

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

SENATE COMMITTEE ON WAYS AND MEANS

April 4, 2018 at 10:30 a.m.
State Capitol, Room 211

In consideration of
H.B. 2703, H.D. 1, S.D. 1
RELATING TO HOUSING AFFORDABILITY.

The HHFDC *supports the intent* of Part II of H.B. 2703, H.D. 1, S.D. 1, provided that its passage does not replace or adversely impact priorities indicated in our Executive Supplemental budget request. We take no position on Parts III and IV of the bill.

Part II of this bill allocates an unspecified percentage of conveyance taxes, up to an unspecified cap, for the Rental Assistance Revolving Fund (RARF), and mandates that said amount only be used for rent subsidies for families at or below 30 percent of the area median income (AMI). The RARF funds HHFDC's Rental Assistance Program (RAP), which provides qualified owners with monthly shallow rental assistance subsidies of \$175 to \$250 to assist eligible tenants with incomes at or below 80 percent AMI who live in rental housing developments to make their rental payments.

Rental assistance payments ranging between \$600 and \$1,200 per month will be needed to assist families at this extremely low income level in permanent affordable housing. HHFDC is willing to provide RAP subsidies for this income level, provided that this funding source is made available.

Thank you for the opportunity to provide written comments on this bill.



STATE OF HAWAII
DEPARTMENT OF TAXATION
830 PUNCHBOWL STREET, ROOM 221
HONOLULU, HAWAII 96813
<http://tax.hawaii.gov/>
Phone: (808) 587-1540 / Fax: (808) 587-1560
Email: Tax.Directors.Office@hawaii.gov

To: The Honorable Donovan M. Dela Cruz, Chair
and Members of the Senate Committee on Ways and Means

Date: Wednesday, April 4, 2018
Time: 10:30 A.M.
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 2703, H.D. 1, S.D. 1, Relating to Housing Affordability

The Department of Taxation (Department) offers the following comments on H.B. 2703, H.D. 1, S.D. 1, for the Committee's consideration.

H.B. 2703, H.D. 1, S.D.1, makes various amendments to income tax and conveyance tax. A summary of the key tax provisions are as follows:

- Amends the income tax credit for low-income household renters (renter's credit) under Hawaii Revised Statutes (HRS) section 235-55.7, by replacing the renter's credit amount of \$50 per exemption with an unspecified amount;
- Amends the earned income tax credit (EITC) under HRS section 235-55.75, by replacing the State EITC amount of 20% of Federal EITC with an unspecified amount, and from a nonrefundable credit to refundable credit;
- Amends the distribution of the conveyance tax under HRS section 247-7, by allocating an unspecified percentage or an unspecified amount, whichever is less, to the rental assistance revolving fund established by HRS section 201H-123; and
- Has a defective effective date of January 1, 2050, with amendments to the renter's credit and EITC otherwise applying to taxable years beginning after December 31, 2017.

First, the Department notes that refundable tax credits often lead to improper claims and create a potential for fraud. Nonrefundable tax credits limit the incentive for fraud because they only benefit taxpayers to the extent of their tax liability. A nonrefundable state EITC would not generate the number of improper claims as the federal EITC (ranging from 23% to 27%).

Second, beginning on January 1, 2017, the federal Protecting Americans from Tax Hikes Act of 2015 requires that the Internal Revenue Service hold any refunds where EITC is claimed

until at least February 15. This new law is intended to provide the IRS more time to verify claims thereby reducing the number of improper claims. The Committee may wish to consider monitoring the effectiveness of this new policy before amending the state EITC from a nonrefundable to refundable credit.

Finally, the Department is able to administer changes to the renter's credit for taxable years beginning after December 31, 2017, as it is a modification of an existing credit that would not have a significant impact on the Department's computer system. However, the Department respectfully requests that the effective date for the EITC modification be changed to taxable years beginning after December 31, 2018 as making the EITC refundable would have the same computer system impact as enacting a new credit..

Thank you for the opportunity to provide comments.



HB2703 HD1 SD1
RELATING TO HOUSING AFFORDABILITY
Senate Committee on Ways and Means

April 4, 2018

10:30 a.m.

Room 211

The Office of Hawaiian Affairs (OHA) **SUPPORTS** HB2703 HD1 SD1, which will provide substantial and much-needed housing relief to Native Hawaiian renters as well as other residents of Hawai‘i, and better assist low-income wage earners in achieving and maintaining housing security.

Native Hawaiian renters and many of Hawai‘i’s residents today are clearly struggling to afford their monthly housing costs. Native Hawaiians, whose homeownership rate is significantly lower than the state average, disproportionately rely on the rental housing market.¹ Native Hawaiian households are also much more likely to be “doubled up,” with multi-generational or unrelated individuals living together in a single household.² In addition, Native Hawaiian households are more than three times more likely have a “hidden homeless” family member than all state households.³ Recent research has further shown that state and Native Hawaiian housing rental housing demand is almost entirely for units that are affordable, rather than for market-rate or other ‘gap’-rate units.⁴ As such, support for affordable housing relief is more critical to OHA’s beneficiaries and many other Hawai‘i residents now than ever before.

HB2703 HD1 SD1’s proposed low income household renters tax credit (LIHR) increase reflects a pragmatic approach to alleviating the tax burden on those low-income individuals and families facing housing insecurity, and will have a particular impact on Native Hawaiians. Originally created in 1977 to mitigate the high cost of housing in Hawai‘i, the LIHR credit currently provides a \$50 tax credit per “qualified exemption,” for households with an adjusted gross income of less than \$30,000, that pay more than \$1,000 a year in rent. Kūpuna over the age of 65 are able to receive double the credit.

