

DAVID Y. IGE  
GOVERNOR

SHAN TSUTSUI  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
P.O. BOX 259  
HONOLULU, HAWAII 96809  
PHONE NO: (808) 587-1540  
FAX NO: (808) 587-1560

MARIA E. ZIELINSKI  
DIRECTOR OF TAXATION

To: The Honorable Sylvia Luke, Chair  
and Members of the House Committee on Finance

Date: Wednesday, February 18, 2015  
Time: 2:00 P.M.  
Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: H.B. 1295, Relating to Taxation

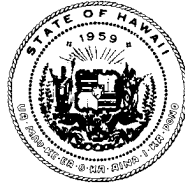
The Department of Taxation (Department) appreciates the intent of H.B. 1295 and provides the following comments for your consideration.

H.B. 1295 increases the low-income housing tax credit from fifty per cent to one hundred percent of the applicable percentage of the qualified basis for each building in Hawaii. The bill has an effective date of January 1, 2016 and applies to buildings placed in service after December 31, 2015.

The Department is able to make the change proposed in this measure as this is an amendment of an existing credit. The annual revenue loss to the general fund would be \$12 million in FY 2017 and after.

Thank you for the opportunity to provide comments.

DAVID Y. IGE  
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

**HOUSE COMMITTEE ON FINANCE**

February 18, 2015 at 2:00 p.m.  
State Capitol, Room 308

In consideration of  
**H.B. 1295**  
**RELATING TO TAXATION.**

The HHFDC ***supports the intent*** of H.B. 1295, provided that its passage does not adversely impact priorities indicated in the Executive Biennium Budget. H.B. 1295 would increase the State Low-Income Housing Tax Credit (LIHTC) from 50 percent to 100 percent of the Federal LIHTC.

The LIHTC program is a major financing tool for the construction or rehabilitation affordable rental housing for households at or below 60 percent of the area median income. Under the program, HHFDC awards federal and state tax credits that may be used to obtain a dollar-for-dollar offset in income tax liability for 10 years or may be syndicated to generate substantial project equity. Approximately \$3.229 million in Federal LIHTCs and \$1.614 million in State LIHTCs may be awarded each year.

Thank you for the opportunity to testify.

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Low-income housing credit

BILL NUMBER: HB 1295

INTRODUCED BY: Jordan, Hashem, Keohokalole, Yamashita and 5 Democrats

BRIEF SUMMARY: Amends HRS section 235-110.8 to provide that for each low-income housing project placed in service beginning on January 1, 2016, pursuant to IRC section 42(b), the state housing credit shall be 100% of the applicable percentage of the qualified basis of each building located in Hawaii instead of 50%.

EFFECTIVE DATE: January 1, 2016

STAFF COMMENTS: The legislature by Act 216, SLH 1988, adopted the federal low-income rental housing credit which was part of the Tax Reform Act of 1986. The credit was enacted to offset the repeal of tax shelters and other incentives to build rental housing under prior law, such as accelerated depreciation, capital gains preference, certain tax-exempt bonds, etc., and to specifically target low-income rentals.

The federal credit is a 70% present value credit for qualified new construction and rehabilitation expenditures which are not federally subsidized, and 30% for those which are federally subsidized. While the existing state credit allows for a credit of 50% of the “applicable percentage of the qualified basis” allowed under federal law taken over a period of 10 years, the proposed measure would increase the state credit to 100%.

While this is just one incentive to encourage developers to build affordable housing, consideration should be given to a number of strategies including the debt financing, partnerships with financial institutions who could then turn around and sell the credits, and the use of federal private activity bonds. Finally, apparently public officials still have not recognized that one of the greatest contributors to the cost of housing in Hawaii is the draconian maze of permitting and regulatory processes in order to bring those homes to market. While those regulatory guidelines are to insure the health and safety of the public, streamlining the process would accelerate the time needed to secure those permits thereby reducing the cost of financing. This savings would go a long way toward reducing the final cost of the house to the consumer. For example, for one housing project on Kauai, it took nearly five years to secure the necessary permits to build 14 affordable homes.

