

SB 2400

Measure Title: RELATING TO THE CONVEYANCE TAX.

Report Title: Conveyance Tax; Rental Housing Revolving Fund; Disposition

Description: Removes the cap on the amount of conveyance taxes that may be paid into the rental housing revolving fund and increases the percentage of conveyance taxes collected that shall be paid into the rental housing revolving fund.

Companion:

Package: None

Current Referral: HOU, WAM

Introducer(s): ESPERO, GREEN, HARIMOTO, S. Chang

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

SENATE COMMITTEE ON HOUSING

January 30, 2018 at 2:45 p.m.
State Capitol, Room 225

In consideration of
S.B. 2400
RELATING TO THE CONVEYANCE TAX.

HHFDC supports S.B. 2400 but is concerned about its cost implications.

S.B. 2400 is similar to S.B. 2756, an Administration bill, which repeals the statutory cap on the disposition of conveyance taxes for deposit into the Rental Housing Revolving Fund (RHRF). However, because it also increases the RHRF's allocation of conveyance taxes from 50 percent to 60 percent, it may adversely impact the State Financial Plan.

Thank you for the opportunity to testify.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: CONVEYANCE, Earmark Tax to Rental Housing Trust Fund

BILL NUMBER: SB 2400

INTRODUCED BY: ESPERO, GREEN, HARIMOTO, S. Chang

EXECUTIVE SUMMARY: Repeals the statutory cap, and increases the earmarked percentage, of conveyance taxes dedicated for deposit into the rental housing revolving fund for the financing of affordable rental housing development.

SYNOPSIS: Amends section 247-7, Hawaii Revised Statutes, to remove the statutory cap (now \$38 million) and change the percentage of conveyance taxes to 60% (now 50%) that are deposited into the rental housing trust fund.

EFFECTIVE DATE: July 1, 2018.

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. Because 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 to generate additional revenues for the state general fund. Act 164, SLH 2014, increased the earmark to 50% as of July 1, 2014, and Act 84, SLH 2015, imposed the \$38 million cap on the earmark.

As with any earmarking of revenues, the legislature will be preapproving each of the programs fed by the fund into which the tax monies are diverted, expenses from the funds largely avoid legislative scrutiny, and the effectiveness of the programs funded becomes harder to ascertain. It is also difficult to determine whether the fund has too little or too much revenue.

If the legislature deems the programs and purposes funded by this special fund to be a high priority, then it should maintain the accountability for these funds by appropriating the funds as it does with other programs. Earmarking revenues merely absolves elected officials from setting priorities. If the money were appropriated, lawmakers would have to evaluate the real or actual needs of each program.

Digested 1/25/2018



January 29, 2018

Hawaii State Senate
Committee on Housing
Senator Will Espero, Chair
Senator Breene Harimoto, Vice Chair
State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

Hearing: January 30, 2018

Time: 2:45 PM, Room: 225

Subject: SB 2400 Remove Cap on Conveyance Tax & Increase Allocation to Rental Housing Revolving Fund

TESTIMONY IN SUPPORT

Chair Espero, Vice Chair Harimoto and members of the Committee:

I am Kevin Carney, Vice President of EAH Housing. EAH is a 50 year old non-profit public benefit corporation whose mission is to develop, manage and promote affordable rental housing. We are one of the largest non-profit affordable rental housing developers in the western United States. We have developed over 100 affordable rental properties, manage over 100 rental properties and we serve over 20,000 residents in communities in Northern California and Hawaii. The people we serve are primarily those with incomes at or below 60% of the area median income (AMI).

EAH fully supports the removal of the \$38 million cap on the conveyance tax allocation of funds to the Rental Housing Revolving Fund (RHRF) and an increase from the current allocation of fifty (50) percent to sixty (60) percent. The RHRF is the primary source of gap funding in the state for the development of low income rental housing. All of the recent housing studies have verified that Hawaii has a housing shortage and the most severe shortage is at 80% and below of the Area Median Income (AMI). This translates to a huge demand for affordable rental housing. Removing the cap and increasing the allocation of monies from the conveyance tax to the RHRF will not cure the shortage but it will allow more projects to move forward at a faster pace.