¹ For non-DHHL properties, the Native Hawaiian homeownership rate is 38.9%, 18.3 percentage points below the statewide rate of 57.2%. See U.S. Census Bureau. (2017). American Community Survey (ACS) 1-year Estimates: 2016. See also HHL: Homestead Services Division. (01/24/17) Commission submittal.

² 24.8% of Native Hawaiian households, compared to 9.6% of state households include more than two generations or unrelated individuals. See SMS, HAWAI‘I HOUSING PLANNING STUDY, at 34 (2016), available at https://dbedt.hawaii.gov/hhfdc/files/2017/03/State_HHPS2016_Report_031317_final.pdf.

³ 14.1% of Native Hawaiian households, compared to 4.2% of state households have a hidden homeless family member. *Id.*

⁴ See SMS, HAWAI‘I HOUSING PLANNING STUDY, at 34 (2016), available at https://dbedt.hawaii.gov/hhfdc/files/2017/03/State_HHPS2016_Report_031317_final.pdf.

Notably, while the LIHR is intended to provide meaningful relief for those who may need it the most, the value of the LIHR credit has not been updated since 1981. **This measure proposes an adjustment to the LIHR credit for Hawai'i's lowest-income households, to better reflect the cost of housing today, and thereby provide more meaningful relief to for those struggling to remain financially self-sufficient and housing secure.**

Furthermore, HB2703 HD1 SD1's proposed "refundable" earned income tax credit ("EITC") would further relieve the tax burden on our neediest community members, including Native Hawaiians. Building upon Act 107 (2017), HB2703 HD1 SD1 proposes to convert the state EITC into a "refundable" EITC, with an amount to be based on an unspecified percentage of the federal EITC. Because an EITC is tied to an individual taxpayer's income and family size, it is a highly targeted approach that provides tax relief in proportion to the taxpayer's needs. Such a credit addresses economic disparities in a systemic way, and provides our low-income working families and parents with additional funds to purchase basic necessities, contribute to Hawai'i's economy, and achieve economic self-sufficiency. By making the current state EITC a "refundable" credit, this measure would allow our lowest-income families to more fully realize these benefits, and encourage the asset building necessary for their increased financial security and self-sufficiency. OHA notes that any reductions in tax revenue from the EITC conversion into a refundable credit will likely be offset by increased consumer spending and economic activity, as well as the long-term increase in credit recipients' financial capacity.

Therefore, OHA urges the Committee to **PASS** HB2703 HD1 SD1. Mahalo for the opportunity to testify on this matter.

HB-2703-SD-1

Submitted on: 3/31/2018 10:41:06 AM

Testimony for WAM on 4/4/2018 10:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Kat Brady	Testifying for Community Alliance on Prisons	Comments	No

Comments:

COMMUNITY ALLIANCE ON PRISONS writes in SUPPORT of HB 2703 which would help our economically-struggling families be able to pay their rent. This bill includes the low-income renters' credit and a refundable EITC. Keeping families housed, should be an important priority for the state.

We also respectfully ask that you schedule HB 2702 - taxing REITs.

Mahalo for this opportunity to submit testimony in SUPPORT of HB 2703. We urge the committee pass this measure.



AMERICANS FOR DEMOCRATIC ACTION

OFFICERS	DIRECTORS			MAILING ADDRESS
John Bickel, President	Guy Archer	Jan Lubin	Cameron Sato	P.O. Box 23404
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Karin Gill, Secretary	Chuck Huxel	Doug Pyle		

March 31, 2018

TO: Honorable Chair Dela Cruz and Members of the Ways & Means Committee

RE: HB2703 HD1 SD1 Relating to Housing Affordability

Support for hearing on April 4

Americans for Democratic Action is an organization founded in the 1950s by leading supporters of the New Deal and led by Patsy Mink in the 1970s. We are devoted to the promotion of progressive public policies.

We support HB2703 HD1 SD1 as it would expand the eligibility and credit amount of the low income-household renters' income tax credit. In order to fully catch up with inflation, we recommend that the maximum value of the renters' credit be raised to \$150 per exemption (with phase-out levels set at \$100 and \$50), and the eligibility threshold to just above the median, which is approximately \$75,000 in annual Hawaii income for joint filers. We also suggest tailoring the credit amounts to recognize different tax filing statuses, as well as automatically adjusting it with inflation, in order to avoid future erosion of the credit's value and reach

Thank you for your favorable consideration.

Sincerely,

John Bickel
President



HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Supporting HB 2703 HD1 SD1 -- Relating to Housing Affordability
Senate Committee on Ways and Means
Scheduled for hearing on Wednesday, April 4, 2018, 10:30 AM, in conference room 211

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the Committee:

Thank you for the opportunity to testify in **STRONG SUPPORT** of **HB 2703 HD1 SD1**, which would allocate a portion of conveyance tax revenues to the rental assistance revolving fund, to be used to subsidize rents for persons who meet certain income requirements; increase the income tax credit for low-income household renters, and make the state earned income tax credit refundable.

