

DAVID Y. IGE
GOVERNOR

DOUGLAS S. CHIN
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LINDA CHU TAKAYAMA
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DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
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HONOLULU, HAWAII 96813
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To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Friday, February 23, 2018
Time: 3:30 P.M.
Place: Conference Room 308, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: H.B. 2750, H.D. 1, Relating to Taxation

The Department of Taxation (Department) offers the following comments on H.B. 2750, H.D. 1, for the Committee's consideration.

H.B. 2750, H.D. 1, changes the conveyance tax rates imposed on all properties to unspecified rates. The bill also adds an exemption to the conveyance tax for property subject to a government assistance program qualified by the Hawaii housing finance and development corporation and administered or operated by the state or federal government. The bill increases the amount of conveyance tax revenues allocated into the land conservation and rental housing revolving funds. H.B. 2750, H.D. 1, becomes effective January 1, 2019.

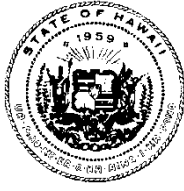
First, the Department notes that the existing conveyance tax exemptions are categorical in nature. The proposed exemption would be the first policy based exemption from conveyance tax. The Department acknowledges the need for low-income and affordable housing, but asks that the Legislature pay careful attention to other conveyance tax exemption proposals that may follow.

Second, the Department notes that the phrase "may be used to effectuate housing development and acquisition for the provision of affordable housing for qualified persons in the State" is unclear. Specifically, the Department suggests defining the phrases "may be used to effectuate," "affordable housing," and "qualified persons."

Finally, the Department notes that it is able to administer the measure as currently written as an effective date of January 1, 2019 will provide sufficient time to update its forms and instructions.

Thank you for the opportunity to provide comments.

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 FINANCE

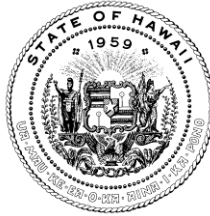
February 23, 2018 at 3:30 p.m.
State Capitol, Room 308

In consideration of
H.B. 2750, H.D. 1
RELATING TO TAXATION.

HHFDC *supports the intent* of H.B. 2750, H.D. 1, provided that its passage does not replace or adversely impact priorities indicated in the Executive Supplemental budget request. This bill makes unspecified increases in the conveyance tax rates, exempts affordable housing projects from the conveyance tax, and increases the percentages allocated to the Land Conservation Fund and the Rental Housing Revolving Fund to 15 percent and 80 percent, subject to caps of \$10,500,000 and \$60,000,000, respectively.

Thank you for the opportunity to testify.

DAVID Y. IGE
GOVERNOR OF
HAWAII



SUZANNE D. CASE
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

ROBERT K. MASUDA
FIRST DEPUTY

JEFFREY T. PEARSON, P.E.
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES
BOATING AND OCEAN RECREATION
BUREAU OF CONVEYANCES
COMMISSION ON WATER RESOURCE MANAGEMENT
CONSERVATION AND COASTAL LANDS
CONSERVATION AND RESOURCES ENFORCEMENT
ENGINEERING
FORESTRY AND WILDLIFE
HISTORIC PRESERVATION
KAHOOLAWE ISLAND RESERVE COMMISSION
LAND
STATE PARKS

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES

POST OFFICE BOX 621
HONOLULU, HAWAII 96809

**Testimony of
SUZANNE D. CASE
Chairperson**

**Before the House Committee on
FINANCE**

**Friday, February 23, 2018
3:30 PM
State Capitol, Conference Room 308**

**In consideration of
HOUSE BILL 2750, HOUSE DRAFT 1
RELATING TO TAXATION**

House Bill 2750, House Draft 1 proposes to amend the basis, rate, and allocation of conveyance tax revenues to increase funding for programs that protect and support Hawaii's long-term environmental sustainability and that develop rental housing for low-income households. **The Department of Land and Natural Resources (Department) supports this bill as it relates to the Land Conservation Fund (LCF), provided that its passage does not cause reductions in overall conveyance tax revenues and does not replace or adversely impact priorities indicated in the Executive Supplemental Budget request.**

The Department's Legacy Land Conservation Program (LLCP) awards grants from the LCF to protect important areas that hold significant resources from damage and destruction. LLCP grants provide funding for the acquisition of fee title and conservation easements by nonprofit land conservation organizations, counties, and state agencies. This successful and popular program has protected 11,836 acres statewide, and has leveraged more than \$2 of non-state funding for each \$1 of state funds. Increasing the funding for LLCP grants will result in perpetual land conservation, which is one of the most effective means to sustain our islands and culture.

In Act 156, Session Laws of Hawaii 2005, the Legislature "determined that there is a clear nexus between the source of the conveyance tax and providing funding for watershed protection and other natural resource preservation programs. The development, sale, and improvement of real estate in Hawaii adds additional pressure on natural areas, coastal access, agricultural production, and Hawaii's water resources and water recharge areas." Act 156 through LLCP continues to defend land and resources against development threats and enables management that generates conservation benefits.

Thank you for the opportunity to comment on this measure.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: CONVEYANCE, Hike Rates and Allocate to Various Funds

BILL NUMBER: HB 2750, HD-1

INTRODUCED BY: House Committee on Housing

EXECUTIVE SUMMARY: Hikes tax rates. Adds an exemption for qualified affordable housing. Requires that the revenue collected be allocated to the land Conservation Fund and the Rental Housing Revolving Fund.

SYNOPSIS: Amends section 247-2, HRS, to increase rates to unspecified levels.