Your support of SB 2400 will produce more housing for those most in need. Thank you for allowing us to share our thoughts on this issue.

Sincerely,

Kevin R. Carney, (PB), NAHP-E, RB-16444
Vice President, Hawaii
EAH Housing, RB-16985



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COMMITTEE ON HOUSING

TUESDAY, January 30, 2018, 2:45 PM, Conference Room 225
SB 2400, Relating to the Conveyance Tax
SB 2416, Relating to the Conveyance Tax

TESTIMONY

Nina Eejima, Legislative Committee, League of Women Voters of Hawaii

Chair Espero, Vice-Chair Harimoto, and Committee Members:

The League of Women Voters of Hawaii supports both proposed measures, except as specified below:

- **SB 2400 that removes the cap on the amount of conveyance taxes that may be paid into the rental housing revolving fund, and increases the percentage of conveyance taxes collected that shall be paid into the rental housing revolving fund; and**
- **SB 2416 that increases the rate of real estate conveyance tax for properties with a value of at least \$2,000,000 and amends the calculation for the amount of conveyance taxes to be paid into the rental housing revolving fund.**

We note that SB 2400 provides that for the taxes collected under the conveyance tax law sixty percent collected each fiscal year shall be paid into the rental housing revolving fund; whereas SB 2416, provides *inter alia*, for an amount of fifty percent. Given the current affordable housing crises and the need to aggressively address this challenge, we support the sixty per cent deposit amount into the rental housing revolving fund provided under SB 2400.

Thank you for the opportunity to submit testimony.



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January 28, 2018

Senate Committee on Housing
Tuesday, January 30, 2018, 2:45pm
Conference Room 225

SB2400 – Relating to the Conveyance Tax

Aloha Chair Espero, Vice-Chair Harimoto, and Committee Members:

I am submitting testimony on behalf of Hawaiian Community Assets (HCA), the State's largest HUD-approved housing counseling agency to **STRONGLY SUPPORT SB2400**.

SB2400 would remove the conveyance tax cap to increase investment in affordable housing development for local workers and families here in our island state.

During the 2015 Session, the State Legislature passed Act 127 which mandates the State of Hawaii to build 22,500 affordable housing units for our low- and moderate-income residents by 2026. This amounts to investing in 2,250 units per year. Unfortunately, according to the Hawaii Housing Finance and Development Corporation's 2017 report to the State Legislature, Rental Housing Trust funds were awarded for the development of only 326 affordable units in the 2016 calendar year. Without increasing our investment in the development of affordable rental housing through bills such as SB2400, it would take the State 95 years to meet the mandate set in place by Act 127. Meanwhile, our local workers and families would continue to struggle to find stable, affordable housing creating uncertainty for business owners and missed opportunity for our state economy.

With the highest homeless rate per capita and some of the highest housing cost burdens of any state in the nation, we cannot wait any longer to make the necessary investments in affordable housing. SB2400 would help us increase our investment in affordable housing now. Please take action to increase affordable housing for our workers and families. **Pass SB2400.**

Mahalo for your time, leadership and consideration. Please contact me directly at 808.587.7653 or jeff@hawaiiancommunity.net should you have any questions or need additional information.

Sincerely,

A handwritten signature in black ink that reads "Jeff Gilbreath".

Jeff Gilbreath
Executive Director



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

TESTIMONY FOR SENATE BILL 2400, RELATING TO THE CONVEYANCE TAX

Senate Committee on Housing
Hon. Will Espero, Chair
Hon. Breene Harimoto, Vice Chair

Tuesday, January 30, 2018, 2:45 PM
State Capitol, Conference Room 225

Honorable Chair Espero and committee members:

I am Kris Coffield, representing IMU Alliance, a nonpartisan political advocacy organization that currently boasts over 400 members. On behalf of our members, we offer this testimony in support of Senate Bill 2400, relating to the conveyance tax.

