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STATE OF HAWAII

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
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Honolulu, Hawaii 96813
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IN REPLY REFER TO:

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

HOUSE COMMITTEE ON FINANCE

March 30, 2016 at 2:00 p.m.
State Capitol, Room 308

In consideration of
S.B. 2731, S.D. 1, H.D. 1
RELATING TO SCHOOLS.

HHFDC **supports** S.B. 2731, S.D. 1, H.D. 1. Part I of the H.D. 1 clarifies that affordable family housing projects developed pursuant to sections 46-15.1 and 201H-38, HRS, are subject to school impact fee requirements set forth in section 302A-1603, HRS.

The H.D. 1 is consistent with HHFDC's practices, since we do not exempt housing projects assisted through the Chapter 201H expedited processing from school impact fee requirements.

Thank you for the opportunity to testify.



STATE OF HAWAII
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAII 96804

Date: 03/30/2016
Time: 02:00 PM
Location: 308
Committee: House Finance

Department: Education

Person Testifying: Kathryn S. Matayoshi, Superintendent of Education

Title of Bill: SB 2731, SD1, HD1 RELATING TO SCHOOLS.

Purpose of Bill: Clarifies that developers of certain projects are subject to school impact fees, even when the Hawaii Housing Finance and Development Corporation or a corresponding county agency participates in the development of the projects. Provides that in urban Honolulu, fee in lieu funds may be used to purchase completed construction, construct new school facilities, improve or renovate existing structures for school use, or lease land or facilities for school use. (SB2731 HD1)

Department's Position:

The Department of Education (DOE) fully supports SB2731, SD1, HD1 as it makes it clear that all housing projects located in a school impact fee district must pay school impact fees, including all affordable housing projects and all government housing projects. SB2731, SD1, HD1 also gives the DOE special permission in urban Honolulu to expend the fee-in-lieu of land component of school impact fees for more than just acquisition of land. The fees can also be used to pay for buildings to be used as school facilities; construction, improvement and renovation of structures for school use; and lease rent for school facilities. This flexibility is to apply only to the proposed Kalihi to Ala Moana school impact fee district.

We respectfully request the committee's consideration to insert an *effective* - effective date.

Thank you for this opportunity to testify.



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Finance
Wednesday, March 30, 2016 at 2:00 P.M.
Conference Room 308, State Capitol**

RE: SENATE BILL 2731 SD 1 HD 1 RELATING TO SCHOOLS

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

The Chamber of Commerce Hawaii ("The Chamber") **strongly opposes** SB 2731 SD 1 HD 1, which clarifies that developers of certain projects are subject to school impact fees, even when the Hawaii Housing Finance and Development Corporation or a corresponding county agency participates in the development of the projects. Provides that in urban Honolulu, fee in lieu funds may be used to purchase completed construction, construct new school facilities, improve or renovate existing structures for school use, or lease land or facilities for school use.

The Chamber is Hawaii's leading statewide business advocacy organization, 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.

Act 245, Session Laws of Hawaii 2007, established the law regarding school impact fees. Act 245 implemented a new method for financing, in part, new or expanding existing department of education educational facilities in partnership with developers of new residential developments. At the time, the focus of the impact fee was on "greenfield" developments. It was not intended to be applied to "in-fill" projects.

The preamble language of Act 245 states: "It also recognizes the need for more detailed planning for implementation of this Act by the department of education, and recognition of how the methodology will be applied in new residential projects involving rezoned properties or parcels, current zoned parcels with or without buildings, and redevelopment projects."

Generally, impact fees are charges imposed upon private land developers by a governmental entity to fund the additional service capacity required by the development for which it is collected. Developers can also opt to donate land and/or build public infrastructure in lieu of cash payments.

One of the basic principles of developing an impact fee is that the government entity must establish clearly defined "level of service standards" for the infrastructure and/or services to which the impact fee applied. The impact fee amount must be based upon a detailed analysis of existing and anticipated future conditions and capital improvements required in order to maintain the locally established standards. The fee cannot be used to support operational or maintenance improvements, or to correct deficiencies in the existing system. In addition, new development may not be held to a higher level of service than existing development unless there is a mechanism in

place for the existing users to make improvements to the existing system to match the higher level of service.

