

SB2542

Measure Title: RELATING TO THE DISPOSITION OF THE CONVEYANCE TAX COLLECTIONS TO THE RENTAL HOUSING TRUST FUND.

Report Title: Rental Housing Trust Fund; Conveyance Tax

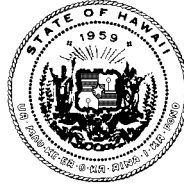
Description: Restores the allocation of conveyance tax collections to the rental housing trust fund to fifty per cent beginning 7/1/2014.

Companion:

Package: Housing and Homeless Legislative Package

Current Referral: HMS, WAM

Introducer(s): CHUN OAKLAND, BAKER, IHARA, Galuteria



STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES

P. O. Box 339
Honolulu, Hawaii 96809-0339

January 24, 2014

TO: The Honorable Senator Chun Oakland, Chair, and the Honorable Senator Josh Green, Vice Chair, Senate Committee on Human Services

FROM: Colin Kippen, State Homelessness Coordinator and Chair of the Hawaii Interagency Council on Homelessness

SUBJECT: SB 2542 Relating to Housing

Hearing: Saturday, January 25, 2014
Conference Room 229, State Capitol

POSITION OF WITNESS: IN SUPPORT.

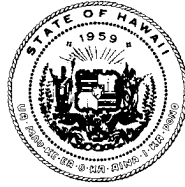
I am the Homelessness Coordinator for the State, the Chair of the Hawaii Interagency Council on Homelessness, and I support this bill to the extent it does not conflict with the Administration's overall budget and policy requests to the Hawaii State legislature.

The Hawaii Interagency Council on Homelessness, of which I am Chair, voted to support this measure in concept at its official meeting of September 4, 2013.

Given the substantial shortage of the supply of affordable housing in Hawaii, this proposal, to restore funding to the Rental Housing Trust Fund to 50% of the State Conveyance Tax, will have the effect of increasing the amount of funds able to be leveraged to build more affordable housing in Hawaii. Estimates are that enabling 50% of the State Conveyance Tax to flow to the Rental Housing Trust Fund would yield an additional 25 to 27 million in new funds in one year alone.

This is one of several strategies to increase the likelihood that more affordable housing can be financed and built in Hawaii, and it is for this reason that we are supporting it.

Thank you for allowing me to testify and for hearing and considering this testimony.



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
Craig K. Hirai
Hawaii Housing Finance and Development Corporation
Before the

SENATE COMMITTEE ON HUMAN SERVICES

January 25, 2014 at 10:00 a.m.
State Capitol, Room 229

In consideration of
S.B. 2542

**RELATING TO THE DISPOSITION OF THE CONVEYANCE TAX COLLECTIONS TO
THE RENTAL HOUSING TRUST FUND.**

The HHFDC supports S.B. 2542, which would increase the share of conveyance tax revenues going to the Rental Housing Trust Fund to 50 percent, provided that its passage does not replace or adversely impact priorities indicated in the Executive Supplemental Budget. The sole dedicated source of funding for the Rental Housing Trust Fund is currently 30 percent of conveyance tax proceeds to address the need for affordable rental housing statewide.

HHFDC leverages the Rental Housing Trust Fund with other funding sources to finance the development of critically needed affordable rental housing through public-private partnerships. As of December 31, 2013, 4,567 affordable rental units have been produced or are in development in 58 projects statewide.

In Fiscal Year 2013, the Rental Housing Trust Fund received \$16.4 million from its share of conveyance tax revenues. Accordingly, the proposed increase in the percentage of conveyance tax revenues dedicated to the RHTF will add \$10.8 million per year and provide a total of approximately \$30 million per year.

Thank you for the opportunity to testify.



PARTNERS IN CARE
Oahu's Coalition of Homeless Providers

Partners in Care is a coalition of Oahu's homeless service providers, government representatives and community stakeholders working together to end homelessness. We believe that partnerships and collaboration are essential.