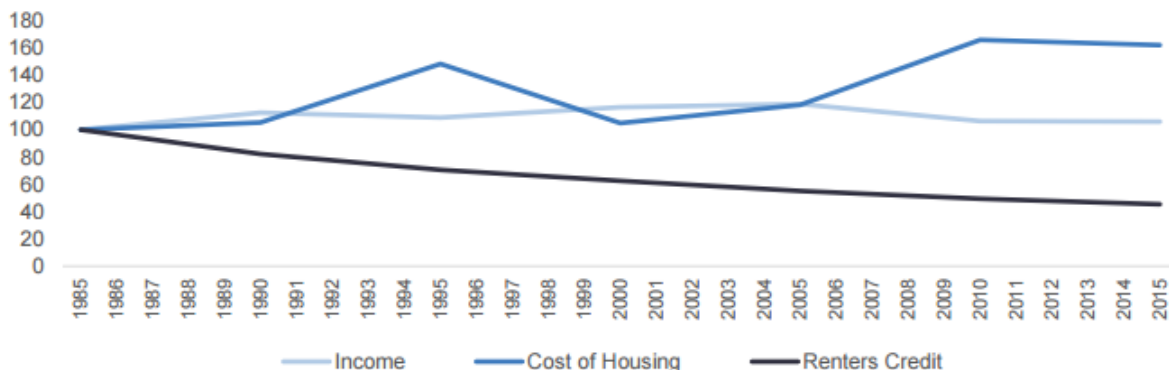
As you well know, Hawai'i has the highest rate of homelessness in the nation. A major cause of this crisis is our skyrocketing cost of housing, which is also the highest in the nation. To afford a 2-bedroom market-rate apartment, a renter in Hawai'i would need to make \$35.20 per hour, or over \$73,000 per year. As a result, the gap between this "housing wage" and the average renter's wage is the widest in the nation, at \$19.56 per hour.ⁱ

More than half of our state's renters are housing cost-burdened, spending more than 30 percent of their income on housing costs. An astounding 75 percent of Hawai'i residents living at or below the poverty line (which is about 30 percent of area median income) spend more than half of their incomes on housing.ⁱⁱ

This bill would help economically struggling households in our state make their rent payments every month, which in turn would help prevent evictions and bouts of homelessness.

Hawai'i's Incomes and Renters' Credit Have Not Kept Up With the Cost of Housing

Median Household Income vs. Rent for a Two-Bedroom Apartment vs. Low-Income Household Renters' Credit



Notes: Index, 1985 = 100. Real values.

The first part of the bill directs an unspecified amount of conveyance tax revenues to subsidize rents for individuals or families whose income does not exceed 30 percent of area median income. As noted above, these are the households that are struggling most desperately to pay their rent and therefore are in the most need for such subsidies.

The second part of the bill increases the Low-Income Household Renters' Credit by an unspecified amount. The renters' credit was created 40 years ago to help make up for the high rents and tax rates that burden our low- and moderate-income neighbors. However, it has not been updated in nearly three decades to even account for inflation.

In order to fully catch up with inflation, we recommend that the maximum value of the renters' credit be raised to \$150 per exemption (with phase-out levels set at \$100 and \$50), and the eligibility threshold to just above the medianⁱⁱⁱ, which is approximately \$75,000 in annual income for joint filers. We also suggest tailoring the credit amounts to recognize different tax filing statuses, as well as automatically adjusting it with inflation, in order to avoid future erosion of the credit's value and reach.

The third part of the bill makes our state's Earned Income Tax Credit (EITC) refundable. Mahalo for creating the Hawai'i state EITC last session. However, it is not as effective as it could be because it is not refundable, which means that tax filers can't get back more through the credit than what they owe in state income tax.

Take the example of a single parent with two children, working full-time at the minimum wage. She would make \$21,000 per year and owe approximately \$432 in state income tax. Her state EITC would total approximately \$883, but because it is not refundable, she would only be able claim \$432, the amount that she owes in income tax.

However, if the EITC were refundable – as it is at the federal level and in 24 of the 29 other states with EITCs – she'd be able to claim the full \$883, which means she'd get a tax refund of \$451. She could use that to help pay the rent. We recommend that the amount of the credit not be lowered below its current value of 20 percent of the federal EITC.

Finally, we'd like to identify a potential source of revenue for the provisions of this bill. HB 2702 would withhold taxes from out-of-state residents who receive income generated by Hawai'i real estate investment trusts (REITs). There seems to be a natural connection between funding for housing affordability and revenues generated from the real estate sector.

We appreciate your consideration of this testimony.

ⁱ *Out of Reach 2017*, National Low Income Housing Coalition, http://nlihc.org/sites/default/files/oor/OOR_2017.pdf

ⁱⁱ *2017 State Housing Profile: Hawaii*, National Low Income Housing Coalition, http://nlihc.org/sites/default/files/SHP_HI.pdf

ⁱⁱⁱ Hawaii Rankings and Comparisons, Department of Business, Economic Development & Tourism, <http://dbedt.hawaii.gov/economic/ranks/>



CATHOLIC CHARITIES HAWAI'I

TESTIMONY IN SUPPORT OF HB 2703, HD1 SD1: Relating to Housing Affordability

TO: Senator Donovan M. Dela Cruz, Chair, Senator Gilbert S. C. Keith-Agaran, Vice Chair, and Members, Committee on Ways and Means
FROM: Terrence L. Walsh, Jr., President and Chief Executive Officer
Hearing: **Wednesday, April 4, 2018; 10:30 AM; CR 211**

Chair Dela Cruz, Vice Chair Keith-Agaran, and Members, Committee on Ways and Means:

Thank you for the opportunity to provide written testimony **in strong support** of **HB 2703 HD1, SD1** which 1) allocates a portion of the conveyance tax to the Rental Assistance Revolving Fund (to assist families at 30% AMI or below), 2) increases the low-income tax credit, and 3) makes the EITC refundable, etc. I am Terry Walsh, with Catholic Charities Hawai'i. We are also a member of Partners in Care. We feel this is a very important bill.