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 46 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 \$16.53/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 eliminating 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



PARTNERS IN CARE

Oahu Continuum of Care

Partners in Care is a coalition of Oahu's homeless service providers, government representatives and community stakeholders working together in partnership to end homelessness.

Testimony in Support of SB2400 Relating to the Conveyance Tax

TO: Senate Committee on Housing
FROM: Partners in Care (PIC)
HEARING: Tuesday, January 30, 2018 at 2:45 pm, Conference Room 225

Dear Chair Espero, Vice Chair Harimoto, and members of the Committee on Housing:

Thank you for the opportunity to provide testimony on SB2400 which increases the amount of conveyance tax proceeds paid into the rental housing revolving fund. Partners in Care (PIC)—a coalition of more than 35 non-profit, homelessness providers—strongly supports SB2400 to increase funding to the Rental Housing Revolving Fund (RHRF), which provides crucial gap financing for the development of affordable rental housing.

With over half of Hawaii's renters spending more than thirty percent of their income on housing (cost burdened) and one third of Hawaii's renters spending fifty-five percent of their income on housing (extremely cost burdened), our state cannot ignore the need to increase the supply of affordable rentals to drive down housing costs. In addition, over 20% of Hawaii's homeless are working or on a fixed income meaning that a massive infusion of affordable rental housing is required for our state to make additional strides in housing the portion of our homeless population that are simply too economically disadvantaged to remain in housing that is increasing unavailable and unaffordable.

Given the need of bringing online 22,500 additional rental units in the next 10 years (a goal expressly adopted by the state), properly funding the RHRF will be crucial. The recently passed changes to the federal tax system is already decreasing the incentive to purchase Low Income Housing Tax Credits, creating further demand on the RHRF to fill the gap in financing the development of affordable rental housing. However, due to the \$38 million cap, the RHRF lost \$6 million of potential funding in FY2017 that could have been used toward an additional 40 units of affordable rental housing. In addition to eliminating the cap, SB2400 increases the percentage of conveyance tax proceeds that are dedicated to the RHRF—going from 50 percent to 60 percent.

SB2400 is timely. We are in the midst of a housing crisis that is getting worse. To turn the tide, we need much, much more in the way of housing subsidies to fund the development of affordable housing in Hawai'i, and SB2400 is an important step in the right direction.

For these reasons, Partners In Care strongly supports SB2400. Thank you for your consideration of this very important bill.

Contact for (PIC) Advocacy Committee: Chair: Gavin Thornton, 808-369-2510, picadvocacychair@gmail.com

PARTNERS IN CARE, c/o Aloha United Way
200 North Vineyard • Suite 700 • Honolulu, Hawaii 96817 • www.PartnersinCareOahu.org



January 28, 2018

From: George S. Massengale
To: Senate Committee on Housing
Date: Hearing January 30, 2019 at 2:45 P.M.
Subj: SB2416 & SB2400, Relating To The Conveyance Tax

Testimony in Support

Chair, Senator Espero, Vice Chair, Senator Harimoto and members of the Committee on Housing,
We are here today to provide testimony in support of both of these measures, which pertain to the Conveyance Tax.

SB2416 would increase the rate of the conveyance tax for properties with a value of \$2,000,000 or more. SB2400 would remove the existing conveyance tax cap of \$30,000,000 while increasing the percentage of tax revenues from 50% to 60% to be paid into the rental housing revolving trust fund.

Both measures if passed would provide additional funds that would be used to develop affordable rental housing.

We would respectfully request that §247-7 (2) be further amended to read 55 percent shall be paid into the rental housing revolving fund...And that a new section (3) be added to read (3) Five per cent shall be paid into the home ownership housing revolving fund... as provided by SB2472.

