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GOVERNOR

January 30, 2016

TO: The Honorable Representative Mark J. Hashem, Chair
House Committee on Housing

FROM: Scott Morishige, MSW, Governor's Coordinator on Homelessness

SUBJECT: **HB 1962 – RELATING TO THE DISPOSITION OF THE CONVEYANCE TAX
COLLECTIONS TO THE RENTAL HOUSING REVOLVING FUND**

Hearing: Monday, February 1, 2016, 8:30 a.m.
Conference Room 329, State Capitol

POSITION: The Governor's Coordinator on Homelessness supports HB1962 provided that its passage does not replace or adversely impact priorities indicated in the Executive Budget.

The Coordinator notes that this measure is similar in nature to HB2303, which is an administration bill. The Coordinator also asks for the Legislature's support of the Governor's Executive Budget request, which includes a General Obligation bond appropriation of \$75 million for the Rental Housing Revolving Fund (RHRF).

PURPOSE: The purpose of the bill is to remove the \$38 million statutory cap on conveyance tax revenues allocated to the Rental Housing Revolving Fund (RHRF) imposed by Act 84, Session Laws of Hawaii 2015.

The development of low-income affordable housing is necessary to address the issues of homelessness, and respond to the critical shortage of housing inventory in our community. The RHRF is a critical tool to address Hawaii's housing shortage. Since its inception, RHRF awards have been made to 71 affordable rental projects, comprising 5,673 units statewide.

The removal of the \$38 million statutory cap will increase funding for the RHRF to produce affordable rental units to better meet housing demand. This measure is also

in alignment with Goal 2, Objective 4 of the Hawaii Interagency Council on Homelessness' Strategic Plan to End Homelessness, which is to "Create and preserve affordable housing for people at 50% and below of area median income."

Thank you for the opportunity to testify on this bill.



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 HOUSING

February 1, 2016 at 8:30 a.m.
State Capitol, Room 329

In consideration of
H.B. 1962

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

HHFDC supports H.B. 1962, which is similar to H.B. 2303, an Administration bill. This bill removes the \$38 million statutory cap on conveyance tax revenues allocated to the Rental Housing Revolving Fund (RHRF) imposed in Act 84, Session Laws of Hawaii 2015.

The RHRF, formerly known as the Rental Housing Trust Fund, provides loans to projects that set aside rental units affordable to extremely and very low-income families. The RHRF loans fill the financing gap to develop an affordable rental housing project. Since its inception, RHRF awards have been made to 71 affordable rental projects comprising 5,673 units statewide.

In Fiscal Year 2015, the RHRF received approximately \$39,500,000 in conveyance tax revenues, which we anticipate being able to fully utilize to make awards to qualified projects during our 2016 competitive funding rounds. Passage of H.B. 1962 would boost funding for the RHRF to produce affordable rental units during upswings in the real estate market.

For these reasons, HHFDC respectfully requests that the Committee support this bill. Thank you for the opportunity to testify.

February 1, 2016

The Honorable Mark. J. Hashem, Chair

House Committee on Housing
State Capitol, Room 329
Honolulu, Hawaii 96813

RE: H.B. 1962, Relating to the Disposition of the Conveyance Tax Collections to the Rental Housing Revolving Fund

HEARING: Monday, February 1, 2016 at 8:30 a.m.

Aloha Chair Hashem, Vice Chair Jordan, 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 8,800 members. HAR **supports** H.B. 1962 which restores the allocation of conveyance tax collections to the Rental Housing Revolving Fund to 50% by removing the cap of \$38 million.

According to the Department of Business, Economic Development and Tourism, nearly 66,000 housing units are needed to meet long-term demand over the next ten years. Not only do we need more affordable homes, including rentals, to meet today's needs of our working individuals and families.

HAR has historically supported mechanisms to help increase the supply of low and moderate income affordable housing such as the Rental Housing Revolving 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.

As such, HAR believes restoring the Fund to 50% will help expand the much needed affordable rental housing opportunities for Hawaii's residents and will help address the States unique challenges related to affordable rentals.