Catholic Charities Hawai'i (CCH) is a tax exempt, non-profit agency that has been providing social services in Hawai'i for over 60 years. Our mission is to provide services and advocacy for the most vulnerable in Hawai'i. Our top priority is to end homelessness. To achieve this goal, we must put significant resources into housing for those with incomes below 30% AMI.

We support allocating a portion of the conveyance tax to the Rental Assistance Revolving Fund to enable projects to offer units that include a subsidy for those at 30% AMI or below. It is extremely difficult to build new units for this population and keep these projects sustainable. This solution would enable the State to significantly increase the creation of units for this hard to house population. Currently, projects funded through another major State resource, the Rental Housing Revolving Fund only provide 5% of units at rents affordable to this extremely low income group. With rents skyrocketing, and Hawai'i being #1 among US states in per capita homelessness, our situation is dire. This bill would provide a solution to create rental units that struggling families, our kupuna, our young graduates, etc. who make under 30% AMI can afford.

To end homelessness, we also support income stability for low-income people to stop the flow into homelessness. Increasing the income tax credit for low-income renters, and making it refundable would assist our citizens who live on the edge and any crisis could tip them into homelessness. Making the Earned Income Tax Credit refundable and other changes would also help those living on a survival budget to be more economically stable. These tax credits also benefit our economy since the refunds are usually spent on basic living expenses.

We thank the Legislature for focusing on the needs of low-income people and those living on a survival budget, which is almost HALF of all isle residents (per the recent Aloha United Way "ALICE" report). This bill would be a strong step in the right direction.

Please contact our Legislative Liaison, Betty Lou Larson, at 373-0356 or bettylou.larson@catholiccharitieshawaii.org, if you have any questions.



TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: CONVEYANCE, INCOME, Earmark Conveyance Tax to Feed Rental Assistance Revolving Fund, Make EITC Refundable, Increase Low-Income Household Renters Credit

BILL NUMBER: HB 2703, HD-1, SD-1

INTRODUCED BY: Senate Committee on Housing

EXECUTIVE SUMMARY: (1) Allocates a portion of the conveyance tax revenues to the rental assistance revolving fund to be used to subsidize rents for persons who meet certain income requirements; (2) Increases the income tax credit for low-income household renters to an unspecified amount; and (3) Makes the state earned income tax credit refundable and changes the amount of the credit to an unspecified percentage of the federal earned income tax credit.

SYNOPSIS: Amends sections 201H-123 and 247-7, HRS, to allocate the lesser of ___% or \$___ from the conveyance tax to the rental assistance revolving fund.

Amends section 235-55.7, HRS, to change the amount of the low-income household renters' credit from \$50 to \$___.

Amends section 235-55.75, HRS, to change the earned income tax credit from nonrefundable to refundable.

EFFECTIVE DATE: This Act shall take effect on January 1, 2050; provided that: (1) Part II shall take effect on January 1, 2050; and (2) Parts III and IV shall apply to taxable years beginning after December 31, 2017.

STAFF COMMENTS:

Conveyance Tax

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.

This bill adds an additional earmark on the conveyance tax to feed the rental assistance revolving fund.

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.

Income Tax Credit for Low-Income Household Renters

The 1970 legislature adopted a system of tax credits for household renters which was intended to partially offset the higher tax burden on renters resulting from the lack of tax relief like the home exemption for homeowners and the 4% general excise tax levied on rental income. The current renter credit was established by the 1977 legislature at \$20 per exemption for those taxpayers with adjusted gross incomes of less than \$20,000 who paid more than \$1,000 in rent during the tax year. Act 230, SLH 1981, increased the credit amount to \$50. Act 239, SLH 1989, increased the adjusted gross income (AGI) limit to \$30,000 to claim the credit. The proposed measure would increase the amount of the credit from \$50 to \$150. It does not increase the rent qualification amount – the taxpayer still will need to pay \$1,000 in rent during a taxable year to qualify for the credit.

There are some issues to consider with refundable credits targeted at low-income and homeless people generally.

First, a tax return is one of the most complicated documents for government agencies to process. The administrative costs associated with each one can quickly make heads spin. Furthermore, as the U.S. Treasury has experienced with the Earned Income Tax Credit, the combination of complexity and a refundable credit result in a certain percentage of improper payouts, some due to mistake or misunderstanding, and some due to bad actors.

Second, the low-income household renters' credit does nothing for most of the homeless; the credit requires payment of more than \$1000 in rent. And even for those in the target population who do qualify for this credit, the relief that the credit provides comes in a tax refund which is

paid, at the earliest, in the early part of the year after the tax return filer needs the relief. A person who qualifies for the credit in 2017, for example, won't get a check until early 2018.

Third, as a policy matter, lawmakers might prefer that the recipient of the refund not use the money obtained on such things as cigarettes, alcohol, or illegal drugs. But the tax system contains no way of restricting the uses of a refund check; other departments do have systems in place to give some assurance that the payment will go toward legitimate living expenses such as groceries (EBT, for example).

The better solution is to get such people out of the tax system entirely. They receive peace of mind because they don't have to worry about tax returns, and the department doesn't have to worry about processing those returns. If additional relief to such people is considered desirable, it can be delivered through the agencies that are better equipped to do so.

Earned Income Tax Credit

In Act 107, SLH 2017, the earned income tax credit (EITC), was adopted. Its supporters maintained it's the best solution to lift families out of poverty since sliced bread. At the Department of Taxation's urging, however, the EITC was made nonrefundable. Advocates clearly didn't like that, and are pressing to make the credit refundable.

