

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 HOUSING**

February 14, 2017 at 9:00 a.m.  
State Capitol, Room 423

In consideration of  
**H.B. 487**  
**RELATING TO THE CONVEYANCE TAX.**


The HHFDC ***supports*** H.B. 487, which repeals the cap on the Rental Housing Revolving Fund's (RHRF) allocation of conveyance taxes, as long as long as it does not replace priorities requested in the Executive Budget. The Executive Budget includes a G.O. Bond appropriations of \$50 million for infusion into the RHRF.


The RHRF provides loans to projects that set aside rental units affordable to extremely- and very low-income families. The loans fill the financing gap to develop an affordable rental housing project. Since its inception, Rental Housing Revolving Fund awards have been made to 78 affordable rental projects comprising a total of 6,232 units statewide. In Fiscal Year 2016, the RHRF received approximately \$33,056,876 in conveyance tax revenues, which we anticipate being able to fully utilize to make awards to qualified projects during our 2017 competitive funding rounds.

Thank you for the opportunity to testify.



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 | 1259 A'ala Street, Suite 300  
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February 14, 2017

**The Honorable Tom Brower, Chair**  
House Committee on Housing  
State Capitol, Room 423  
Honolulu, Hawaii 96813

**RE: H.B. 487, Relating to Conveyance Tax**

**HEARING: Tuesday, February 14, 2017, at 9:00 a.m.**

Aloha Chair Brower, Vice Chair Nakamura, and Members of the Committee.

I am Myoung Oh, Director of Government Affairs, here to testify on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i, and its 9,000 members. HAR **supports** H.B. 487 which removes the cap on conveyance tax proceeds that are paid into the Rental Housing Revolving Fund.

HAR has historically supported mechanisms to help increase the supply of low and moderate income affordable housing such as the Rental Housing Revolving Fund (RHRF) 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 these efforts should continue to help address the lack of supply issue in our State.

Mahalo for the opportunity to testify.





**Testimony to the House Committee on Housing  
Tuesday, February 14, 2017 at 9:00 A.M.  
Conference Room 423, State Capitol**

**RE: HOUSE BILL 487 RELATING TO THE CONVEYANCE TAX**

Chair Brower, Vice Chair Nakamura, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") provides the following **comments** regarding HB 487, which removes the cap on conveyance tax proceeds that are paid into the Rental Housing Revolving Fund.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 1,600+ 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.

While we understand and support the need to provide more government assistance for the development of affordable housing, we have consistently voiced our concern regarding the use of the conveyance tax as a means to fund development of more affordable housing.

In August of 2012, Mr. Lowell Kalapa, then President of the Tax Foundation of Hawaii stated the following:

*"On the money side, lawmakers increased the conveyance tax which is imposed on the transfer of real property and earmarked portions of it for the rental housing trust fund and the state's trails program. Somehow lawmakers felt there was a relationship between people buying and selling real property and building affordable housing and maintaining the state's lands and trails. What they seem to have lost sight of is that the conveyance tax merely adds to the cost of acquiring that property. So while the increase in the conveyance tax provided a source of subsidies for affordable rentals, it merely passed the cost onto prospective homeowners and even renters of affordable rental housing. Did lawmakers even stop to think that a non-owner occupied unit would provide housing for a family that could not afford to purchase their own home? This is but one way government has intervened and actually increased the cost of housing in Hawaii."*

The conveyance tax has been an attractive means to fund affordable housing as it is difficult if not impossible to identify an organized group of "future purchasers of real property."



# Chamber of Commerce HAWAII

*The Voice of Business*

However, with the average price of a new home on Oahu in the mid \$700,000.00 range, perhaps policy makers should give pause and understand the unintended consequences of increasing the price of a new home in Hawaii.

In 2014, the National Association of Home Builders (NAHB) prepared a state by state analysis of the number of home buyers impacted for every \$1,000 increases in price. In 2014, 594 households were priced out of the market by a \$1,000 increase in price.