Mahalo for the opportunity to testify.

BIA-HAWAII

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Testimony to the House Committee on Housing The Honorable Mark Hashem, Chair The Honorable Jo Jordan, Vice-Chair Members of the Committee Monday, February 1, 2016

RE: HB 1962: Relating to the Disposition of Conveyance Tax Collections to the Rental Housing Revolving Fund.

Dear Chair Hashem, Vice-Chair Jordan, 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.

While BIA-HAWAII supports the intent of HB 1962 to increase government funding of the Rental Housing Revolving Fund, BIA-HAWAII maintains its position that the Conveyance tax is not the appropriate means to fund the rental housing revolving fund. 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 appropriately.

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; . . ."

The conveyance tax should be limited to "the administrative costs of recording the real estate transactions." There would be strong organized opposition to taxing all future real estate transactions to fund non-related programs, if all future buyers could be organized. However, that isn't possible, and the Legislature has used the Conveyance Tax to fund legitimate programs rather than funding these programs through general fund appropriations which is the proper way to finance these programs.

While we support the need to provide government funding of the Rental Housing Revolving Fund, we cannot support the use of the Conveyance Tax to fund this program.

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

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: CONVEYANCE, Remove cap on rental housing revolving fund earmark

BILL NUMBER: HB 1962; SB 2093 (Identical)

INTRODUCED BY: HB by HASHEM, CACHOLA, CREAGAN, ICHIYAMA, KEOHOKALOLE, KOBAYASHI, MORIKAWA, NISHIMOTO, OSHIRO, LoPresti, Tokioka; SB by CHUN OAKLAND, GALUTERIA, GREEN, HARIMOTO, NISHIHARA, SHIMABUKURO

EXECUTIVE SUMMARY: This bill would remove the maximum dollar amount of conveyance tax revenues to be deposited into the rental housing revolving fund. If the legislature deems this program area a priority, then a direct appropriation for these programs would increase transparency and accountability.

BRIEF SUMMARY: Amends HRS section 247-7 by earmarking 50% of the conveyance tax to the rental housing revolving fund, and repealing the existing \$38 million limit.

EFFECTIVE DATE: July 1, 2016

STAFF COMMENTS: This measure would return to the practice of depending more and more on special funds and on feeding those funds with earmarked taxes.

As with any earmarking of revenues, the legislature will be preapproving each of the programs fed by the funds into which the conveyance tax monies are diverted, expenses from the funds largely avoid legislative scrutiny, and the effectiveness of the programs funded becomes harder to ascertain. It is also difficult to determine whether the fund has too little or too much revenue.

The conveyance tax is one of the least dependable sources upon which to rely for funding with collections rising and falling with the fortunes of the real estate market. Any amount collected under this tax will depend on activity in the real estate market. As the housing market slows down, revenues may not be sufficient to meet the expectations of the programs supported by the fund. If the conveyance tax revenues are not sufficient or another “important” program needs funding, will the conveyance tax rates need to be “adjusted” to generate even more revenue?

If the legislature deems the programs and purposes funded by conveyance tax revenues to be a high priority, then it should maintain the accountability for these funds by appropriating the funds as it does with other programs. Earmarking revenues merely absolves elected officials from setting priorities. If the money were appropriated, lawmakers could then evaluate the real or actual needs of each particular program.

Digested 1/29/16

jordan3-Kevin

From: mailinglist@capitol.hawaii.gov
Sent: Friday, January 29, 2016 10:02 AM
To: HSGtestimony
Cc: mendezj@hawaii.edu
Subject: *Submitted testimony for HB1962 on Feb 1, 2016 08:30AM*

HB1962

Submitted on: 1/29/2016

Testimony for HSG on Feb 1, 2016 08:30AM in Conference Room 329

| Submitted By | Organization | Testifier Position | Present at Hearing |
|-----------------------|---------------------|---------------------------|---------------------------|
| Javier Mendez-Alvarez | Individual | Support | No |

Comments:

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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