Well, what's the difference? Let's start with a nonrefundable credit, which is current law. Suppose you either have lots of credits or not very much income, so you have more credits than tax liability. If you have made tax payments throughout the year, through wage withholding perhaps, you still can get all your payments back. But once the tax liability hits zero, there's no more. The state does not cut you a check, but you get a credit carryover which can be used against next year's tax liability.

In contrast, a refundable credit is just as good as cash. Not only can this type of credit reduce the amount of tax owed, but if the tax liability is less than the credit the State will cut the taxpayer a check for the difference.

Why is the State concerned about issuing refundable credits? There are several reasons.

First, issuing a refund is administratively expensive. In most businesses, the internal process necessary to send money to someone goes through several checks and balances to make sure that no mistakes are made. In our state government, we need to do those processes twice. At the Department of Taxation, staff can ask for a refund to be issued but no one can issue a check. Instead, a document called a "refund voucher" is sent to a different department altogether, the Department of Accounting and General Services (DAGS). Once DAGS gets the refund voucher, it goes through its own processes, checking to see if the recipient doesn't owe another agency for example, and then issues the check.

Second, a refund can become a target for bad actors. We earlier pointed to reports from the U.S. Treasury Inspector General for Tax Administration estimating that more than 20% of all federal EITC payouts were improper. Other studies estimated that about half of these so-called improper payments were paid out because someone made a mistake. Perhaps the taxpayer was


confused by the tax form, which is admittedly complex. The other half were paid out because of bad actors. Maybe a taxpayer claimed credits for kids they don't have. Maybe an unethical tax preparation service filled in data claiming credits for people who exist but aren't part of the taxpayer's family. Once the cash goes out, however, it's tough to get back. In Hawaii, our credit is 20% of the federal credit so a smaller check would go out, and because the number is smaller the Department of Taxation might not be motivated to chase down the improper payments given the number and severity of other items on their plate.


Indeed, the Department recently estimated that changing the Hawaii EITC to a refundable one would cost the State \$32 million more than a nonrefundable credit. It's not clear how they came up with that number. But that amount of money definitely could cool a few sweltering classrooms, or perhaps fix a few plumbing facilities at the airport. In this situation, what are our priorities? Where is the need greatest?

Digested 3/30/2018



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April 4, 2018

The Honorable Donovan Dela Cruz, Chair

Senate Committee on Ways and Means
State Capitol, Room 211
Honolulu, Hawaii 96813

RE: H.B. 2703, HD1, SD1, Relating to Housing Affordability

HEARING: Wednesday, April 4, 2018 at 10:30 a.m.

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran and Members of the Committee,

I am Ken Hiraki, 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 almost 9,500 members. HAR **opposes** House Bill 2703, HD1, SD1, which allocates a portion of the conveyance tax revenues to the Rental Assistance Revolving Fund to be used to subsidize rents for persons who meet certain income requirements. This measure also increases the income tax credit for low-income housing renters to an unspecified amount. Also, it makes the state earned income tax credit refundable and changes the amount of the credit to an unspecified percentage of the federal earned income tax credit.


The Conveyance Tax applies to the conveyance of multi-family rentals, land for residential subdivisions, mixed-income and multi-use properties, commercial properties, resort properties, and agricultural lands, as well as condominium and single-family homes. It also applies when one conveys property between family members. It also applies whether or not a property is sold at a gain or a loss


The tax applies to the entire purchase price, and does not take into account the amount of indebtedness that may be on the property being sold, or whether the seller may be selling at less than what the seller originally acquired the property for. Thus, in certain circumstances the seller may not have the cash to be able to pay the Conveyance Tax, or the amount of tax may be so high relative to the net proceeds that the seller is receiving as to become confiscatory.


Furthermore, the problem linking special funding to the Conveyance tax is that when the real estate market is down, there are not enough funds to pay for the programs and special funds it covers. Then, the Conveyance Tax would need to be increased to cover the program. However, when the market is up, there are excess funds over and above the program's needs. This becomes a cyclical issue, and unreliable in forecasting these program's needs.





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In 2005, the Conveyance Tax was increased on a tiered scale on 1) the sale of realty for all transfers or conveyance of realty or any interest (i.e. commercial, timeshare, agricultural, industrial, etc. and condominium or single-family residences for which the purchaser is eligible for a county homeowner's exemption); and 2) the sale of a condominium or single-family residence for which the purchaser is ineligible for a county homeowner's exemption.

In 2009, the Legislature once again increased the Conveyance Tax on 1) the sale of realty from 30 cents per \$100 (.30%) for properties over \$1,000,000 to a maximum of \$1.00 (1%) per \$100 for properties over \$10,000,000 -- an increase of over 333%, and 2) the sale of a property ineligible for a county homeowner exemption from 30 cents per \$100 to \$1.25 per \$100 (1.25%) -- an increase of over 416.66%. This is exactly what happened when our economy was in a financial crisis, the Conveyance tax was increased to cover budget shortfalls.

While HAR supports efforts to address our State's affordable housing needs, we oppose utilizing the Conveyance Tax to earmark monies to a special fund to do so.

Mahalo for the opportunity to testify in opposition to this measure.