Digested 2/17/15



LAND USE RESEARCH  
FOUNDATION OF HAWAII

1100 Alakea Street, Suite 408  
Honolulu, Hawaii 96813  
(808) 521-4717  
[www.lurf.org](http://www.lurf.org)

February 17, 2015

Representative Sylvia Luke, Chair  
Representative Scott Y. Nishimoto, Vice Chair  
House Committee on Finance

**Support of HB 1295, Relating to Taxation (Increases the low-income housing tax credit to one hundred per cent of the qualified basis for each building located in Hawaii.)**

**Wednesday, February 18, 2015 at 2:00 p.m., in Conference Room 208**

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.

**LURF supports HB 1295**, which increases the low-income housing tax credit to one hundred per cent of the qualified basis for each building located in Hawaii. This proposed increase is an important measure that will help our local economy by incentivizing and allowing the development of new, as well as reviving the construction of stalled affordable housing projects.

**HB 1295.** The intent of this bill is to encourage the development of low-income housing by providing affordable housing developers with sufficient equity to finance construction, by increasing the amount of tax credit from fifty per cent, to one hundred per cent of the applicable percentage of the qualified basis of each building.

**LURF's Position.** LURF supports HB 1295, because the proposed tax credit increase would stimulate the development and construction of affordable housing projects, particularly given the current state of the economy and the dire need for affordable housing.

The lack of affordable housing remains a significant problem affecting Hawaii and Hawaii's families. Finding ways to provide sufficient affordable housing and market housing for Hawaii's residents has been a major objective for our elected officials, and state and county agencies, and members of the housing industry and business



community. This bill will assist in this effort by incentivizing the development, construction and completion of affordable housing, thereby addressing the need for affordable housing, and in turn, boosting the local construction industry.

Over the years, the State Low-Income Housing Tax Credit Program, established pursuant to Hawaii Revised Statutes (HRS), Section 235-110.8, has been a valuable financing mechanism to generate the development or substantial rehabilitation of affordable rental housing. However, in recently tougher economic times, there has been lower demand for state low-income housing tax credits due to the lack of available private investors willing to purchase the tax credits, or the fact that equity generated by any sale of such credits is insufficient to fund development projects. The development and rehabilitation of affordable rental housing projects has thus been stalled generally, due to lack of project equity. Given the current economic circumstances, the State Low-income Housing Tax Credit Program, in its present form, is unable to create or preserve low-income housing as initially intended.

Although HB 1295 proposes to increase the amount of the low-income housing tax credits that may be claimed by a taxpayer pursuant to HRS Section 235-110.8, LURF expects that the substantial general excise tax and income tax revenues collected as a result of the increase in development and construction generated by this measure, will more than offset the state funding of the tax credits.

Legislative changes to our existing laws, such as the changes proposed by this bill, are critically necessary to help increase the diminished supply of affordable housing in Hawaii, as well as to revitalize the local construction industry and stimulate the local economy.

**Conclusion.** LURF **strongly supports HB1295**, as it believes the proposed tax credit increase would be an effective mechanism to assist in current efforts being made by the Legislature to address and support the need to provide affordable housing in Hawaii, which in turn, will promote the local workforce and construction industry, stimulate the economy, and further the public interest and general welfare of the State.

Thank you for the opportunity to present testimony regarding this important matter.

