

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Expand and Extend Affordable Rental Housing Exemption

BILL NUMBER: HB 2330, HD-1

INTRODUCED BY: SB by Kouchi by request; HB by Saiki by request

EXECUTIVE SUMMARY: Expands and extends to June 30, 2026, the affordable housing exemption from general excise tax and use tax costs for certain rental housing projects pursuant to section 201H-36(a)(5), Hawaii Revised Statutes. Requires affordable rental project owners to accept Section 8 Housing Choice Vouchers as a condition of certification.

SYNOPSIS: Amends section 201H-36(a)(5), HRS, to apply to projects approved or certified from July 1, 2018, to June 30, 2026.

Requires projects in this category to be newly constructed or substantially rehabilitated.

Repeals the requirement that the allowable GET and Use Tax exemptions apply to contracting only and do not exceed \$7 million in the aggregate.

Adds a proviso that an owner of a project in this category cannot refuse to lease a unit in the project to a qualified applicant solely because the applicant holds a Section 8 voucher.

EFFECTIVE DATE: July 1, 2020.

STAFF COMMENTS: This bill is sponsored by the Department of Business, Economic Development, and Tourism and is designated BED-15 (18).

Currently, the HHFDC may certify affordable rental housing projects under HRS 201H-36 as qualifying for the exemption under HRS 237-29.

One of the existing categories of affordable housing projects that can be certified is an affordable rental housing project where at least 50% of the available units are for households with incomes at or below 80% of the area median family income, of which at least 20% of the available units are for households with incomes at or below 60% of the area median family income.

Act 54, SLH 2017, added another category of affordable rental housing project, where all available units are for households with incomes at or below 140% of the area median family income, of which at least 20% of the available units are for households with incomes at or below 80% of the area median family income. However, the developer would need to use a union contractor whose collective bargaining agreement or project labor agreement was properly submitted to DLIR under Hawaii's Little Davis-Bacon Act. Furthermore, the allowable GET and Use Tax costs apply to contracting only, are not to exceed \$7 million per year for all projects in this category, and this category sunsets on June 30, 2022.

This bill would expand the second category by deleting the requirement that eligible costs be for contracting only, by deleting the \$7 million per year cap, and by moving the sunset date to June 30, 2026.

If the policy goal is to build more affordable housing, we need to be wary of attaching conditions to the goal that would bog down the process. This bill takes away some of the conditions that were attached in the 2017 legislation, and the challenge now is to make sure that taxpayers can afford the enhanced bill.

Digested 2/25/2018



HAWAII REGIONAL COUNCIL OF CARPENTERS

March 12, 2018

LATE

Committee on Housing
Senator Will Espero, Chair,
Senator Breene Harimoto, Vice Chair
State Capitol, Rm 225

Statement of the Hawaii Regional Council of Carpenters in Support of HB 2330, HD 1

Dear Chair Espero and Members of the Senate Committee on Housing:

We strongly **support HB 2330, HD 1** relating to housing, which expands and extends to June 30, 2026, the certification for exemption from general excise tax and use tax costs for certain affordable rental housing projects pursuant to section 201H-36(a)(5), Hawaii Revised Statutes, and require said project owners to accept Section 8 Housing Choice Vouchers as a condition of certification.

In the 2017 session the Legislature passed an innovative piece of legislation, Act 54, to incentivize the building of rental housing by the private sector, with requirements that rents be affordable to those making below 80% AMI and to not exceed 140% AMI for a period of 30 years of affordability. The Honolulu City Council enacted counterpart legislation that will exempt these projects from property taxes, park dedication and other city development fees. This effort truly represents teamwork between the City and State, as well as business and labor sectors to work together to build rental housing that our workforce can afford.

HB 2330, HD 1 allows for more time to build under this program by extending it till 2026. This not only extends the incentives, but also extends the 15% wage reduction that construction unions have offered on these projects and the other cost reducing pledges made by developers, contractors, architects and banks. It removes the cap of \$7 million in total tax incentives for all projects under the program, essentially allowing the program to achieve as many rental units as it can build without limitation. And finally, it opens these rental units to Section 8 vouchers, which we think is a positive change to the current Act 54.

We respectfully request your support of HB 2330, HD 1 which would enhance Act 54 and strengthen the incentives program to build rental housing.

Thank you for the opportunity to voice our opinion.

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HAWAII RENTAL HOUSING COALITION

March 12, 2018

The Honorable Will Espero, Chair
The Honorable Breene Harimoto, Vice-Chair
And Members
Senate Committee on Housing
Hawai'i State Legislature
Honolulu, Hawai'i 96813



RE: Strong Support for HB2330 HD1

Dear Chair Espero, Vice-Chair Harimoto and Members:

The Hawaii Rental Housing Coalition (HRHC) is a non-profit citizens group comprised of landowners and developers, real estate industry professionals, Union representatives, segments of the non-profit community, and members of the banking industry who are committed to stimulating and supporting the private sector development of rental housing in the State of Hawaii. The HRHC's goal is to make it possible for the private sector to build rental housing for the workforce members of the community who earn less than 140% of the average median income (AMI) for their area. We seek to do this through a combination of reducing development/construction costs and the reduction of operating costs of the rental housing projects in order to make them financially viable to build and operate. For this we have sought the State's assistance in making GET exemptions available to qualified projects as defined under Act 54 which was passed last year.

We strongly urge you to favorably consider HB2330 HD1 which will remove the annual GET cap of \$7,000,000 on projects covered by Act 54, as well as remove the 5 year sunset on the applicability of Act 54, as well as provide clarifications to its scope.

The Hawaii Rental Housing Coalition is committed to bringing about a solution to building new rental housing that addresses the needs of our workforce population. We feel that with these actions on Act 54, the private sector will have some of the necessary tools to begin to address the rental housing needs of the workforce community in Hawaii.

Respectfully submitted,

/s/ Christine Nakashima-Heise

Christine Nakashima-Heise
Project Coordinator