HB-2703-SD-1

Submitted on: 4/2/2018 10:56:30 AM

Testimony for WAM on 4/4/2018 10:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Michael Golojuch Jr	Testifying for LGBT Caucus of the Democratic Party of Hawaii	Support	Yes

Comments:



49 South Hotel Street, Room 314 | Honolulu, HI 96813
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COMMITTEE ON WAYS AND MEANS
WEDNESDAY, APRIL 4, 10:30 AM, Room 211
HB2703 HD1 SD1, RELATING TO HOUSING AFFORDABILITY

TESTIMONY

Beppie Shapiro, Legislative Committee, League of Women Voters of Hawaii

Chair DELA CRUZ, Vice-Chair KEITH-AGARAN, and Committee Members:

The League of Women Voters of Hawaii strongly supports each of the following three parts of HB2703 HD1 SD1:

1. Allocation of a portion of the conveyance tax to subsidize rents for those earning less than 30% of the area median income (currently about \$25,100 for a 2 person household or \$31,380 for a 4 person household).
2. Increasing the income tax credit for renters whose AGI is less than \$30,000 who have paid more than \$1000 rent over the year.
3. Making the credit refundable.

We comment on changing the calculation of the Hawaii credit in terms of the federal Earned Income Tax Credit.

Far too many renters pay more than they can afford for housing. This bill provides some relief for the neediest of them.

When last updated in 1981, the low income renters credit was \$50; HB2703 SD1 provides a way to update this amount after 40 years of inflation. We strongly recommend that the Committee ensure that

- 1) the maximum value of the renters' credit is raised to at least \$150 per exemption
- 2) the eligibility threshold is raised to a level at or above the median, (i.e. approximately \$75,000 in annual income for joint filers)



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and to

3) amend HB2703 SD1 to adjust the amount of the EITC automatically each year to account for inflation, thus preventing the inevitable erosion of the credit

Importantly, HB2703 SD1 makes the credit refundable, so the poorest families with little or no owed tax will still benefit from these modest credits.

The additional disposable income provided will surely be spent immediately in Hawaii, adding to excise tax collections and helping Hawaii businesses.

Thank you for the opportunity to present testimony.



Board Members

President

Jason Okuhama
Managing Partner,
Commercial & Business Lending

Secretary

Marcus Kawatachi
Deputy Director,
Hawai'i Civil Rights Commission

Trina Orimoto
Clinical & Research
Psychologist

Kaipo Kukahiko
Executive Director,
KEY Project

Miwa Tamanaha
Deputy Director,
Kua'āina Ulu 'Auamo

HACBED Staff

Brent N. Kakesako
Executive Director

Keoki Noji
Chief Operating Officer

Athena T. Esene
Bookkeeper & Office Manager

Will Simmons
Food Systems Specialist

Foley Pfalzgraf
AmeriCorps VISTA

Alex Narrajos
AmeriCorps VISTA

Date: April 2, 2018

To: Senator Donovan Dela Cruz, Chair, Senator Gilbert Keith-Agaran, Vice-Chair, and members of the Committee on Ways and Means

From: Brent Kakesako, Hawai'i Alliance for Community-Based Economic Development (HACBED)

Re: Support for SB2703 HD1 SD1

Aloha Chair Dela Cruz, Vice-Chair Keith-Agaran, and Committee Members,

The Hawai'i Alliance for Community-Based Economic Development (HACBED) strongly supports SB2703 HD1 SD1, which would help many economically struggling families in Hawai'i to pay their rent each month by subsidizing rents for individuals and families with incomes below 30% AMI, increasing the Low-Income Household Renters' Credit, and making the state Earned Income Tax Credit (EITC) refundable.

HACBED was established in 1992 as a nonprofit statewide intermediary to address social, economic, and environmental justice concerns through community-based economic development. It advances its mission with core competencies in the areas of community and organizational capacity building, community and economic development planning, and asset policy development and advocacy. HACBED played a facilitating role in the State Asset Policy Task Force and was a key contributor to the State Asset Policy Road Map. HACBED also facilitated the Family & Individual Self-Sufficiency Program (FISSP) from 2008-2016, which administered the Internal Revenues Services' Volunteer Income Tax Assistance (VITA) program as a part of its larger asset building and financial education initiatives for needy families.

The Family Economic Self-Sufficiency Standard (FESS) depicts the obstacles that Hawai'i families are facing. The FESS measures the amount of money that individuals and families require to meet their basic needs without government and/or other subsidies and the data shows the following percentage of families who fall below the self-sufficiency standard statewide:

- 31.7% of families with two adults and two children;
- 50.8% of single-adult families with children.

Through FISSP surveys, families have indicated that they used the EITC money to manage daily expenses, eliminate debt, open and maintain savings accounts, purchase a home, cover education costs, or start a business.

The passage of SB2703 HD1 would go a long way to supplement the needs of vulnerable families by:

- *Subsidizing Rent for Vulnerable Families* – families with incomes below 30% AMI often struggle to make ends meet and are at risk of eviction and

homelessness. Providing a low-income rental subsidy would allow these families to stay in their homes.

- *Updating the Almost 40-Year Old Renters' Credit* – match the low-income household renters' credit and its income eligibility limits to inflation so that Hawai'i residents can stay in their homes due to the exponential rise in housing costs.
- *Making the EITC Refundable* – shifting the state EITC to be refundable would ensure families are able to make the best use of the new tax credit. The EITC supports families who are actively contributing to our workforce, is proven to alleviate child poverty and related child health, education, and earning issues, and has a multiplier effect on our economy as these workers are most likely to spend resources from the refundable credit within their local community.

SB2703 HD1 SD1 would thus provide ongoing assistance to these families in their efforts to build their assets.