TESTIMONY IN SUPPORT OF SB 2542: RELATING TO THE DISPOSITION OF THE CONVEYANCE TAX COLLECTIONS TO THE RENTAL HOUSING TRUST FUND

TO: Senator Suzanne Chun Oakland, Chair; Senator Josh Green, Vice Chair; and Members, Committee on Human Services

FROM: Peter K. Mattoon, Partners In Care Advocacy Committee Co-Chair

Hearing: Saturday, January 25, 2014; 10:00 am; CR 229

Chair Chun Oakland, Vice Chair Green, and Members, Committee on Human Services:

Thank you for the opportunity to testify **in strong support of SB 2542**, which would restore the percentage of the conveyance tax paid into the Rental Housing Trust Fund to 50%. I am Peter Mattoon, Partners In Care Advocacy Committee Co-Chair and Partners In care strongly supports restoring **50% of the State's conveyance tax** to the Rental Housing Trust Fund (RHTF).

Creating more affordable rental housing is critical to our state's future to reduce homelessness and provide housing so our children and young families can remain in Hawaii. **Rents have increased over 45%** in Hawaii since 2005. Almost 75% of extremely low income households are paying more than half of their income on rent. In fact, Hawaii has the **highest rate of homelessness in the US**. Hawaii needs over 13,000 affordable rental units by 2016.

In 2006, the Legislature increased the percentage of the conveyance tax allocated to the Rental Housing Trust Fund to 50% of the tax proceeds. With the economic crisis of the past few years, the amount to the Trust Fund was dramatically decreased. It dropped to 30 percent in 2008, with the amount set at 25 percent from 2009-2012. As of July 1, 2012, the allocation was reset to 30% of the conveyance tax. At 50% of the conveyance tax, the allocation would put about \$25 – 27 million into the Trust Fund

The conveyance tax is the only dedicated source of funding to the RHTF. The Trust Fund has a proven record of creating affordable rental units. It establishes public-private partnerships that leverage resources to add more affordable units to Hawai'i's housing stock. As of June 30, 2013, **4,567 rental units** have been created with the assistance of the RHTF and other leveraged funding. The RHTF has many more applications than can be funded with the current funds. In FY 2012, with \$37 million in project requests, 5 of 9 projects, totaling 317 affordable rental units, were left unfunded due to limited funds. In 2013, the Trust Fund received \$70.4 million in requests.

We urge your support of this bill to **restore 50% of the conveyance tax to the Rental Housing Trust Fund** to provide a legacy of affordable housing.

Contact PIC Advocacy Co-Chairs: Jenny Lee, jenny@hiappleseed.org, 587-7605; Peter Mattoon, peter.mattoon@catholiccharitieshawaii.org, 527-4745; or Betty Lou Larson, bettylou.larson@catholiccharitieshawaii.org; 585-6983/ 373-0356.

PARTNERS IN CARE c/o Aloha United Way
200 North Vineyard • Suite 700 • Honolulu, Hawaii 96817



CATHOLIC CHARITIES HAWAII

TESTIMONY IN SUPPORT OF SB 2542: RELATING TO THE DISPOSITION OF THE CONVEYANCE TAX COLLECTIONS TO THE RENTAL HOUSING TRUST FUND

TO: Senator Suzanne Chun Oakland, Chair; Senator Josh Green, Vice Chair; and Members, Committee on Human Services

FROM: Betty Lou Larson, Legislative Liaison, Catholic Charities Hawaii

Hearing: Saturday, January 25, 2014; 10:00 am; CR 229

Chair Chun Oakland, Vice Chair Green, and Members, Committee on Human Services:

Thank you for the opportunity to testify **in strong support of SB 2542**, which would restore the percentage of the conveyance tax paid into the Rental Housing Trust Fund to 50%. I am Betty Lou Larson, Legislative Liaison for Catholic Charities Hawaii. Catholic Charities strongly supports restoring **50% of the State's conveyance tax** to the Rental Housing Trust Fund (RHTF).

Creating more affordable rental housing is critical to our state's future to reduce homelessness and provide housing so our children and young families can remain in Hawaii. **Rents have increased over 45%** in Hawaii since 2005. Almost 75% of extremely low income households are paying more than half of their income on rent. No wonder Hawaii has the **highest rate of homelessness in the US**. Hawaii needs over 13,000 affordable rental units by 2016. Catholic Charities sees these needs daily as families call in to us desperately in need of affordable housing.