The Department of Education must establish a standard level of service for urban in-fill schools. It is ridiculous to presume that the “recent school construction averages” defined in Act 245 would be applied to infill developments in urban Honolulu. Act 245 states that based on existing school construction data, the historical average design standards in 2007 were as follows:

School	Acres	Enrollment	Acres/Student
Elementary	12.5	800	.0156 acres
Middle	16.5	1,500	.0110 acres
High	49	1,600	.0306

If urban impact fees are based on the acquisition cost of acquiring new school sites based on the following acreages: 12.5 acres (Elementary); 16.5 acres (Middle); and 49 acres (High), no new residential projects will be built in urban Honolulu.

The methods used in developing the impact fees under Act 245 should be used to develop impact fees for urban in-fill. It starts with the Department establishing a new level of service of urban infill public schools.

As the City and County of Honolulu focuses all future development along the rail transit corridor, we believe it is critical to determine an urban “in-fill” school impact fee especially in light of the fact that there are only a handful of existing public schools in the ¼ to ½ mile radius of the 20 planned transit stations. The Department of Education must be pro-active in repositioning its assets along the rail transit corridor to accommodate the planned future growth areas on Oahu. It must also develop more compact, vertical schools that would be appropriate in a dense, urban setting.

Finally, similar to the efforts behind Act 245, SLH 2007, we strongly suggest that this committee reinsert the language provided in the early version of this bill that proposed to establish a task force to review the school impact fees law and recommend any necessary amendments. We also suggest that the Task Force include representatives from the development community. We suggest that both the Land Use Research Foundation and BIA-Hawaii be added to the Impact Fee Task Force.

We express our strong opposition to S.B. 2731 SD 1 HD1, as presently drafted, and appreciate the opportunity to express our views on this matter.

BIA-HAWAII

BUILDING INDUSTRY ASSOCIATION

THE VOICE OF THE CONSTRUCTION INDUSTRY

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Testimony to the House Committee on Finance Wednesday, March 30, 2016 2:00 pm State Capitol - Conference Room 308

RE: S.B. 2731 S.D. 1 H.D 1, Relating to Education.

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 is in **strong opposition** to S.B. 2731 SD 1, HD 1, as presently drafted. The bill propose to clarify that developers of certain projects are subject to school impact fees, even when the Hawaii Housing Finance and Development Corporation or a corresponding county agency participates in the development of the projects. Provides that in urban Honolulu, fee in lieu funds may be used to purchase completed construction, construct new school facilities, improve or renovate existing structures for school use, or lease land or facilities for school use.

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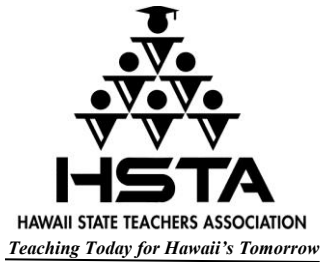
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Finally, similar to the efforts behind Act 245, SLH 2007, we strongly suggest that this committee reinsert the language provided in the early version of this bill that proposed to establish a task force to review the school impact fees law and recommend any necessary amendments. We also suggest that the Task Force include representatives from the development community. We suggest that both the Land Use Research Foundation and BIA-Hawaii be added to the Impact Fee Task Force.

We express our strong opposition to S.B. 2731 SD 1 HD1, as presently drafted, and appreciate the opportunity to express our views on this matter.



LATE

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Corey Rosenlee
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TESTIMONY BEFORE THE HOUSE COMMITTEE ON
FINANCE

RE: SB 2731, SD1, HD1 - RELATING TO SCHOOLS.

WEDNESDAY, MARCH 30, 2016

COREY ROSENLEE, PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION

Chair Luke and Members of the Committee:

The Hawaii State Teachers Association **strongly supports SB 2731, SD1, HD1** relating to schools, **with suggested amendments.**

School impact fees are a method of financing new or expanding existing Department of Education facilities, in partnership with developers of new residential areas. Residential developments create demand for public school facilities. In turn, pursuant to HRS §302A-1601, once school impact districts are identified, new residential developments are required to contribute toward the construction of new or expansion of existing public schools that serve their communities. Costs borne by developers and property purchasers are consistent with proportionate fair-share principles, meaning that residential developments within designated school impact districts pay construction cost proportionate to their impact.

