

SB 2421

- Measure Title:** RELATING TO HOUSING.
- Report Title:** Affordable Housing; Hawaii Housing Finance and Development Corporation; Hawaii Public Housing Authority; Department of Hawaiian Home Lands; Conveyance Tax; Appropriation (\$)
- Description:** Authorizes the issuance of general obligation bonds for construction and infrastructure development projects to provide affordable housing units for middle class and low income residents. Allows moneys from the conveyance tax and the county surcharge on state tax to be used to repay the bonds.
- Companion:**
- Package:** None
- Current Referral:** HOU, WAM
- Introducer(s):** ESPERO, HARIMOTO, Keith-Agaran, Shimabukuro



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. 2421
RELATING TO HOUSING.

HHFDC supports S.B. 2421 provided that its passage does not replace or adversely impact priorities indicated in the Executive Supplemental Budget request. We defer to our sister agencies on portions of this bill that are within their jurisdictions.

This bold proposal would, among other things, authorize the issuance of General Obligation Bonds for the construction of affordable housing units for middle- and low-income Hawaii residents, and allow a portion of conveyance taxes and the county surcharge on state tax to be used to repay the bonds.

HHFDC specifically supports Section 4, which would appropriate \$500 million to be distributed among the Dwelling Unit Revolving Fund (DURF), the Rental Housing Revolving Fund (RHRF) and a fund named as the "Rental Assistance Housing Fund." **We note however that there is no "Rental Assistance Housing Fund", and respectfully suggest that instead, the Rental Assistance Revolving Fund, established in §201H-123, HRS, be named in its place.** The Rental Assistance Revolving Fund may be used for project-based rent subsidies for low-income households at or below 80 percent of the area median income (AMI).

Section 7 appropriates \$450 million for construction of affordable rental units in partnership with private entities for households between 30 and 140 percent AMI. **We respectfully suggest that this amount be appropriated into the RHRF, earmarked for this purpose.**

Section 8 appropriates \$400 million for constructing infrastructure on state lands for transit-oriented development near the Aloha Stadium, Leeward Community College, UH West Oahu, and Iwilei. **HHFDC respectfully suggests that this amount be appropriated into the DURF, earmarked for these purposes.**

Thank you for the opportunity to testify.

DAVID Y. IGE
GOVERNOR



LAUREL A. JOHNSTON
ACTING DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY

TESTIMONY BY LAUREL A. JOHNSTON
ACTING DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON HOUSING
ON
SENATE BILL NO. 2421

January 30, 2018

2:45 P.M.

Room 225

RELATING TO HOUSING

Senate Bill No. 2421 authorizes the issuance of general obligation bonds for construction and infrastructure development projects to provide affordable housing units for middle class and low income residents, and allows money from conveyance tax and the county surcharge on state tax to be used to repay the bonds.

The Department has technical comments on this bill. Federal tax law requires, among other things, that tax-exempt general obligation bond proceeds be used to finance projects/programs that serve public purposes. As it appears that private entities will derive benefit from this legislation, tax-exempt general obligation bonds cannot be used for this purpose. The State would need to issue taxable general obligation bonds at a higher cost.

In addition, as funding for these projects/programs is not in the proposed Executive Budget, should this bill proceed or pass the Legislature, an amount for the corresponding annual debt service will need to be included in the Legislature's version of the budget.

Thank you for your consideration of our comments.

DAVID Y. IGE
GOVERNOR



HAKIM OUANSAFI
EXECUTIVE DIRECTOR

BARBARA E. ARASHIRO
EXECUTIVE ASSISTANT

STATE OF HAWAII

HAWAII PUBLIC HOUSING AUTHORITY
1002 NORTH SCHOOL STREET
POST OFFICE BOX 17907
HONOLULU, HAWAII 96817

Statement of

Hakim Ouansafi

Hawaii Public Housing Authority
Before the

SENATE COMMITTEE ON HOUSING

Tuesday, January 30, 2018

2:45 PM - Room 225, Hawaii State Capitol

In consideration of

SB 2421

RELATING TO HOUSING

Honorable Chair Espero and Members of the Senate Committee on Housing, thank you for the opportunity to provide testimony concerning Senate Bill (SB) 2421, relating to housing.