**FIN-Jo**

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Tuesday, February 17, 2015 9:51 AM  
**To:** FINTestimony  
**Cc:** tominmaui@icloud.com  
**Subject:** Submitted testimony for HB1295 on Feb 18, 2015 14:00PM

**HB1295**

Submitted on: 2/17/2015

Testimony for FIN on Feb 18, 2015 14:00PM in Conference Room 308

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Tom Blackburn-Rodriguez	Go Maui, Inc	Support	No

Comments: Dear Committee Members, On behalf of Go Maui, Inc. I wish to testify in strong support of HB1295. Hawaii faces a crisis in affordable housing and this measure will help provide a greater supply for Hawaii's local families. It's passage is a critical step in meeting this crisis. Respectfully, Tom Blackburn-Rodriguez Executive Consultant Go Maui, Inc.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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Wednesday, February 18, 2015, 2:00 PM  
State Capitol, Room 308

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Testimony of  
Michaels Development Company  
Monika Mordasini Rossen  
Vice President of Development

To the House Committee on Finance  
Representative Sylvia Luke, Chair  
Representative Scott Nishimoto, Vice Chair

H.B. No. 1295 – Relating to Taxation  
Low-Income Housing Tax Credit

Chair Luke, Vice Chair Nishimoto, and members of the Committee:

The Michaels Development Company supports the increase of the low income housing tax credit to one hundred per cent of the qualified basis for each building located in Hawaii.

The Federal and State low income housing tax credit programs have been the most effective tools in supporting the production and preservation of rental housing for low- and moderate-income families. The allocations of federal and state credits are highly competitive and continue to be oversubscribed in every allocation round.

The State tax credit has made meaningful contributions to the affordable housing inventory and HB 1295 is an opportunity to expand this low-risk investment tool to create additional financing and increase further the supply of affordable rental housing in Hawai'i. With additional investor equity from awarded State tax credits, each affordable housing development will require less gap funding from the Rental Housing Trust Fund (RHTF) or other soft funding sources. With less need for gap funding by each development, gap funding resources can be distributed to more developments in each allocation round, so that more affordable housing units can be produced or preserved each year.

With the expansion of the State tax credit program, which is a very effective means of raising equity capital, there will be more opportunity for local private investment in affordable rental housing for Hawai'i households.



Chamber of Commerce HAWAII  
*The Voice of Business*

**Testimony to the House Committee on Finance  
Wednesday, February 18, 2015 at 2:00 P.M.  
Conference Room 308, State Capitol**

**RE: HOUSE BILL 1295 RELATING TO TAXATION**

Chair Luke, Vice Chair Nishimoto, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") **supports the intent of HB 1295**, which increases the low-income housing tax credit to one hundred per cent of the qualified basis for each building located in Hawaii.

The Chamber is the largest business organization in Hawaii, representing about 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 members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

We understand that this bill would double the existing state tax credit from 50% to 100% for low income housing projects in Hawaii. While we support the need to provide more assistance to these types of projects, increasing the federal low-income tax credits may provide more of an incentive as the federal tax credits is more attractive than the State tax credit.

Thank you for the opportunity to testify.



**LATE**

Testimony of Brooke Wilson  
Pacific Resource Partnership

House Committee on Finance  
Representative Sylvia Luke, Chair  
Representative Scott Y. Nishimoto, Vice Chair

HB 1295 – Relating to Taxation  
Wednesday, February 18, 2015  
2:00 PM  
State Capitol – Room 308

Aloha Chair Luke, Vice Chair Nishimoto and members of the Committee:

PRP is a not-for-profit organization that represents the Hawaii Regional Council of Carpenters, the largest construction union in the state, and more than 240 of Hawaii's top contractors. Through this unique partnership, PRP has become an influential voice for responsible construction and an advocate for creating a stronger, more sustainable Hawaii in a way that promotes a vibrant economy, creates jobs and enhances the quality of life for all residents.

We **support** HB 1295, relating to Low-Income Housing Tax Credit which increases the low-income housing tax credit to one hundred percent of the qualified basis for each building located in Hawaii.

