
H.B. 833
RELATING TO TAXATION.

The HHFDC *supports the intent* of H.B. 833 to the extent that it promotes the development of affordable rental housing within transit-oriented development districts. We defer to the Department of Health with respect to the bill's impact on community health care facilities. We also defer to the Department of Taxation with respect to the fiscal impact of the new tax exemptions proposed in this bill.

Next to housing, transportation is the second highest cost for most households. Affordable housing located near transit allows low-income persons and families to live an affordable lifestyle with access to schools, jobs, health care, and social services, among other things. In particular, seniors living near transit are better able to live independently and in less restrictive residential settings for as long as possible. Accordingly, promoting and preserving affordable housing in transit-oriented development districts is an important priority.

Thank you for the opportunity to testify.

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
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HOUSE COMMITTEE ON HOUSING

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 833 RELATING TO TAXATION

WRITTEN TESTIMONY ONLY

TESTIFIER: FREDERICK D. PABLO, DIRECTOR OF TAXATION
(OR DESIGNEE)

COMMITTEE: HSG

DATE: FEBRUARY 16, 2011

TIME: 10:45AM

POSITION: CONCERNS

This legislation, among other things, exempts from Hawaii general excise tax (GET), amounts received for developing an affordable housing project or community healthcare facility within a mixed-use transit-oriented joint development project.

The Department of Taxation (Department) **has concerns** regarding this legislation.

I. **GEOGRAPHIC AREAS AROUND MASS TRANSIT ARE ECONOMICALLY PROSPEROUS BY VIRTUE OF THEIR LOCATION ALONE.**

The Department questions the need for the tax benefit provided in this legislation. The Department understands that basic economic theory (if not history) suggests that businesses will locate around mass transit stops notwithstanding any government economic assistance. Simply, the Department does not see the need for tax incentives when logic suggests that businesses will flock to mass transit stops without any stimulus.

II. CONCERN BECAUSE GET EXEMPTIONS ALREADY EXIST

The Department is concerned with the necessity of this legislation because very similar general excise tax exemptions already exist.

For example, the general excise tax exemption for development of affordable housing is currently being administered. Though this legislation extends the current exemption to specifically apply to those projects that are within a mixed-use transit oriented joint development project, there is nothing to suggest that the current exemption could not be extended to such projects if it were determined acceptable by the housing agencies. The Department defers to the housing agencies on the viability of encouraging development of affordable housing near mixed-use mass transit oriented projects.

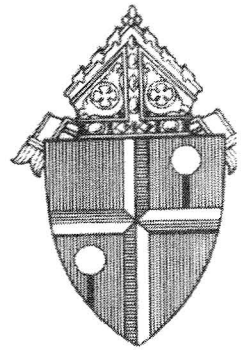
Also, any healthcare facility (i.e., hospital) that is a nonprofit organization more likely than not already is exempt from the general excise tax. As such, this provision is likewise unnecessary.

III. CONCERN OVER WHAT COULD BE CONSIDERABLE REVENUE LOSS.

The Department is also very much concerned with the potential revenue loss for this legislation. These costs have not been factored into the Executive Budget or its fiscal priorities. Given the current economic climate, a measure such as this could erode any forward progress in solving the budget crisis.

Due to no hard data on the planned affordable rental housing projects or community health care facility projects, revenue impact is indeterminate. However, if it is assumed the gross income exempted from GET amounted to \$180 million annually, then the annual revenue loss would be \$7.2 million per year.

ROMAN CATHOLIC CHURCH IN THE STATE OF HAWAII



St. Stephen's Diocesan Center of the Roman Catholic Diocese of Honolulu
6301 Pali Highway, Kaneohe, HI 96744 • Phone: (808) 203-6718

Testimony of Kent Anderson
February 16, 2011, 10:45am; Conference Room 325
Support for HB 833

Good Morning Committee Chair Rida T.R. Cabanilla, Vice-Chair Pono Chong, and members of the Committee on Housing. Thank you for the opportunity to testify on behalf of **HB 833**.