The Hawaii Public Housing Authority (HPHA) **supports the intent** of SECTION 5 and SECTION 6 of SB 2421, **with amendments**, provided that it does not adversely affect the Governor's Supplemental Budget. SB 2421 authorizes the Director of Finance to issue general obligation bonds to construct affordable rental units and homes; and allows moneys from the conveyance tax and the county surcharge on a state tax to be used to repay the bonds.

The Hawaii Public Housing Authority (HPHA) continues to embrace innovative approaches to redeveloping its aging property inventory through higher density, mixed-income, and mixed-use projects. Mayor Wright Homes, HPHA's School Street Campus, and the Second Phase of Kuhio Park Terrace are among a number of HPHA properties that have been identified in its future redevelopment plan. Located in close proximity to planned City and County of Honolulu (City) rail stations, the undertaking of redeveloping these State assets would not only allow the HPHA to rehabilitate aging public housing units, but also contribute approximately 10,000 affordable rental housing units on Oahu. With that being said, the HPHA would like to insert the following amendments:

Page 5, line 18 to include: "Other Hawaii Public Housing Authority redevelopment projects that become ready to develop".

Page 7, line 3 to include: "corporation may enter into partnerships with state and private entities"

In regards to SECTION 6 of the measure, which directs the HPHA to construct temporary transitional housing or homeless shelters across the State, and then convert them into low-income rental units for residents earning 60% Area Median Income (AMI) and below, please know that the HPHA stands ready to assist in this endeavor if the Legislature so chooses.

The HPHA appreciates the opportunity to provide the Senate Committee on Housing with the HPHA's testimony regarding SB 2421. We thank you very much for your dedicated support.

DAVID Y. IGE
GOVERNOR
STATE OF HAWAII

SHAN S. TSUTSUI
LT. GOVERNOR
STATE OF HAWAII



JOBIE M. K. MASAGATANI
CHAIRMAN
HAWAIIAN HOMES COMMISSION

WILLIAM J. AILA, JR.
DEPUTY TO THE CHAIRMAN

**STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS**

P. O. BOX 1879
HONOLULU, HAWAII 96805

**TESTIMONY OF JOBIE M. K. MASAGATANI, CHAIRMAN
HAWAIIAN HOMES COMMISSION
BEFORE THE SENATE COMMITTEE ON HOUSING**

IN SUPPORT OF

SB 2421 RELATING TO HOUSING

January 29, 2018

Aloha Chair Espero and members of the Committee:

The Department of Hawaiian Home Lands (DHHL) supports this bill that authorizes the issuance of general obligation bonds for construction and infrastructure development projects to provide affordable housing units. As it pertains specifically to DHHL, the bill authorizes \$50 million in general obligation bonds for fiscal year 2018-2019 for the purpose of constructing a multiple-unit high rise condominium on land administered by DHHL provided that the units shall be used by eligible homesteaders and that the moneys may be expended for infrastructure or actual building costs.

The Department appreciates any additional funding to support its initiatives as long as it doesn't affect the priorities identified in the Governor's Executive budget request. DHHL requests flexibility for the use of the \$50 million in general obligation bonds for lump sum Hawaiian Home Lands lot development, Statewide. In order to construct a multiple-unit high rise condominium on land administered by DHHL, the Department must first adopt administrative rules and that process is just starting with the Hawaiian Homes Commission's approval in December 2017 to proceed to beneficiary consultation for administrative rules related to Declaration of Covenants, Conditions, and Restrictions (DCCR) communities, multi-family housing, and rentals.

Thank you for your consideration of our testimony.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: CONVEYANCE, MISCELLANEOUS, Fund Housing with Conveyance Tax and GET Surcharge

BILL NUMBER: SB 2421

INTRODUCED BY: ESPERO, HARIMOTO, Keith-Agaran, Shimabukuro

EXECUTIVE SUMMARY: Authorizes the issuance of general obligation bonds for construction and infrastructure development projects to provide affordable housing units for middle class and low-income residents. Allows moneys from the conveyance tax and the county surcharge on state tax to be used to repay the bonds. The provisions allowing repayment of the bonds from the specified sources are unnecessary.

SYNOPSIS: Authorizes the director of finance to issue general obligation bonds to construct affordable rental units and homes.

Amends section 247-7, Hawaii Revised Statutes, to provide that conveyance tax collections may be used to repay bonds issued under this act.

Amends section 248-2.6, Hawaii Revised Statutes, to provide that the State's 1% administrative fee may be used to repay bonds issued under this act.

