NEIL ABERCROMBIE
GOVERNOR

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

SENATE COMMITTEE ON WAYS AND MEANS
February 13, 2014 at 9:30 a.m.
State Capitol, Room 211

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.

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.

Because the level of real estate sales activity impacts the availability of affordable rental housing, use of the conveyance tax for the Rental Housing Trust Fund reflects a clear nexus between the benefits sought and the charges made upon payors of the conveyance tax.

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

Thank you for the opportunity to provide written comments in support of this bill.

L E G I S L A T I V E

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

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

TO: Senator David Ige, Chair; Senator Michelle Kidani, Vice Chair; and members of the Committee on Ways and Means

FROM: Fr. Robert Stark, Director of the Catholic Diocese Office for Social Ministry

Decision-Making: Thursday, February 13, 2014, 9:30 AM, Room 211

Dear Chair Ige, Vice Chair Kidani, and members of the Committee:

On behalf of the Office for Social Ministry of the Catholic Diocese of Honolulu, I want to express our gratitude for the opportunity to testify in **wholehearted support** of Senate Bill 2542 to **allocate 50% of conveyance tax revenues to the Rental Housing Trust Fund** (RHTF). We support this policy as a means to prevent homelessness, and to help those transitioning out of homelessness find affordable housing.

Our Office for Social Ministry continuously encounters families throughout Hawai'i struggling with the lack of affordable housing. Hawai'i's severe affordable housing shortage places an immense strain on lower-income households. Housing costs are twice the national average—the highest in the nation. According to the Hawai'i's 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. The 2010 Homeless Services Utilization Report found that 56 percent of homeless families were homeless because of their inability to pay the rent. If these households were able to live in affordable units, their stories may have turned out very differently.

We need more affordable housing, or else this crisis will only continue to worsen. The RHTF 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. **4,567 rental units** have been created with the assistance of the RHTF and other leveraged funding as of June 2013. The RHTF also functions as an economic driver, because the public-private partnerships it produces help build broad strategies to address the need for affordable housing throughout our state. Housing created with RHTF monies must provide at least 5% of their units at rents affordable to those earning less than 30% of the area median income.

However, the RHTF can't fund many qualified projects due to lack of funds. It received $37 million in project requests in 2012, but 5 out of 9 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.

We can only prevent and end homelessness with more affordable housing. The Legislature recognized this in 2006, when it increased the percentage of conveyance tax revenues allocated to the RHTF to 50%. This allocation was reduced during the economic downturn to a low of 25% between 2009 and 2012; the current allocation stands at 30%. Meanwhile, our affordable housing crisis is only worsening. An allocation of **50%** of conveyance tax revenues—which would infuse approximately **$25–27 million** into the RHTF—would support the creation of desperately-needed affordable rental units for families throughout Hawai'i. We urge your support of this bill and look forward to continually working with all those attempting to provide real affordable housing to families throughout Hawaii, especially rental housing to Hawaii's most vulnerable families. Mahalo nui loa.

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

TO: Senator David Ige, Chair; Senator Michelle Kidani, Vice Chair; and members of the Senate Committee on Ways and Means

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

Decision-Making: Thursday, February 13, 2014, 9:30 AM, Room 211

Dear Chair Ige, Vice Chair Kidani, and members of the Committee:

Thank you for the opportunity to provide testimony in **strong support** of Senate Bill 2542 to **allocate 50% of conveyance tax revenues to the Rental Housing Trust Fund** (RHTF). My name is Peter K. Mattoon, and I am an Advocacy Committee Co-Chair for Partners In Care, a coalition of care providers focusing on the needs of homeless persons and strategies to end homelessness. We support this policy as a means to prevent homelessness, and to help those transitioning out of homelessness find affordable housing.

Hawai‘i's severe affordable housing shortage places an immense strain on lower-income households. Housing costs are twice the national average—the highest in the nation. 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. The 2010 Homeless Services Utilization Report found that 56 percent of homeless families were homeless because of their inability to pay the rent. If these households were able to live in affordable units, their stories may have turned out very differently.

We need more affordable housing, or else this crisis will only continue to worsen. The RHTF 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. **4,567 rental units** have been created with the assistance of the RHTF and other leveraged funding as of June 2013. The RHTF also functions as an economic driver, because the public-private partnerships it produces help build broad strategies to address the need for affordable housing throughout our state. Housing created with RHTF monies must provide at least 5% of their units at rents affordable to those earning less than 30% of the area median income.

However, the RHTF can't fund many qualified projects due to lack of funds. It received $37 million in project requests in 2012, but 5 out of 9 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.

We can only prevent and end homelessness with more affordable housing. The Legislature recognized this in 2006, when it increased the percentage of conveyance tax revenues allocated to the RHTF to 50%. This allocation was reduced during the economic downturn to a low of 25% between 2009 and 2012; the current allocation stands at 30%. Meanwhile, our affordable housing crisis is only worsening. An allocation of **50%** of conveyance tax revenues—which would infuse approximately **$25–27 million** into the RHTF—would support the creation of desperately-needed affordable rental units for families throughout Hawai‘i.

Hawai'i Association of REALTORS®
www.hawaiirealtors.com

808-733-7060
808-737-4977

1259 A'ala Street, Suite 300
Honolulu, HI 96817

February 13, 2014

The Honorable David Y. Ige, Chair
Senate Committee on Ways and Means
State Capitol, Room 211
Honolulu, Hawaii 96813

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

HEARING: Thursday, February 13, 2014, @ 9:30 a.m.

Aloha Chair Ige, Vice Chair Kidani, and Members of the Committee:

I am Myoung Oh, Government Affairs Director, offering **comments** 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 help address the States unique challenges related to affordable housing.

Mahalo for the opportunity to offer comments.

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 Ways and Means
Scheduled for Decision-Making Thursday, February 13, 2014, 9:30 AM, Room 211

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.

Hawai‘i Appleseed Center for Law and Economic Justice
119 Merchant Street, Suite 605A ◆ Honolulu, Hawai`i, 96813 ◆ (808) 587-7605