Mahalo for this opportunity to testify,

Brent N. Kakesako
Executive Director



46-063 Emepela Pl. #U101 Kaneohe, HI 96744 · (808) 679-7454 · Kris Coffield · Co-founder/Executive Director

**TESTIMONY FOR HOUSE BILL 2703, HOUSE DRAFT 1, SENATE DRAFT 1,
RELATING TO HOUSING AFFORDABILITY**

**Senate Committee on Ways and Means
Hon. Donovan M. Dela Cruz, Chair
Hon. Gilbert S.C. Keith-Agaran, Vice Chair**

**Wednesday, April 4, 2018, 10:30 AM
State Capitol, Conference Room 211**

Honorable Chair Dela Cruz and committee members:

I am Kris Coffield, representing IMUAlliance, a nonpartisan political advocacy organization that currently boasts over 400 members. On behalf of our members, we offer this testimony in support of House Bill 2703, HD 1, SD 1, relating to housing affordability.

Hawai'i residents face the highest housing costs in the nation, at more than twice the national average. Researchers who authored the National Low Income Housing Coalition's *Out of Reach 2017* report found that a full-time worker would need to earn \$35.20/hour to afford a two-bedroom apartment at fair market value in our state, with Honolulu experiencing a 67 percent increase in fair market rent between 2005 and 2015. Average rent for a two-bedroom unit surpassed \$2,000 in recent years, with minimum wage workers needing to log 116 hours per week to afford a modest one-bedroom apartment at fair market value and 139 hours per week to afford a two-bedroom—a number that is equivalent to working 20 hours a day with no days off year-round. In the past three years alone, Honolulu rent has increased by more than 25 percent. While 43 percent of Hawai'i residents are renters (a number that does not include individuals and families renting outside of the regulated rental market), they earn an average wage of \$15.64/hour, scarcely enough to meet their basic needs. One out of every four households in Hawai'i report that they are “doubling up” or are three paychecks or less away from being homeless, per the Hawai'i Appleseed Center for Law and Economic Justice. Additionally, 54 percent of households are cost-burdened, meaning that they pay more than 30 percent of their income for housing costs, a number that rises to 83 percent of extremely low-income households. Homelessness is directly tied to our state's exorbitant cost of living and penchant for catering to people who use the islands as their own private Monopoly board. We beseech you to seek innovative ways of making Hawai'i more affordable for our economically disadvantaged neighbors.

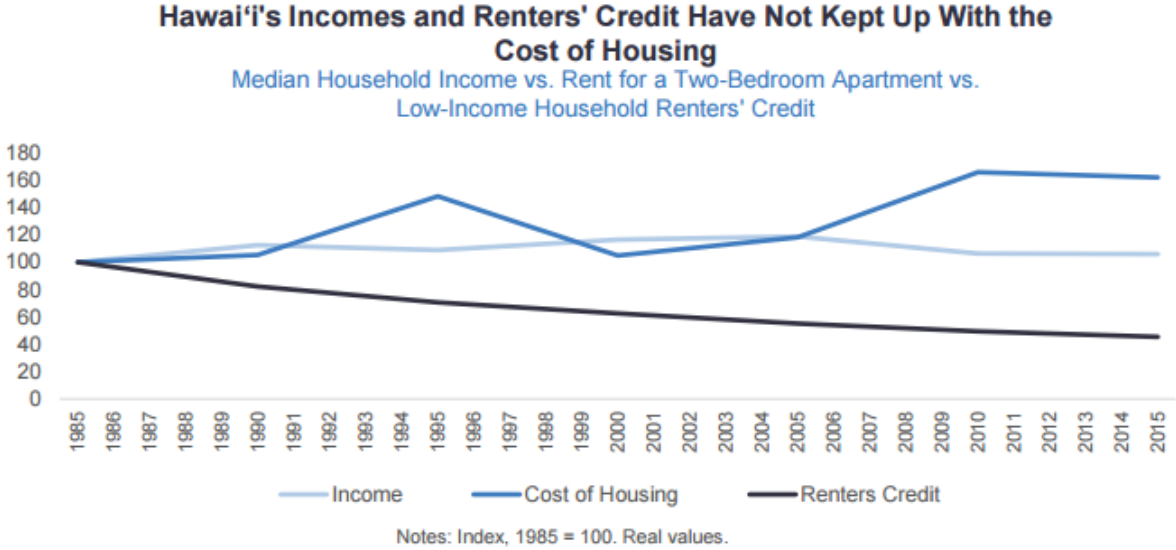
Our state's cost of housing has skyrocketed over the last decade, leaving many families searching for affordable alternatives, in shelters, or on the streets. For context, the median price of condominiums on O'ahu increased 6 percent in the summer of 2017 to a record \$425,000, while the median price for single-family homes increased by 3 percent to \$795,000, according to the Honolulu Board of Realtors, a number that they expect to increase by at least another 5 percent in 2018. Average fair market rent for two-bedroom apartments in *outlying* communities in the City and County of Honolulu now exceeds \$2,000, with the cost of a four-bedroom home in urban Honolulu now exceeding \$1.1 million. At least 46 percent of residences in Hawai'i are owner unoccupied, according to the National Low-Income Housing Coalition, meaning that nearly 50 percent—and by some estimates over half—of Hawai'i's homes are likely investment properties.

The time for deliberation is over. It's time to act. Experts at DBEDT now estimate that Hawai'i needs 66,000 new housing units by the year 2025 to keep up with demand, more than 80 percent of which is needed to meet the demand of people who qualify for affordable housing. Yet, for every 100 extremely low-income renters on O'ahu, there exist only 40 affordable rentals, according to the Urban Institute, of which only 11 are “naturally affordable,” meaning they are affordable without federal subsidies. Though our state is committed to a goal of building 22,500 affordable rental housing units in the next 10 years, figures from the Hawai'i Housing Finance and Development Corporation show that in 2015 and 2016, we added only approximately 1,000 affordable rental units to our state's inventory, with further plans finalized for a mere 3,240 more affordable rentals by 2022. Analysts believe that boosting the overall housing supply will lower home prices—and, in turn, rent—for all residents, an ancillary benefit that cannot be overstated in our undersaturated, luxury-driven, “investor first” housing market.