EFFECTIVE DATE: July 1, 2018.

STAFF COMMENTS: Section 39-11, Hawaii Revised Statutes, provides that interest and principal payments on general obligation bonds are a first charge on the general fund of the State, and that the full faith and credit of the State are pledged to repay the bonds. In other words, it is not necessary for this or any other act to specify what general fund revenues may be used to repay the principal and interest on the bonds, because any general fund revenues that the State realizes can be used for that purpose.

Digested 1/25/2018



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COMMITTEE ON HOUSING

TUESDAY, January 30, 2018, 2:45 PM, Conference Room 225
SB 2421, Relating to Housing

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 offers comments on SB 2421 that authorizes the issuance of general obligation bonds to construct affordable rental units and homes and allows moneys from the conveyance tax and the country surcharge on state tax to be used to repay the bonds.

We initially note that the committee is considering two other pending measures that address revisions to the deposit of conveyance tax collections into the rental housing revolving fund (SB 2400 and SB 2416), neither of which includes the additional provision reflected in SB 2421 that authorizes bond payment from the rental housing revolving fund. Interestingly, the proposed measure authorizes, *inter alia*, the issuance of \$500,000,000 in general obligations funds to be distributed to three funds, but only one of which (the rental housing revolving fund which is funded from the collection of conveyance tax moneys) has a bond payment provision.

While we support the general proposition of the necessity to issue bonds to support the construction of affordable rental units and homes, we urge the Committee to carefully consider, *inter alia*, the projected fiscal and economic impacts the bond issuance will present to the sustainability of the rental housing revolving fund, including whether:

- bond repayment obligations will adversely impact the ability of the rental housing revolving fund and the land conservation fund to carry out their current statutory mandates;
- current and projected conveyance tax collections are projected to be sufficient to meet the additional requirement of bond repayments; and
- adequate fiscal and economic modeling supports the underlying technical aspects of the proposed bond issuances.

Thank you for the opportunity to submit testimony.



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

TESTIMONY FOR SENATE BILL 2421, RELATING TO HOUSING

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 strong support of Senate Bill 2421, relating to housing.

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.

We are in the midst of an affordable housing crisis. 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.

Many of those properties, in turn, are owned by mainland and foreign buyers, whose real estate market speculation is a prime driver of Hawai'i's highest-in-the-nation cost of housing. According to a study released in May of 2016 by the Hawai'i Department of Business, Economic Development, and Tourism, there are “clear distinctions” between the average price of homes bought by local residents, mainlanders, and foreigners. Analyzing purchases made between 2008 and 2015, DBEDT found: “The average sale price was highest among foreign buyers. The average sale price of the total of 5,775 homes sold to foreign buyers from 2008 to 2015 was \$786,186, 28.3 percent higher than the average sale price to the mainlanders (\$612,770) and 64.7 percent higher than the average sale price to local buyers (\$477,460).”

The time for deliberation is over. It's time to act. Experts at the Department of Business, Economic Development, and Tourism 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, as this bill does, 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.

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

Sincerely,
Kris Coffield
Executive Director
IMUAlliance



January 28, 2018

From: George S. Massengale
To: Senate Committee on Housing
Date: Hearing January 30, 2018 at 2:45 P.M.
Subj: SB2421 Relating to Housing

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 SB2421, which would authorize the issuance of general obligation bonds for various affordable housing construction and infrastructure projects in Hawaii.

As we have elucidated in our testimony on various measures throughout these hearings today, we are in the midst of the most severe housing crisis in the history of our state. This is a crisis of our own making by failing to heed, for the last 30 years, all the warning signs pertaining to our shortage of affordable housing.

Although SB2421 as written will provide significant bond revenues for affordable housing development, this is only 1/10th of the funds needed to build the 64,000 housing units we will need by 2025. The reality is, we will need to spend much, much more. To use two well-worn cliché, we need to “take the bull by horns” and “stop kicking the can down the road”.



We are all in this together, and we all need to address this crisis.


Respectfully,

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

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



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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. 2421, Relating to Housing

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 **opposes** Senate Bill 2421, which authorizes the issuance of general obligation bonds for construction and infrastructure development projects. This measure allows monies from the conveyance tax and the county surcharge on state tax to be used to repay the bonds.

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 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 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.

While HAR supports these affordable housing initiatives, we oppose linking it to the Conveyance Tax.

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