My name is Kent Anderson, and I am here on behalf of the Diocese of Honolulu. I serve as the newly appointed Housing Development Director for the Office of Affordable Housing for the Diocese. We are your partners and among your strongest supporters in providing supportive services and permanent housing opportunities for those at the lowest levels of income who are either homeless or dangerously close to becoming homeless. We have and will continue to be your partners because we know that the government cannot and should not be the sole caretaker for our whole community.

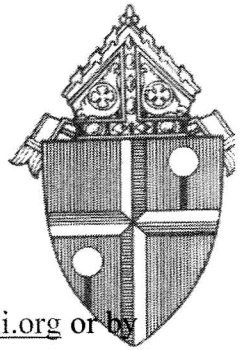
Homelessness will impact over 15,000 of our neighbors this year statewide. Many of the victims will be keiki and kupuna. Many working families are unable to make ends meet since we experience the highest housing costs in the country. According to HUD statistics, fair market rent for a two-bedroom apartment is \$1,610. In order to afford this level of rent without paying more than 30% of income on housing, an employee must earn \$30.96/hr. Unfortunately, the average renter only earns \$12.89/hr in Hawaii. At this wage, two full time jobs are not sufficient to sustainably support a family. For minimum wage earners, the outlook is heartbreaking. A minimum wage earner would need to work 171 hours/week to support a family of four without any time off for sickness or vacation. An individual who could achieve this workload would be miraculous, especially since there are only 168 hours in a week.

We understand that times are tough right now; therefore, we must step forward to assist those most in need. Affordable housing is a basic need for our entire Ohana. It helps provide the basis of a healthy workforce, healthy children, healthy kupuna, and healthy economy. We ask that you prioritize your legislation to ensure that homeless services and affordable housing are priorities during this legislative session. We appreciate and highly applaud your past efforts and look forward to partnering with you to provide a home for each member of our Ohana.

HB833 will help create more affordable housing, helping low and middle-income families in this tight housing market. As you know, we have experienced a massive shortage of affordable housing development over the past several years. The primary reason for this shortage is the high cost of construction that disables developers from securing an adequate margin on housing developments. Construction cost reducers such as General Excise Tax exemptions for affordable rentals will help increase our affordable housing stock without legislative outlays of funds. This bill should also help make mass transit a success by increasing probable user density around transit areas, thereby increasing mass transit utilization. Please support HB833 and help us create a stronger community. We urge your support for this bill.

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Thank you again for this opportunity to testify. Please contact me at kentanderson@rchawaii.org or by phone at 808-203-6718 if we may be of assistance.



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February 15, 2011

The Honorable Rida T.R. Cabanilla, Chair

House Committee on Housing
State Capitol, Room 325
Honolulu, Hawaii 96813

RE: H.B. 833, Relating to Taxation

HEARING: Wednesday, February 16, 2011 at 10:45 a.m.

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

I am Craig Hirai, Chair of the Subcommittee on Affordable Housing, here to testify on behalf of the Hawaii Association of REALTORS® (“HAR”), the voice of real estate in Hawaii‘i, and its 8,500 members. HAR **supports** H.B. 833 which exempts from the General Excise Tax (“GET”) a project developed to provide affordable rental housing or a community health care facility within a mixed-use transit-oriented joint development project.

The January 2008 Final Report of the Hawaii State Legislature House of Representatives Interim Task Force on Smart Growth sets forth the following ten principles of smart growth:

- (1) Create a range of housing opportunities and choices;
- (2) Create walkable neighborhoods;
- (3) Encourage community and stakeholder collaboration;
- (4) Foster distinctive, attractive communities with a strong sense of place;
- (5) Make development decisions predictable, fair, and cost effective;
- (6) Mix land uses;
- (7) Preserve open space, farmland, natural beauty, and critical environmental areas;
- (8) Provide a variety of transportation choices;
- (9) Strengthen and direct development toward existing communities; and
- (10) Take advantage of compact building design.