Conveyance taxes are levied on transfers of real property. Currently, HRS §247-7 caps the amount of conveyance tax collections paid into the rental housing revolving fund at the lesser of 50 percent or \$38 million. Per the Hawai'i Housing Finance and Development Corporation, the revolving fund exists “for the development, pre-development, construction, acquisition, preservation, and substantial rehabilitation of rental housing units.” To increase available funding for affordable housing, we support allowing a portion of the conveyance tax revenues paid to the rental assistance revolving fund to be used to subsidize rents for low-income individuals and families whose income does not exceed 30 percent of area median income. We also support making the earned income tax credit refundable to provide low- to moderate-income working families with immediate access to additional funds that may be used to help pay their rent.

Finally, to help ease Hawai'i's highest-in-the-nation cost of living, lawmakers must pass measures enhancing tax fairness and economic justice. Our state's low-income renters' credit is in dire need of adjustment. In 1981, the LIHRC was set at \$50. Later, in 1989, the income eligibility cutoff was established at \$30,000, just above the median household income of the time. Yet, neither of these amounts have changed since the 1980s, leaving the amount of the credit lagging far behind inflation. We must update the renters' credit to recover ground lost to inflation by

increasing the maximum value of the credit to at least \$150, income eligibility limits to at least \$60,000 (though an unlimited eligibility is preferable, so that all renters may claim the credit), and requiring that the credit be adjusted in all subsequent years to account for increases in the consumer price index, which will prevent the future value of the credit from lagging behind our high cost of living, as it does now.



We need housing now. Mahalo for the opportunity to testify in support of this bill.

Sincerely,
Kris Coffield
Executive Director
IMUAlliance

HB-2703-SD-1

Submitted on: 4/3/2018 3:11:52 AM

Testimony for WAM on 4/4/2018 10:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	Testifying for Oahu County Committee on Legislative Priorities of the Democratic Party of Hawai'i	Support	No

Comments:

HB-2703-SD-1

Submitted on: 4/1/2018 9:00:05 PM

Testimony for WAM on 4/4/2018 10:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Lea Minton	Individual	Support	No

Comments:

HB-2703-SD-1

Submitted on: 4/2/2018 7:57:32 AM

Testimony for WAM on 4/4/2018 10:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Amy Monk	Individual	Support	No

Comments:

HB 2703 HD1 SD1

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the Committee,

I urge the committee to pass HB2703 HD1 SD1, which would help low-income and working-class families in our state afford their rent. This also would help relieve our homelessness crisis.

The bill directs some conveyance tax revenues to the rental assistance housing fund to subsidize rents for households whose income does not exceed thirty per cent of the area median income. These families are in dire need of these subsidies in order to stay in their homes.

HB2703 HD1 SD1 also increases the Low-Income Household Renters' Credit. This credit not been updated in nearly three decades to even account for inflation. It should be updated to help make up for the high rents and tax rates that burden our low- and moderate-income neighbors.

Thank you for passing the EITC last session. This bill makes the EITC refundable, enabling low-income taxpayers to get tax refunds if their credits total more than what they owe in income tax.

Mahalo for the opportunity to provide testimony. Please pass this important bill, HB2703 HD1 SD1.

Jonathan Boyne	Ronald Fujiyoshi	Millicent Cox	Andrea Brower
Marilyn Mick	Randy Gonce	Thomas Gibson	Kathleen Gauci
Daniel Gardner	Kathleen Kikuchi Samonte		

HB-2703-SD-1

Submitted on: 4/2/2018 10:37:33 PM

Testimony for WAM on 4/4/2018 10:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Ann S Freed	Individual	Support	No

Comments:

Aloha Chair Dela Cruz, Vice Chair and members,

The Hawaii Women's Coalition is in strong support of this measure designed to alleviate the economic burden borne by women and our families in this high-cost-of-living state.

Consider:

This is most definitely a women's issue as women still earn 80 cents per every dollar compared to men in Hawaii. Since a good percentage of those women are working, single mothers who exist below the poverty line, this measure is essential to preventing a total collapse of their families.

According to the National Women's Law Center, in 2013, the federal EITC lifted more than 5.3 million people out of poverty, including more than **2.7 million children and almost 1.5 million adult women**. Given the current heartless policies coming out of Washington, it seems this is the least we can do to put a safety net under Hawaii's Working Women.

Mahalo for allowing us to testify,

Ann S. Freed, Co-Chair, Hawaii Women's Coalition

HB-2703-SD-1

Submitted on: 4/3/2018 9:53:05 AM

Testimony for WAM on 4/4/2018 10:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Barbara Polk	Individual	Support	No

Comments:

The provisions of this bill will be a step in preventing homelessness for those who are now living on the margin. It is a wise investment and I urge you to pass HB 2703

From: [Kathleen Kikuchi Samonte](#)
To: [WAM Testimony](#)
Subject: HB2703 HD1 SD1 -- Relating to Housing Affordability
Date: Monday, April 2, 2018 10:07:53 AM

TO: Senate Committee on Ways and Means
HEARING: Wednesday, April 4, 2018, at 10:30 AM
PLACE: Conference Room 211
FROM: Kathleen Kikuchi Samonte
RE: HB2703 HD1 SD1-- Relating to Housing Affordability
ATTENDING HEARING: No

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Beppie Shapiro, Legislative Committee, League of Women Voters of Hawaii

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Amy Perruso	Younghee Overly		