While we strongly support the need to provide more government assistance to build more affordable housing, especially in an environment of historically low interest rates, we also must be concerned on how these various taxes, fees, assessments, etc., impact the “affordability” of housing in Hawaii.

We appreciate the opportunity to provide our input on this important legislation.

TESTIMONY IN OPPOSITION

RE: H.B. No. **487**

Submitting Person: Charles Barker III  
Principal, Hale Kupuna  
[chuck.kupunahale@gmail.com](mailto:chuck.kupunahale@gmail.com)  
Tel: 808-747-6141

Committee: HSG, FIN

Date/Time of Hearing: February 14, 2017 at 9:00 a.m.

Oral testimony requested at hearing: Yes

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The criticality of need to generate additional funds to supplement the Rental Housing Revolving Fund, to support the purpose of constructing affordable rental housing, is readily apparent, with current projections revealing the necessity for the construction of 65,000 units of affordable housing in the State of Hawai'i between now and 2025, only eight years to accomplish this.

HB 487 proposes a striking of the phrase "or \$38,000,000, whichever is less", from Section 247-7 (2). It is submitted and requested that this \$38,000,000 amount **remain** as the recital of the minimum amount to be funded into the RHRF, in order to support the critical need for reliable, predictable, consistent and necessary financial support sources for construction of affordable housing units.

Retention of this clause will provide a specific funding mechanism to accomplish the purpose of ensuring sufficient funding for the RHRF, and to thus encourage and promote the ability of developers to construct much-needed new affordable housing, and the public will be served by the rejection of this bill, allowing the preservation of the minimum \$38,000,000 amount above described.

I respectfully request your denial of HB 487..

Charles Barker III

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: CONVEYANCE, Disposition of Revenues

BILL NUMBER: HB 487

INTRODUCED BY: BROWER, HASHEM, HOLT, KEOHOKALO, KONG, MCKELVEY, NAKAMURA, NISHIMOTO, QUINLAN, SAN BUENAVENTURA

EXECUTIVE SUMMARY: Removes the \$38 million ceiling on the amount of conveyance taxes collected earmarked for the rental housing revolving fund. Earmarks decrease transparency and accountability and should be avoided.

SYNOPSIS: Amends section 247-7, HRS, to repeal the current \$38 million ceiling on the earmark for the rental housing revolving fund.

EFFECTIVE DATE: July 1, 2017.

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.

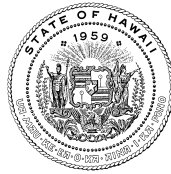
Prior to 1993, the conveyance tax was imposed at the rate of 5 cents per \$100 of actual and full consideration paid for a transfer of property. At the time all revenues from the tax went to the general fund. The legislature by Act 195, SLH 1993, increased the conveyance tax to 10 cents per \$100 and 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. Act 164, SLH 2014, increased the earmark to 50% as of July 1, 2014, and Act 84, SLH 2015, imposed the \$38 million cap on the earmark.

As with any earmarking of revenues, the legislature will be preapproving each of the programs fed by the fund into which the 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.

If the legislature deems the programs and purposes funded by this special fund 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 program.

Digested 2/12/2017

DAVID Y. IGE  
GOVERNOR



WESLEY K. MACHIDA  
DIRECTOR

LAUREL A. JOHNSTON  
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM  
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
OFFICE OF THE PUBLIC DEFENDER

**STATE OF HAWAII**  
**DEPARTMENT OF BUDGET AND FINANCE**  
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ADMINISTRATIVE AND RESEARCH OFFICE  
BUDGET, PROGRAM PLANNING AND  
MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION  
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**WRITTEN ONLY**  
TESTIMONY BY WESLEY K. MACHIDA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
TO THE HOUSE COMMITTEE ON HOUSING  
ON  
HOUSE BILL NO. 487

**February 14, 2017**  
**9:00 a.m.**  
**Room 423**

RELATING TO THE CONVEYANCE TAX

House Bill No. 487 removes the \$38.0 million cap on conveyance tax proceeds that are paid into the Rental Housing Revolving Fund (RHRF).