We believe that doing so would provide a dedicated source of revenues to both the existing rental housing revolving fund and proposed ownership housing revolving fund.

Because of the exigency of our housing crisis, we should ensure that housing funds are available to meet the housing demands in both rental and ownership housing.

Cordially,

A handwritten signature in black ink, appearing to read "George S. Massengale".

George S. Massengale, J.D.
Director, Community Engagement



HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

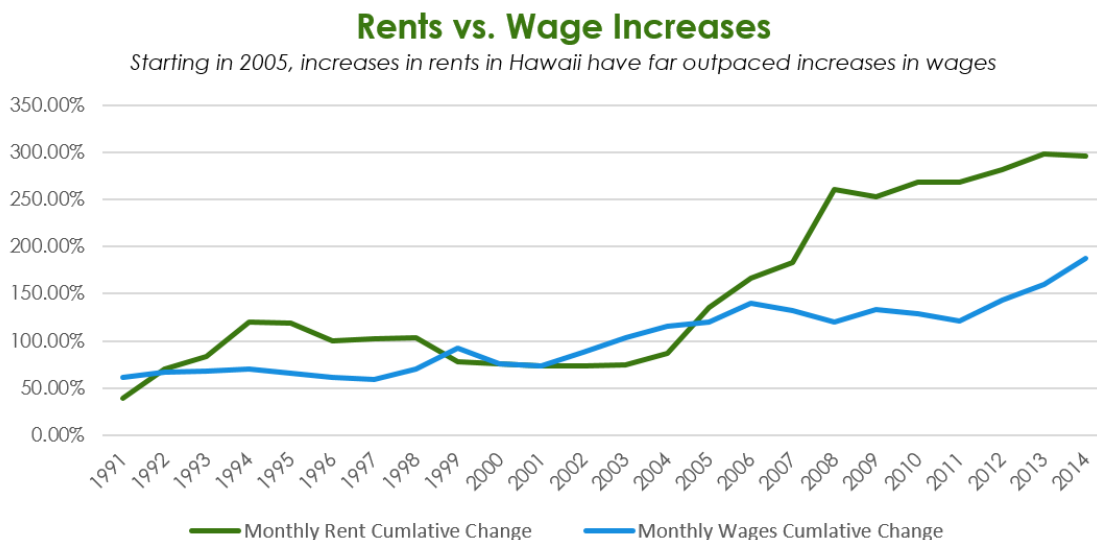
Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Supporting SB 2400, Relating to the Conveyance Tax
Senate Committee on Housing
Scheduled for Hearing Tuesday, January 30, 2018 at 2:45 pm, Conference Room 225

Hawai'i Appleseed Center for Law and Economic Justice Hawai'i Appleseed is committed to a more socially just Hawai'i, where everyone has genuine opportunities to achieve economic security and fulfill their potential. We change systems that perpetuate inequality and injustice through policy development, advocacy, and coalition building.

Dear Chair Espero, Vice Chair Harimoto, and members of the Committee on Housing:

Thank you for the opportunity to testify in **strong support** of SB 2400, which increases the amount of conveyance tax proceeds dedicated to the Rental Housing Revolving Fund (RHRF) to help create additional affordable housing for the many Hawai'i families struggling to make ends meet.

The housing crisis is one of the most critical problems in Hawai'i today. We have the highest housing costs in the nation, the lowest wages when adjusted for cost of living, the highest rate of homelessness, the highest rate of overcrowding in housing, and these problems continue to worsen with housing costs increasing at more than twice the rate of increases in wages. In just one year, from 2015 to 2016, the annual fair market rent for a two-bedroom apartment increased by over \$5,400, while the average annual wage for renters in Hawai'i increased by a mere \$83. Housing has always been expensive in Hawai'i, but as shown by the below graph, the increase in housing costs has become an increasingly serious problem over the last decade.