In 2006, the Legislature increased the percentage of the conveyance tax allocated to the Rental Housing Trust Fund to 50% of the tax proceeds. With the economic crisis of the past few years, the amount to the Trust Fund was dramatically decreased. It dropped to 30 percent in 2008, with the amount set at 25 percent from 2009-2012. As of July 1, 2012, the allocation was reset to 30% of the conveyance tax. At 50% of the conveyance tax, the allocation would put about \$25 – 27 million into the Trust Fund

The conveyance tax is the only dedicated source of funding to the RHTF. The Trust Fund has a proven record of creating affordable rental units. It establishes public-private partnerships that leverage resources to add more affordable units to Hawaii's housing stock. As of June 30, 2013, **4,567 rental units** have been created with the assistance of the RHTF and other leveraged funding. The RHTF has many more applications than can be funded with the current funds. In FY 2012, with \$37 million in project requests, 5 of 9 projects, totaling 317 affordable rental units, were left unfunded due to limited funds. In 2013, the Trust Fund received \$70.4 million in requests.

We urge your support of this bill to **restore 50% of the conveyance tax to the Rental Housing Trust Fund** to provide a legacy of affordable housing.



**TESTIMONY IN SUPPORT OF SB 2542: RELATING TO THE DISPOSITION OF THE
CONVEYANCE TAX COLLECTIONS TO THE RENTAL HOUSING TRUST FUND**

TO: Senator Suzanne Chun-Oakland, Chair; Senator Josh Green, Vice Chair
and Members, Committee on Human Services

FROM: Connie Mitchell, Executive Director
IHS, The Institute for Human Services, Inc.

Hearing: Saturday, January 25, 2014; Room 229; 10:00 a.m.

Chair Chun Oakland, Vice Chair Green, and Members, Committee on Human Services:

Thank you for the opportunity to testify in strong support of SB 2542 which would restore the percentage of the conveyance tax paid into the Rental Housing Trust Fund to 50%. IHS, The Institute for Human Services, Inc. provides an array of homelessness prevention and post-shelter services to address homelessness. What is not available is sufficient housing to end homelessness for all who need it. There are simply not enough affordable rental units needed to house those individuals and families earning 80% of Area Median Income (AMI) for whom market rents are clearly a burden or totally out of reach .

SB 2542 provides funding to increase the affordable housing stock in Hawaii by appropriating funds to the Rental Housing Trust Fund and increase the number of units available to the public. Creating more affordable rental housing is critical to our state's future to reduce homelessness and provide housing for many individuals as well as our children and young families in Hawaii. Rents have increased over 45% in Hawaii since 2005. Almost 75% of extremely low income households are paying more than half of their income on rent. Hawaii has the highest rate of homelessness in the US. Hawaii needs over 13,000 affordable rental units by 2016. At 50% of the conveyance tax, the allocation would add a needed infusion of about \$25 – 27 million into the Trust Fund.

It has been policy to use 50% of the conveyance tax to replace eroding affordable rental stock. Moving away from this policy has contributed to the housing crisis we have in Hawaii. Please pass SB 2542 to restore 50% of the conveyance tax to the Rental Housing Trust Fund, the only dedicated source of funding to the Trust Fund. It will establish the discipline needed to ensure that the State's commitment to house future generations of our workforce is restored in full.

TESTIMONY ON SB 2542 RELATING TO THE DISPOSITION OF THE CONVEYANCE TAX COLLECTIONS TO THE RENTAL HOUSING TRUST FUND, SB 2267 RELATING TO HOUSING, SB 2442 RELATING TO AFFORDABLE HOUSING, SB 2266 RELATING TO HOUSING, SB 2265 RELATING TO HOUSING, SB 2545 RELATING TO UNIVERSAL CHILDREN'S SAVING ACCOUNTS, SB 2544 RELATING TO THE HAWAII PUBLIC HOUSING AUTHORITY'S ADMINISTRATION OF THE FEDERAL HOUSING CHOICE VOUCHER PROGRAM, SB 2534 RELATING TO HOMELESSNESS, SB 2337 RELATING TO LOW-INCOME HOUSING, SB 2395 RELATING TO HOMELESS, AND SB 2286 RELATING TO HOMELESSNESS BEFORE THE SENATE COMMITTEE ON HUMAN SERVICES