HAR believes that Smart Growth is our road map to sustaining and enhancing the quality of life in our communities and that this bill can be consistent with all of these principles.

The introduction letter to an April 2007 Executive Summary (the “Executive Summary”) of a report prepared by Reconnecting America’s Center for Transit-Oriented Development entitled Realizing the Potential: Expanding Housing Opportunities Near Transit, which was funded by the U.S. Department of Transportation Federal Transit Administration (“FTA”) and the U.S. Department of Housing and Urban Development (“HUD”), the Executive Summary states in part that:

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The average American family spends more than half of their income on housing and transportation. There is increasing awareness that while a growing number of families are moving further out to suburban or even exurban location to find affordable housing, the rising cost of transportation reduces much of their cost savings. As a result, demand for housing near transit, so that transportation costs are contained, is expected to grow significantly over the next 20 years.

...

The report suggests that to better respond to this challenge we need to:

- Coordinate housing plans with local transportation plans, so that affordable housing is served by high quality public transportation.
- Housing investments must take place in the context of other development, such as retail and commercial [which in the case of H.B. 833 includes “community health care facilities”], so that more daily trips can be made on foot and by transit; and
- The private development market must become a partner in achieving the goal of better connections between housing – including affordable housing – and public transportation.

The Executive Summary states that one of the strategies that can be used to create and preserve mixed-income housing near transit is to provide incentives that help catalyze the market for mixed-income transit oriented development (or TOD). The Executive Summary then goes on to state that obstacles to building mixed-income TOD housing include:

- Land prices around stations are high or increase because of speculation once a new transit line is announced.
- Affordable housing developers don't have the capital to acquire land before the prices go up and then hold it until it's ready to develop.
- Funding for building affordable housing is limited.
- Mixed-income and mixed-use projects require complex financing structures.
- Sites for TOD projects often require land assembly and rezoning, which can lead to lengthy acquisition and permitting processes, which increase development costs.
- Parking requirements for TOD are unnecessarily high, which also drives up costs.
- Community opposition to density and affordable housing is hard to overcome.

The GET exemption contained in H.B. 833 directly addresses the third and fourth obstacles listed above by providing a form of funding for affordable housing which has previously been used in mixed-income for sale and rental housing projects in Hawaii.



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H.B. 833 also helps address the first, second and fifth obstacles listed above by essentially adopting the following two recommendations from the Executive Summary:

Utilize FTA's joint development policy to emphasize construction of housing in transit zones; Real estate that's been acquired for rights of way, stations, parking lots and staging areas, and even air rights, can provide significant development opportunity. FTA's new joint development policy provides unprecedented flexibility for leasing and even selling this property for transit-supportive purposes.

Encourage public-private partnerships: Engaging the community as a full partner makes it possible to build trust and achieve community goals. Partnering with developers, realtors and businesses may also leverage private dollars.

The Executive Summary was followed in September 2009 by a best practices guidebook from The Center for Transit-Oriented Development, which was also sponsored by the FTA, and titled "Mixed Income Housing: Increasing Affordability with Transit". We have attached copies of pages 7 and 10 of the guidebook for your reference.

Mahalo for the opportunity to testify.

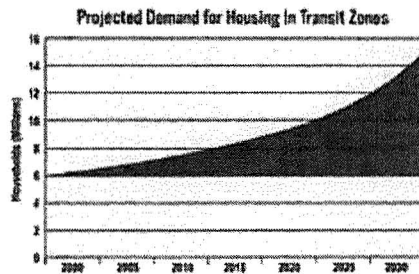
Attachments

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Demand For Housing Near Transit Is Growing, But Supply Isn't Keeping Up, Causing Prices to Escalate

TRANSPORTATION HAS ALWAYS been a factor in shaping development. Today, volatile gas prices, traffic congestion, and the changing demographics of the U.S. population are increasing the demand for housing near transit. While married couples with children made up the vast majority of households after WWII — boosting interest in single-family housing in the suburbs — single adults now comprise 43 percent of all U.S. residents aged 15 and over, according to U.S. Census, and they are interested in a more urban and more convenient lifestyle. All the demographic groups that are increasing in size — older, smaller households, including singles, and nonwhite households — have historically preferred urban living and used transit. As a result, the Center for Transit-Oriented Development estimates that overall demand for housing



The demand for housing near transit is expected to grow to 15 million renters and buyers in 2030.

near transit will grow from 6 million to 15 million households by 2030 — roughly 25 percent of all renters and buyers. However, these demand estimates were prepared before the run-up in gas prices in 2008. Now that people are concerned about the volatility of gas prices and the cost of driving the demand for TOD will likely be much higher. Moreover, this demand has remained relatively strong despite the recent downturn in the real estate market downturn. Despite the demand, only a small percentage of new housing is being built in these locations, for reasons discussed on page 10.

The fact that these neighborhoods are already more racially and economically diverse than other neighborhoods means that families who already live there may fall victim to gentrification and be pushed out by rising rents and housing prices — even though they are the households that need and use transit the most. More than 40 percent of the demand for housing near transit is expected to come from low-income households (with incomes below 80 percent of area median income) and very-low-income households (with incomes below 50 percent of area median income). The CTOD also finds that:

- *People want shorter commutes but the areas growing most quickly are 20 miles from central business districts.*
- *Single-family homes are 78 percent of new construction while the married couples with children who are most likely to want to live in single-family homes compose just 24 percent of the housing market and this percentage is quickly shrinking.*
- *There's an increasing need for rental units for immigrants, seniors, low-income households and Echo Boomers (the children of Baby Boomers) who are starting out on their own, but construction of rental units is falling far short of demand.*

These factors underscore the importance of targeting resources to walkable, mixed-use, transit-oriented neighborhoods, and for preserving existing affordable housing in these locations.



Early developers built streetcar lines to open up land outside the city for development by connecting it to jobs and services in the city.



The automobile reshaped development, making the connectivity of streets, neighborhoods and development less important. Driving became a necessity.

There Are Many Obstacles to Building Mixed-Income Housing Near Transit

TRANSIT-ORIENTED DEVELOPMENT is often difficult, time-consuming and therefore expensive, which is why so much of the new housing going up near transit is being built for the high end of the market. Some of the obstacles to building mixed-income housing near transit include the following:

- Land prices around stations are high, or increase because of speculation when a new transit line is planned.
- Affordable housing developers don't have the capital to acquire land before the prices go up and hold it until it's ready to be developed.
- Funding for affordable housing is limited.
- Mixed-income and mixed-use projects require complex financing structures.
- Sites often require land assembly and rezoning, leading to lengthy acquisition and permitting processes that increase costs.
- Community opposition to density and affordable housing can be challenging. Community outreach and education up front can be very helpful, but also time-consuming and costly.
- Affordable development at these sites requires collaboration among the public, private and nonprofit sectors, which can be difficult to coordinate given the different needs, constraints and schedules of each partner.

Moreover, cities and transit agencies may not understand the importance of ensuring that some of the housing near transit is affordable, and they may lack the tools and experience to direct affordable housing resources to these locations. Existing single-use zoning and suburban style parking minimums can reduce the development potential and make construction of affordable units financially infeasible. Often there aren't many development sites to begin with because neighborhoods around stations are already built up. Available parcels may be small and fragmented and require assemblage, as shown in the map to the right.

In strong housing markets affordable housing developers have an especially hard time getting their projects financed. Some jurisdictions have inclusionary zoning ordinances requiring a percentage of affordable units in all development. But these ordinances often allow the affordable units to be built offsite – and not near transit.