The increase in housing costs at a more rapid rate than the growth of wages is creating a tremendous barrier for those struggling to make ends meet—a problem that extends beyond just those at the lowest end of the income scale. Nearly half of Hawai'i tenants live in housing that is, by definition, unaffordable, spending more than 35% of household income on their monthly gross rent. Households at the bottom of the income scale face the biggest barriers. For households making \$44,000 a year—two and a half times what a minimum wage earner makes—out of every 100 homes needed, only 40 are affordable and available. All told, the Department of Business, Economic Development & Tourism projects that the state will need an additional 64,700 to 66,000 housing units between 2015 and 2025, yet Hawai'i's housing stock has only been increasing at a rate of 1,115 units per year. As demand outpaces supply, housing prices will continue to rise further and further out of reach for low- and moderate-income families.


This already-a-crisis situation is likely to get even worse if Hawai'i does not take serious action to increase the availability of affordable housing. One of the most important means of funding affordable housing development is the Rental Housing Revolving Fund (RHRF). Much of our affordable housing stock in recent years has been built using the federal Low-Income Housing Tax Credit (LIHTC) program. The LIHTC projects cannot be done with LIHTC alone—the RHRF provides crucial gap financing that the projects need to “pencil out.” Unfortunately, the recently-passed changes to the federal tax system have decreased the value of the Low-Income Housing Tax Credits, and Hawai'i needs more RHRF dollars to simply sustain Hawai'i's current pace of affordable housing development—RHRF funds were awarded for the development of only 326 affordable units in the 2016 calendar year. We need to invest more to build more.


SB 2400 will increase the percentage of conveyance tax proceeds that are dedicated to the RHRF from 50 percent to 60 percent. Additionally, SB 2400 will eliminate the \$38 million cap on the amount of conveyance tax proceeds that go to the RHRF. These changes are a critical component of ensuring that Hawai'i adequately invests in affordable housing development.

For these reasons, Hawai'i Appleseed strongly supports SB 2400. Thank you for your consideration of this very important issue.



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January 30, 2018

The Honorable Will Espero, Chair

Senate Committee on Housing
State Capitol, Room 225
Honolulu, Hawaii 96813

RE: S.B. 2400, Relating to the Conveyance Tax

HEARING: Tuesday, January 30, 2018, at 2:45 p.m.

Aloha Chair Espero, Vice Chair Harimoto, 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 over 9,500 members. HAR **supports** Senate Bill 2400, which removes the cap on the amount of conveyance taxes that may be paid into the Rental Housing Revolving Fund ("RHRF") and increases the percentage from 50% to 60% of conveyances taxes collected that shall be paid into the RHRF.

In 1992, Hawai'i established the Rental Housing Trust Fund, now named RHRF, recognizing the need to establish a fund as a continuous renewable resource to assist very low and low income families and individuals, including the homeless and special need groups, in obtaining rental housing. In order to make the RHRF continuous it was linked to the Conveyance Tax.

HAR has historically supported mechanisms to help increase the supply of low and moderate income affordable housing such as the RHRF Program which can help integrate the use of mixed-income and mixed-use projects, special purpose revenue bonds, low-interest loans, block grants, low-income housing tax credit programs and deferred loan programs to provide rental housing opportunities.

Lastly, as this program helps to increase the availability of rental housing for persons who face obstacles in moving from homelessness to permanent housing and persons with lower incomes who need to find affordable rental housing, HAR believes increasing the allocation to the RHTF should continue to help address the States unique challenges related to affordable housing.

Mahalo for the opportunity to testify in support of this measure.



SB-2400

Submitted on: 1/28/2018 9:57:28 PM

Testimony for HOU on 1/30/2018 2:45:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
John Bruce		Support	No

Comments:

Something has to be done about the housing situation. This bill really helps move the task of fixing the problems forward.

SB-2400

Submitted on: 1/28/2018 9:16:04 PM

Testimony for HOU on 1/30/2018 2:45:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Greg and Pat Farstrup		Support	No

Comments: