

DAVID Y. IGE  
GOVERNOR OF  
HAWAII



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  
HOUSING

Tuesday, February 6, 2018  
9:30 AM  
State Capitol, Conference Room 423

In consideration of  
HOUSE BILL 2750  
RELATING TO TAXATION

House Bill 2750 proposes to amend the distribution of conveyance tax revenues to increase funding for programs that protect and support Hawaii's long-term environmental sustainability and the development of 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 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.

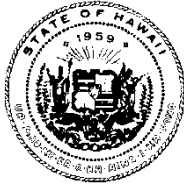
SUZANNE D. CASE  
CHAIRPERSON  
BOARD OF LAND AND NATURAL RESOURCES  
COMMISSION ON WATER RESOURCE MANAGEMENT

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

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 6, 2018 at 9:30 a.m.  
State Capitol, Room 423

In consideration of  
**H.B. 2750**  
**RELATING TO TAXATION.**

HHFDC *supports the intent* of H.B. 2750, 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

DOUGLAS S. CHIN  
LIEUTENANT GOVERNOR



LINDA CHU TAKAYAMA  
DIRECTOR

DAMIEN A. ELEFANTE  
DEPUTY DIRECTOR

**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 Tom Brower, Chair  
and Members of the House Committee on Housing

**LATE**

Date: Tuesday, February 6, 2018  
Time: 9:30 A.M.  
Place: Conference Room 423, State Capitol

From: Linda Chu Takayama, Director  
Department of Taxation

Re: H.B. 2750, Relating to Taxation

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

H.B. 2750 changes the conveyance tax rates imposed on all properties to unspecified rates. The bill also changes the rate at which leases subject to the conveyance tax are valued to an unspecified percentage. 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 (HHFDC) and administered or operated by the state or federal government. The bill increases the amount of conveyance tax revenues allocated into the rental housing revolving fund. The bill becomes effective July 1, 2018.

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."

Third, the Department notes that changing the discount rate at which leases subject to conveyance tax are capitalized may have unintended consequences. The adjusted conveyance tax rates will apply to leases subject to conveyance tax. The combination of the rate change and the discount rate used to capitalize leases may cause an unintended double increase in the conveyance tax on leases.

Finally, the Department requests the effective date of the bill be changed to January 1, 2019 to allow the Department time to update the relevant forms and instructions.

Thank you for the opportunity to provide comments.



## CATHOLIC CHARITIES HAWAI'I

### TESTIMONY IN SUPPORT OF HB 2750: Relating to Taxation

**TO:** Representative Tom Brower, Chair; Representative Nadine Nakamura, Vice Chair; and Members, Committee on Housing  
**FROM:** Terrence L. Walsh, Jr., President and Chief Executive Officer  
**Hearing:** **Tuesday, 2/6/18; at 9:30 am; CR 423**

Chair Brower, Vice Chair Nakamura, and Members, Committee on Housing:

Thank you for the opportunity to provide written testimony **in support of HB 2750** 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.

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](mailto:bettylou.larson@catholiccharitieshawaii.org), if you have any questions.





 | 808-733-7060

 | 808-737-4977

 | 1259 A'ala Street, Suite 300  
Honolulu, HI 96817

February 6, 2018

**The Honorable Tom Brower, Chair**

House Committee on Housing  
State Capitol, Room 423  
Honolulu, Hawaii 96813

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

**HEARING: Tuesday, February 6, 2018, at 9:30 a.m.**

Aloha Chair Brower, Vice Chair Nakamura and Members of the Committees,

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, which amends the Conveyance Tax rate to an unspecified amount. This measure also 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





 | 808-733-7060

 | 808-737-4977

 | 1259 A'ala Street, Suite 300  
Honolulu, HI 96817

---

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.