According to the Demographia International Housing Affordability survey, Honolulu has the least affordable housing market in the U.S. The cost of housing in Hawaii is rapidly becoming out of reach for many, especially young professionals and working families. The idea of increasing the low-income housing tax credit to one hundred percent of the qualified basis for each building located in Hawaii would provide an optimal solution for the affordable housing crisis in the State and would also help get the State's economy back on its feet by providing local employment opportunities.

Thank you for the opportunity to share our opinion and we kindly ask for your support.



finance1-Kim

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From: mailinglist@capitol.hawaii.gov  
Sent: Tuesday, February 17, 2015 6:25 PM  
To: FINTestimony  
Cc: glenn\_tadaki@msn.com  
Subject: \*Submitted testimony for HB1295 on Feb 18, 2015 14:00PM\*

**LATE**

**HB1295**

Submitted on: 2/17/2015

Testimony for FIN on Feb 18, 2015 14:00PM in Conference Room 308

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Glenn Tadaki	Individual	Support	No

Comments:

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Testimony to the House Committee on Finance  
Wednesday, February 18, 2015  
State Capitol – Conference Room 308

**LATE**

Re: House Bill No. 1295, Relating to Taxation

Chair Sylvia Luke and members of the House Committee on Finance:

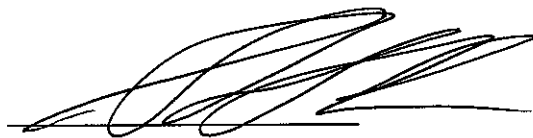
Stanford Carr Development, LLC supports the enactment of House Bill No. 1295 which proposes to increase the amount of the State low-income housing tax credit (LIHTC) to one hundred per cent of the qualified basis of each building developed in Hawaii. The proposed doubling of the State LIHTC credit will foster the development of more workforce housing by helping to reduce the amount of gap financing required to construct such projects.

This bill will expand Hawaii's LIHTC program, the most effective tool in the production and preservation of workforce rental housing. Established as part of the Tax Reform Act of 1986, the LIHTC program provides tax incentives to encourage investment in the development, acquisition and rehabilitation of workforce rental housing serving households earning 60% AMI and below. The tax credit is most often sold to qualified investors in exchange for an equity investment in a project. This equity investment reduces the debt burden on the tax credit property, making it financially feasible to offer lower, more affordable rents.

Stanford Carr Development, LLC employed the use of LIHTC's to help finance the construction of Halekauwila Place, a workforce rental housing project located in the heart of Kakaako. Comprised of 204 units, Halekauwila Place provides rental housing to those families earning 60% AMI and below. Had H.B. No. 1295 been enacted at the time of Halekauwila's construction, less mortgage debt would have been required and perhaps more units could have been constructed.

In closing, enactment of H.B. No. 1295 will help facilitate the production of more workforce housing by reducing the amount of gap financing required to construct a project. In turn, this will permit owners to charge lower rents to Hawaii's workforce.

Respectfully submitted,



Stanford S. Carr



**LATE**

**Board of Directors**

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David Derauf, M.D.  
Naomi C. Fujimoto, Esq.  
Patrick Gardner, Esq.  
John H. Johnson  
Nathan Nelson, Esq.  
David J. Reber, Esq.  
Mike Webb

**Executive Director**

Victor Geminiani, Esq.

Testimony of Hawai'i Appleseed Center for Law and Economic Justice  
Support HB 1295 Relating to Taxation  
House Committee on Finance  
Scheduled for Hearing Wednesday February 18, 2015, 2:00 pm, Room 308

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*Hawai'i Appleseed Center for Law and Economic Justice is a nonprofit law firm created to advocate on behalf of low-income individuals and families in Hawai'i. 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.*

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Thank you for the opportunity to testify in **support** of House Bill 1295 Relating to Taxation, which would increase the low income housing tax credit to 100 percent of the qualified basis for each building located in Hawai'i. We support this bill to help create more affordable housing in our state.