January 25, 2014

10:00 AM

Conference Rm. 229

Aloha Chair Chun Oakland, Vice-Chair Green, and members of the Senate Committee on Human Services, **my name is Stephen Morse. I am the Executive Director of Blueprint for Change (BFC) and am here today to support Senate Bills 2542, 2267, 2442, 2266, 2265, 2545, 2544, 2534, 2337, 2395, and 2286, all of which are part of the Housing and Homeless Legislative Package.**

Members, for the record, BFC is the fiscal, technical, and administrative support entity for five Neighborhood Place centers statewide that provide support and strengthening services to families at risk of child abuse and neglect under a POS contract with the Department of Human Services. Our Neighborhood Place programs are unique among CAN prevention programs for two reasons: (1) they are community-based and are located in communities where families are at high risk of child abuse and neglect; and (2) they are the only programs where children and families at risk of child abuse and neglect can get services without a referral or appointment and by simply knocking on the door.

We find that one of the biggest risk factors for child neglect in the families we serve is that they are homeless, homeless-at-risk, or living in unstable, overcrowded living conditions. In many cases, these families are also mired in other socioeconomic problems, such as unemployment and low incomes, substance abuse, and chronic health problems, but studies show that the key to helping these families break the cycle of poverty starts with providing them stable housing. Without stable housing, these families live transient lifestyles that make it hard for them to focus on problem-solving. It also makes it extremely difficult for prevention/diversion programs such as our Neighborhood Places to help provide the sustained, support services these families need to break the cycle, because they are always on the move.

If we are going to break the cycle and prevent the generational neglect of children within these families, we need to support housing programs and the development of low-income and affordable housing such as those proposed in the Senate Bills that are before this Committee today.

Aloha and Mahalo for allowing us the opportunity to testify this afternoon.

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Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Supporting SB 2542

Relating to the Disposition of the Conveyance Tax Collections to the Rental Housing Trust Fund
Senate Committee on Human Services
Scheduled for Hearing Saturday, January 25, 2014, 10:00 AM, Room 229

Hawai'i Appleseed Center for Law and Economic Justice is a nonprofit, 501(c)(3) law firm created to advocate on behalf of low income individuals and families in Hawai'i on civil legal issues of statewide importance. Our core mission is to help our clients gain access to the resources, services, and fair treatment that they need to realize their opportunities for self-achievement and economic security.

Thank you for an opportunity to testify in **strong support** of Senate Bill 2542, which would amend the percentage of the conveyance tax paid into the Rental Housing Trust Fund. Hawai'i Appleseed Center for Law and Economic Justice strongly encourages the Committee to restore the percentage allocated to the Rental Housing Trust Fund to 50 percent of the state's conveyance tax revenue.

Hawai'i's severe affordable housing shortage places an immense strain on lower-income households. About 75 percent of extremely low-income households spend more than half their income on housing. Our cost of shelter is the highest in the nation, and the need for affordable housing will only continue to grow. According to the Hawai'i Housing Planning Study, Hawai'i will need 13,000 more rental units by 2016 to meet the need for affordable rentals. The consequences of this shortage are clear: Hawai'i has the highest rate of homelessness among the states, and without adequate affordable housing, this crisis will only continue to worsen.

The Rental Housing Trust Fund is a major tool for the creation of affordable housing with a long record of success, and conveyance tax revenues are its only dedicated source of funding. The Trust Fund may be used to provide loans for the development, pre-development, construction, acquisition, preservation, and substantial rehabilitation of affordable rental housing units. Housing created with Trust Fund monies must provide at least 5 percent of their units at rents affordable to those earning 30 percent or less of the area median income—the population at greatest risk of homelessness.

- As of June 2013, **4,567 rental units** have been created with the assistance of the Rental Housing Trust Fund and other leveraged funding.
- The public-private partnerships created by the fund help build long broader, long-term strategies to address our affordable housing needs on all islands and function as an economic driver through job creation.
- However, the Trust Fund is not able to fund many qualified projects due to lack of funds. It received \$37 million in project requests in FY 2012 alone. That year, five out of nine projects (totaling 317 affordable rental units), were left unfunded. In 2013, the Trust Fund received \$70.4 million in requests. Many projects are ready to be developed and only waiting on funding.

Hawai'i's lack of affordable housing and resulting rates of homelessness form a social crisis that the state must address. The Legislature recognized this in 2006, when it increased the percentage of conveyance tax revenues allocated to the Trust Fund to 50 percent. This allocation was reduced during the economic downturn to a low of 25 percent between 2009 and 2012; the current allocation stands at 30 percent. Meanwhile, our affordable housing crisis is only worsening. An allocation of 50 percent of conveyance tax revenues would infuse approximately **\$25–27 million** into the Trust Fund and support the creation of desperately-needed affordable rental units for families throughout Hawai'i.



PROTECTING HAWAII'S OHANA, CHILDREN, UNDER SERVED, ELDERLY AND DISABLED

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TO: Senator Suzanne Chun-Oakland, Chair
Senator Josh Green, Vice-Chair
Members, Committee on Human Services

FROM: Scott Morishige, Executive Director, PHOCUSED

HEARING: Senate Committee on Human Services
Saturday, January 25, 2014 at 10:00 a.m. in Conference Room 229

Testimony in Support of SB2542, Relating to the Disposition of the Conveyance Tax Collections to the Rental Housing Trust Fund

Thank you for the opportunity to provide testimony in support of SB2542, which would amend the percentage of the conveyance tax paid into the Rental Housing Trust Fund (RHTF). PHOCUSED is a coalition of health, housing, human services agencies and individual advocates committed to strengthening policies and programs to support the marginalized and underserved in Hawaii. PHOCUSED strongly supports restoring the percentage allocated to the RHTF to **50% of the State's conveyance tax**.

As a community, it is critical that we support the development of housing, which is both safe and affordable for Hawaii's residents. Currently, many Hawaii families struggle to afford just basic housing costs. According to the Corporation for Enterprise Development (CFED), over 56% of Hawaii's renters are housing-cost burdened – paying more than 1/3 of their income to housing costs – which is one of the highest percentages of cost-burdened renters in the nation. In addition, Hawaii has one of the highest rates of homelessness in the U.S., which is partly attributed to our high housing costs and lack of safe and affordable housing stock. The development of new affordable rental housing is critical to our community's ability to reduce homelessness for Hawaii's people, including our seniors and families with young children in the home.

The RHTF has a proven record of creating new affordable rental units in Hawaii. As of June 30, 2013, **4,567 rental units** had been created with the assistance of the RHTF and other leveraged funding. Currently, the conveyance tax is the only dedicated source of funding to the RHTF. Increasing the percentage of the conveyance tax allocated to the RHTF to 50% of tax proceeds would put an estimated \$25-27 million into the Trust Fund. Increasing the percentage of the conveyance tax allocated to the RHTF will support the continued development of affordable units in Hawaii and help to provide more safe and affordable housing opportunities for Hawaii residents.

PHOCUSED strongly urges your support of this bill to **restore 50% of the conveyance tax to the RHTF**. If you have any questions, please do not hesitate to contact PHOCUSED at 521-7462 or by e-mail at admin@phocused-hawaii.org.

January 25, 2014

The Honorable Suzanne Chun Oakland, Chair

Senate Committee on Human Services
State Capitol, Room 229
Honolulu, Hawaii 96813

RE: S.B. 2542, Relating to Low-Income Housing

HEARING: Saturday, January 25, 2014, @ 10:00 a.m.

Aloha Chair Chun Oakland, Vice Chair Green, and Members of the Committee:

I am Myoung Oh, Government Affairs Director, here to testify on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i, and its 8,300 members. HAR **supports** S.B. 2542, which restores the allocation of conveyance tax collections to the Rental Housing Trust Fund ("RHTF") to 50 per cent beginning July 1, 2014.

In 1992, Hawai'i established the RHTF, recognizing the need to establish a fund as a continuous renewable resource to assist very low and low income families and individuals, including the homeless and special need groups, in obtaining rental housing. In order to make the Fund continuous it was linked to the Conveyance Tax.

In 2006, the share of the Conveyance Tax allotment to the Rental Housing Trust Fund was increased from 30% to 50%. However, that percentage lapsed on June 30, 2008, and was not extended, so it was reverted back to 30%.

In 2009, it was amended down to 25% from July 1, 2009, until June 30, 2012, and 30% in each fiscal year thereafter.

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.

Lastly, as this program helps to increase the availability of rental housing for persons who face obstacles in moving from homelessness to permanent housing and persons with lower incomes who need to find affordable rental housing, HAR believes restoring the allocation to the RHTF should continue to address the States unique challenges related to affordable housing.

Mahalo for the opportunity to testify.



January 22, 2014

Senator Suzanne Chun Oakland, Chair
Senator Josh Green, Vice Chair
Senate Committee on Human Services

Testimony in Support of SB 2542 Relating to the Disposition of the Conveyance Tax Collections to the Rental Housing Trust Fund

Saturday, January 25, 2014, 10:00 a.m., in Conference Room 229

The Land Use Research Foundation of Hawaii (LURF) is a private, non-profit research and trade association whose members include major Hawaii landowners, developers and a utility company. LURF's mission is to advocate for reasonable, rational and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources, and public health and safety.

SB 2542. This bill proposes to restore the allocation of the conveyance tax to the rental housing trust fund (RHTF) to fifty per cent in order to support the State's goal of meeting its projected number of needed affordable housing units.

LURF's Position. For decades now, LURF members have been amongst the leaders who have been working to help develop and provide more affordable housing for residents of this State. LURF likewise continues to strongly support efforts and mechanisms which help to address this critical affordable housing issue.

LURF understands that conveyance tax proceeds are the sole dedicated source of funding for the RHTF which, leveraged with other funding sources, is used to finance the development of essentially needed affordable rental housing through public-private partnerships.

The increase in the percentage of conveyance tax revenues proposed by SB 2542 will reportedly add more than \$10 million per year to the RHTF, raising the fund's total from \$16.4 million to approximately \$30 million per year, which will greatly assist ongoing efforts to create opportunities for, and to increase the supply of affordable rental housing in the State.

For the reasons stated above, LURF is in **support of SB 2542**, and respectfully urges your favorable consideration of this bill.

Thank you for the opportunity to provide testimony regarding this proposed measures.



**Testimony to the Senate Committee on Human Services
Saturday, January 25, 2014 at 10:00 a.m.
State Capitol - Conference Room 229**

**RE: SENATE BILL NO. 2542, RELATING TO DISPOSITION OF THE CONVEYANCE TAX
COLLECTIONS TO THE RENTAL HOUSING TRUST FUND**

Chair Chun Oakland and Vice Chair Green, and members of the committee:

The Chamber **opposes** S.B. No. 2542. The bill proposes to increase the conveyance tax percentage amount paid into the rental housing trust fund.

The Chamber is the largest business organization in Hawaii, representing more than 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

The Conveyance Tax was created to cover the administrative costs of recording the real estate transactions, such as those performed by the Bureau of Conveyances. With the recent amendments to the statutes, the conveyance tax is deposited into the general fund with the following allocations:

1. Ten per cent shall be paid into the **Land Conservation Fund** established pursuant to section 173A-5;
2. Twenty-five per cent from July 1, 2009, until June 30, 2012, and thirty per cent in each fiscal year thereafter shall be paid into the **Rental Housing Trust Fund** established by section 201H-202; and
3. Twenty per cent from July 1, 2009, until June 30, 2012, and twenty-five per cent in each fiscal year thereafter shall be paid into the **Natural Area Reserve Fund** established by section 195-9; provided that the funds paid into the natural area reserve fund shall be annually disbursed by the department of land and natural resources in the following priority:
 - a. To natural area partnership and forest stewardship programs after joint consultation with the forest stewardship committee and the natural area reserves system commission;
 - b. Projects undertaken in accordance with watershed management plans pursuant to section 171-58 or watershed management plans negotiated with private landowners, and management of the natural area reserves system pursuant to section 195-3; and

c. The youth conservation corps established under chapter 193.

We are deeply troubled by the manner in which the Conveyance Tax has been used to generate reviews for unrelated purposes. There is no rational nexus between the real estate transactions that are being taxed at conveyance, and the uses identified in HRS 247 as the beneficiaries of the tax. We do not believe that the conveyance tax is being used in an appropriate manner. We believe the Auditor of the State of Hawaii had similar findings.