While the Department of Budget and Finance supports efforts to provide more affordable housing units to address Hawaii's housing shortage, we offer the following comments regarding this measure: 1) conveyance tax collections fluctuate each fiscal year and distributions to the RHRF would have only once reached the \$38.0 million cap in the past five fiscal years (FY 15); 2) conveyance tax collections vary in response to the housing market and the impact to the general fund would largely depend on home prices and future transactions; and 3) the State has dedicated significant resources towards addressing the affordable housing shortage through recent general obligation bond funding infusions into the RHRF that have amounted to \$40.0 million in FY 16, \$36.6 million in FY 17, and \$50.0 million is being requested in the Executive Budget for FY 18.

Thank you for your consideration of our comments.



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Testimony to the House Committee on Housing  
Tuesday, February 14, 2017  
9:00 am  
Conference Room 423

**LATE****RE: HB 487 & HB 698 – Relating to Conveyance Tax**

Chair Brower, Vice-Chair Nakamura, and members of the committee:

My name is Gladys Quinto Marrone, CEO of the Building Industry Association of Hawaii (BIA-Hawaii). Chartered in 1955, the Building Industry Association of Hawaii is a professional trade organization affiliated with the National Association of Home Builders, representing the building industry and its associates. BIA-Hawaii takes a leadership role in unifying and promoting the interests of the industry to enhance the quality of life for the people of Hawaii.

H.B. 487 proposes to remove the cap on the amount of conveyance taxes that may be paid into the rental housing revolving fund and increases the percentage of conveyance taxes collected that shall be paid into the rental housing revolving fund. H.B. 698 proposes to increase the rate of real estate conveyance tax for properties with a value of at least \$2,000,000, and amends the calculation for the amount of conveyance taxes to be deposited into the rental housing revolving fund.

BIA-Hawaii provides the following comments on H.B. 487 & H.B. 698.

While we understand and support the need to provide more government assistance for the development of affordable housing, we have consistently voiced our concern regarding the use of the conveyance tax as a means to fund development of more affordable housing.

In August of 2012, Mr. Lowell Kalapa, then President of the Tax Foundation of Hawaii stated the following:

*"On the money side, lawmakers increased the conveyance tax which is imposed on the transfer of real property and earmarked portions of it for the rental housing trust fund and the state's trails program. Somehow lawmakers felt there was a relationship between people buying and selling real property and building affordable housing and maintaining the state's lands and trails. What they seem to have lost sight of is that the conveyance tax merely adds to the cost of acquiring that property. So while the increase in the conveyance tax provided a source of subsidies for affordable rentals, it merely passed the cost onto prospective homeowners and even renters of affordable rental housing. Did lawmakers even stop to think that a non-owner occupied unit would provide housing for a family that could not afford to purchase their own home? This is but one way government has intervened and actually increased the cost of housing in Hawaii."*

The conveyance tax has been an attractive means to fund affordable housing as it is difficult if not impossible to identify an organized group of "future purchasers of real property." However, with the average price of a new home on Oahu in the mid \$700,000.00 range, perhaps policy makers should give pause and understand the unintended consequences of increasing the price of a new home in Hawaii.

In 2014, the National Association of Home Builders (NAHB) prepared a state by state analysis of the number of home buyers impacted for every \$1,000 increases in price. In 2014, 594 households were priced out of the market by a \$1,000 increase in price. While we strongly support the need to provide more government assistance to build more affordable housing, especially in an environment of historically low interest rates, we also must be concerned on how these various taxes, fees, assessments, etc., impact the "affordability" of housing in Hawaii.

We appreciate the opportunity to provide our input on this important legislation.