The extent of our affordable housing crisis is clear, as rents and home prices continue to rise and more and more families are becoming cost-burdened. More than 40 percent of our households rent, and over half of them are cost-burdened, meaning they pay more than 30 percent of their income toward rent (the standard definition of housing affordability). This is no surprise, as the fair market rent for a two-bedroom unit in Hawai'i is \$1,640. A full-time worker would need to earn \$31.54 per hour for this rent to be affordable. Yet the mean wage for a renter is just \$13.86. The lowest-income households face a crushing cost burden: 78 percent are paying more than *half* of their income in rent.

The pent-up and future demand is staggering: the 2011 Hawai'i Housing Planning Study found that the state will need 19,000 units by 2016 to meet the demand for units affordable to households at 80 percent of the area median income or below. This translates to only 76 units that are both available and affordable for households earning less than 80 percent of the area median income. For those earning less than 30 percent AMI, there are just 27. Despite the high demand for rental housing, private market is resulting in hardly any new rental units. Increased state subsidies are badly needed.

Again, thank you for the opportunity to testify in **support** of HB 1295 to increase production of truly affordable housing.

**OFFICE OF THE MAYOR  
CITY AND COUNTY OF HONOLULU**

530 SOUTH KING STREET, ROOM 300 • HONOLULU, HAWAII 96813  
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**LATE**

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MAYOR



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MANAGING DIRECTOR DESIGNATE

GEORGETTE T. DEEMER  
DEPUTY MANAGING DIRECTOR

February 17, 2015

The Honorable Sylvia Luke, Chair  
and Members of the Committee on Finance  
State House of Representatives  
Hawaii State Capitol  
415 South Beretania Street  
Honolulu, Hawaii 96813

Dear Chair Luke and Committee Members:

**SUBJECT: House Bill No. 1295  
Relating to Taxation**

The City and County of Honolulu (City) supports the intent of House Bill No. 1295, which increases the low-income housing tax credit to one hundred per cent of the qualified basis for each building located in Hawaii.

The City is committed to the creation of more affordable housing units across our island. The increase to one hundred per cent of the qualified basis from fifty per cent will give affordable housing developers more opportunity to build quality housing units for our local families. The City released its draft Islandwide Housing Strategy in September 2014. Included in the Strategy is the ongoing cooperative efforts of City and State departments to maximize funding mechanisms, which include coordination with Hawaii Housing Finance and Development Corporation (HHFDC) in its many housing programs, especially the Federal and State Low-Income Housing Tax Credit Program.

The City and County of Honolulu encourages your committee to move House Bill No. 1295 forward. Thank you for the opportunity to testify.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jun Yang", is written over a white background.

Jun Yang  
Executive Director  
Office of Housing

**BIA-HAWAII**  
BUILDING INDUSTRY ASSOCIATION

THE VOICE OF THE CONSTRUCTION INDUSTRY

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Testimony to the House Committee on Finance  
Wednesday, February 18, 2015  
2:00 p.m.  
State Capitol - Conference Room 308

**LATE**

**RE: HOUSE BILL NO. 1295 RELATING TO TAXATION**

Dear Chair Luke, Vice-Chair Nishimoto, and members of the Committee:

My name is Gladys Marrone, Chief Executive Officer for the Building Industry Association of Hawaii (BIA-Hawaii), the Voice of the Construction Industry. We promote our members through advocacy and education, and provide community outreach programs to enhance the quality of life for the people of Hawaii. BIA-Hawaii is a not-for-profit professional trade organization chartered in 1955, and affiliated with the National Association of Home Builders.

BIA-Hawaii **supports** the intent of H.B. 1295 which proposes to increase the State low-income housing tax credit to one hundred per cent of the qualified basis for each building located in Hawaii.

We understand that the bill would double the existing state tax credit from 50% to 100% for low income housing projects in Hawaii. While we support the need to provide more assistance to these types of projects, increasing the federal low-income tax credits may provide more of an incentive as the federal tax credits is more attractive than the State tax credit.

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