Amends section 247-3, HRS, to provide for an exemption for any document or instrument conveying real property subject to a government assistance program qualified by the Hawaii housing finance and development corporation and administered or operated by the State, the corporation, the United States, or any of their political subdivisions, agencies, or instrumentalities, corporate or otherwise, which may be used to effectuate housing development and acquisition for the provision of affordable housing for qualified persons in the State.

Amends section 247-7, HRS, to provide that an increased amount of the tax is to be paid to two specified funds:

- (A) 15% of the tax or \$10.5 million, whichever is less, to the land conservation fund (which presently receives 10% of the tax or \$6.8 million, whichever is less); and
- (B) 80% of the tax or \$60 million, whichever is less, to the rental housing revolving fund (which presently receives 50% of the tax or \$38 million, whichever is less).

EFFECTIVE DATE: January 1, 2019.

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.

This bill raises the conveyance tax to generate significantly more revenues for the rental housing trust fund and the land conservation 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.

Digested 2/21/2018



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

TESTIMONY FOR HOUSE BILL 2750, HOUSE DRAFT 1, RELATING TO TAXATION

House Committee on Finance
Hon. Sylvia Luke, Chair
Hon. Ty J.K. Cullen, Vice Chair

Friday, February 23, 2018, 3:30 PM
State Capitol, Conference Room 308

Honorable Chair Luke 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 2750, HD 1, relating to taxation.

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 raising the percentage of and escalating the cap on conveyance tax collections paid into the revolving fund.


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

Sincerely,
Kris Coffield
Executive Director
IMUAlliance



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February 23, 2018

The Honorable Sylvia Luke, Chair

House Committee on Finance
State Capitol, Room 308
Honolulu, Hawaii 96813

RE: H.B. 2750, HD1, Relating to Taxation

HEARING: Friday, February 23, 2018, at 3:30 p.m.

Aloha Chair Luke, Vice Chair Cullen 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 2750, HD1, which amends the Conveyance Tax rate to an unspecified amount.

This measure also adds an exemption for qualified affordable housing and increases the percentage or caps to the Land Conservation Fund and Rental Housing Revolving Fund.

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%.


While the amounts are unspecified, HAR has serious concerns with the potential increases contained within the measure.


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





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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.

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



CATHOLIC CHARITIES HAWAI'I

TESTIMONY IN SUPPORT OF HB 2750 HD1: Relating to Taxation

TO: Representative Sylvia Luke, Chair; Representative Ty J.K. Cullen, Vice Chair;
and Members, Committee on Finance
FROM: Terrence L. Walsh, Jr., President and Chief Executive Officer
Hearing: **Friday, 2/23/18; 3:30 pm; CR 308**

Chair Luke, Vice Chair Cullen, and Members, Committee on Finance:

Thank you for the opportunity to provide testimony **in support of HB 2750 HD1** which amends the conveyance tax rates and increases the allocation of these tax proceeds to the Rental Housing Revolving Fund (RHRF). I am Terry Walsh, with Catholic Charities Hawai'i. We are also a member of Partners in Care. We support the intent of this bill to add to the massive investment in affordable housing needed to end Hawaii's ongoing housing crisis, which only worsens each year. We also support the Land Conservation Fund since protection of Hawai'i's environment is essential to the future of our islands. We believe in "healthy land, healthy people."

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. Ending homelessness is a top priority for 2018.

The KEY to ending homelessness and stopping the flow into homelessness is to create more affordable rental units. The intent of this bill is to allocate additional conveyance tax revenues to the RHRF which provides the gap equity needed to make affordable rental projects feasible. This bill is particularly important since it will provide sustainable, predictable, and ongoing funding. This will give great impetus to the development of new rentals, especially as demand along the rail line grows in the near future. Our state needs a massive investment to create adequate housing for the people of Hawaii, not only to end homelessness but to give options for our children to remain in Hawaii and our working people or seniors to have affordable rental units. The need is huge! **Oahu rents soared 23% in 3 years** (2012 to 2015). Hawaii needs about 13,500 units for households at 80% and below the AMI. Typically, these are rental units.

The Legislature took a bold step and created a Special Action Team on Affordable Rental Housing to address how to create the 22,500 units that need to be built over the next 10 years. This bill would speed up the momentum, and give hope that Hawaii will not turn into a paradise for the wealthy but instead a community that cares for all of its people.

Ending homelessness and creating decent affordable rental housing for the people of Hawaii requires consistent and significant funding or we will fall further behind. Homelessness grows; brain drain grows as young people leave the islands; families and kupuna undergo increased stress. An ongoing strong commitment to grow our affordable housing stock is vital.

We need to act now. We urge your support for this strong step forward to create a Hawai'i of which we can all be proud. Please contact our Legislative Liaison, Betty Lou Larson, at 373-0356 or bettylou.larson@catholiccharitieshawaii.org, if you have any questions.



LATE

TO: Rep. Sylvia Luke, Chair
House Committee on Finance
State of Hawaii Legislature

FROM: Rev. Bob Nakata, Co-Chair
FACE (Faith Action for Community Equity) Housing Task Force

RE: **Testimony in Strong Support of
HB 2750, HD1 Relating to the Conveyance Tax**

HEARING: **Friday, February 23, 2018, 3:30 p.m.
Room 311**

Thank you for this opportunity to speak in strong support of HB 2750, HD1 which would give a solid boost to the funding of affordable housing for the people of Hawaii. We all know that we have the worst crisis in housing and homelessness in the nation, and one that has been getting worse through the years.

We also all acknowledge that housing is extremely expensive here and that the real solution to the problem is funding. This bill is a courageous step towards that solution. We commend you for bringing it this far and urge you to pass it.

Rev. Bob Nakata
295-1316