In July 2012 the Auditor of the State of Hawaii prepared a report entitled, "Study of the Transfer of Non-general Funds to the General Fund," Report No. 12-04. On page 26 of the report, the Auditor found:

"In 2002, the Legislature set the criteria for determining whether special or revolving funds should be established or continued through Act 178, SLH 2002 and codified in Sections 37-52.3 and 37-52.4, HRS. To justify the creation and continuance, the Legislature must ensure that a special or revolving fund:

- Serves the purpose for which it was originally established;
- Reflects a clear nexus between the benefits sought and charges made upon the users or beneficiaries of the program, as opposed to serving primarily as a means to provide the program or users with an automatic means of support that is removed from the normal budget and appropriation process; . . ."

While we strongly support the various programs receiving funding from the revenues generated by the Conveyance Tax, we do not believe that the conveyance tax is the appropriate means to fund these programs. Finally, we question whether this specific type of legislation would even be introduced if the Conveyance tax were limited to its original purpose of recording real estate transactions.

Thank you for the opportunity to express our views on this matter.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: CONVEYANCE, Increase amount earmarked for rental housing trust fund

BILL NUMBER: SB 2542

INTRODUCED BY: Chun Oakland, Baker, Ihara and 1 Democrat

BRIEF SUMMARY: Amends HRS section 247-7 to increase the amount of conveyance tax revenues earmarked to the rental housing trust fund from 35% to 50% beginning on July 1, 2014.

EFFECTIVE DATE: July 1, 2014

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 (which at the time also administered the real property tax) 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.

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. At the time all revenues from the tax went to the general fund. 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. As a result of legislation in 2005 and in 2009, the conveyance tax rates were substantially increased and bifurcated between nonowner-occupied residential properties and all other properties. Tax brackets were based on the amount of the value transferred. Until 2005, 50% of the receipts went into the general fund and the other half was split with the affordable rental housing program and the natural area reserve program. Beginning in 2005, another 10% was taken for the land conservation fund. In 2009, legislators reduced the amount of conveyance tax revenues earmarked to the rental housing trust fund from 30% to 25% until June 30, 2012 in an effort to generate additional revenues for the state general fund.

The proposed measure would amend the amount of conveyance tax revenues earmarked to the rental housing trust fund starting on July 1, 2014. Are our lawmakers thinking that this will provide a more stable funding source for this fund? It should be remembered that with a hot real estate market, the collections of this tax soared. However, as the market cooled, as it did after the Japanese bubble burst in the mid 1990's and also in the aftermath of the subprime credit crisis, the collections of this tax waned. Collections rise and fall with the fortunes of 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 is not desirable for a number of reasons. First, it absolves elected officials from setting priorities. Second, the beneficiaries of such earmarked sources look upon the receipts as “their” money and refuse to be held accountable for the use of those funds while all other programs not so favored, like education, public safety, health and human services, are cut when general fund tax revenues either shrink or do not increase in line with expectations.

Instead of further clouding the financial picture of the state, all of these earmarked funds and the programs they underwrite should be brought back to the general fund table so that they can be measured against all the other pressing needs of the state. Only then will lawmakers and taxpayers be able to set priorities for what little tax resources taxpayers have to share especially in these difficult economic times. Earmarking resources that bear little relationship to the program being funded represents poor public finance policy.

Digested 1/23/14

SB2542

Submitted on: 1/24/2014

Testimony for HMS on Jan 25, 2014 10:00AM in Conference Room 229

Submitted By	Organization	Testifier Position	Present at Hearing
Anthony B. Borge	Individual	Oppose	No

Comments: Chair Chun Oakland, Vice Chair Green & members of the committee: I am opposed to S.B 2542, which increases the conveyance tax percentage amount paid into the rental housing trust fund. This was not the intent of the Conveyance Tax. There is no logical connection of the Conveyance Tax levied on real property transactions and the proposed earmarking of the tax to the Land Conservation Fund, Rental Housing Fund and Natural Area Reserve Fund. Funding for these three Funds should be rightfully allocated from the General Fund. Thank you. Anthony Borge