Yet, the state's school impact fee law has not been full effectuated since it was enacted in 2007, despite shifting developmental and population patterns. Kaka'ako, for instance, is rife with extant and proposed high-rise projects that will bring families into the area, increasing demand for public school facilities. Approximately 5,000 new condominium units are scheduled to be built by 2018 in Kaka'ako, with the population of the district expected to double to 30,000 people in the next fifteen years, according to the Honolulu Community Development Authority. We understand that the department is using available housing data—specifically, the number and size of new units—to make projections about needed school accommodations and considering all possible solutions, including creating mixed use schools encompassing all grades K-12 and utilizing empty space at nearby

schools operating below capacity (McKinley High School's maximum capacity is 2,100 students, for example, but enrollment is just over 1,600, leaving room for an additional 400 students). These strategies are not likely to be demographically sustainable for the long-term, however, necessitating the use of alternative financial instruments to subsidize new schools.

School impact fees have failed to be fully implemented, in part, because they are sometimes condemned as a property tax increase. Big Island Mayor Billy Kenoi has refused to collect the fees, calling them discriminatory. In a March 13, 2013 article entitled "School impact fees delayed," the *Hawaii Tribune Herald* reported:

Kenoi, who opposes the fee, has blocked its collection. He's said large developers already contribute as part of land use reclassifications before the state Land Use Commission, meaning the burden would fall on small lot owners. He has also noted the county was not represented in the working group establishing the districts, and he added the DOE's own lists don't show West Hawaii schools in the top 15 most needed facilities.

"This is just a fundamentally unfair bill," Kenoi told Stephens Media after the meeting. "Why does a person who builds a home here pay a penalty and nobody else does?"

What Kenoi believes to be principled opposition a burdensome financial encumbrance on real property owners is, to the contrary, obstruction of public education progress. According to a study released in 2015 by the Lincoln Institute of Land, Hawai'i has the lowest or next-to-lowest industrial, commercial, and apartment property taxes in the nation, for both urban and rural communities. Similarly, a WalletHub.com analysis revealed, last year, that the islands have the cheapest residential property taxes in the country, yet only 57 percent of state residents live in homes they own.

While some people believe that a low property tax bill makes local housing more affordable, this belief is vitiated by the fact that islanders compete heavily with people from all corners of the world for home ownership. More importantly to HSTA, Hawai'i's public schools are not funded through property taxes, which are constitutionally directed to the counties. Since property taxes are not used to finance local schools, we lack a dedicated funding stream for public education, which is instead paid for, primarily, through the state's general fund. This setup was as intentional as it is problematic. Big Five landowners and religious



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missionaries crafted a segregated school system to perpetuate class inequality and boost plantation profits. As Corey Rosenlee wrote in the Star-Advertiser last April:

The Big Five wanted poorly educated workers to keep wages low and plantation profits high. Since land was owned by the wealthy few, Hawai'i, unlike its mainland counterparts, doesn't fund education through property taxes. Since property taxes are not used, there is no dedicated source of income for schools, and instead public school funding comes from the general fund and has been perpetually underfunded. Today, Hawaii leads the nation in the percent of students attending private school. The cost of educating a student at Punahou School is about \$26,000 per year, compared to \$8,000 per year for a regular education student at a public school.

Rectifying the economic disparities evinced and propounded by our schools is a moral imperative. To do so, we must invest in classroom cooling, facilities repair and maintenance, vocational education, arts and cultural learning, lower class sizes, public preschool, and professional pay for teachers—all of which requires increasing education funding. All options for generating revenue must be on the table, in our view, including the escalation and expansion of school impact fees.

To date, little has been collected for our schools by way of impact fees. That must change. Ideally, we would like to see impact fees expanded to the entire state and made to include commercial properties, with the exclusion of low-income and affordable housing developments. Thus, while we support this measure's allowance of the use of school impact fees in the urban Honolulu core for uses other than new school construction, we humbly request that this bill be amended by: (1) reinserting the task force language contained in the SD1 version of the bill; (2) adding a public school teacher appointed by HSTA to the task force; and (3) revising the list of items for task force consideration contained in Section 2, subsection (d) of the bill to include "statewide implementation of school impact fees" and "expansion of school impact fees to commercial properties, including hotels." A task force would be able to perform a comprehensive review of the issues raised in our testimony, as well as an assessment of the unnecessarily complicated process for establishing impact fee districts by the Board of Education in conjunction with the department, methods of increasing or revaluing land component and construction cost component impact

fees to better reflect the fiscal impact of children living in new residential developments and developer cost sharing, and whether or not all districts to which impact fees apply should have the flexibility to use revenue generated by the fees for purposes other than new school construction.

A quality education is priceless. To move our state toward more equitable public school funding, the Hawaii State Teachers Association asks your committee to **support** this bill.