



EXECUTIVE CHAMBERS  
HONOLULU

DAVID Y. IGE  
GOVERNOR

Testimony of the Office of the Governor  
State of Hawai'i

Before the  
**House Committee on Housing**  
March 20, 2018; 10:00 a.m.  
Conference Room 423

In consideration of  
**Senate Bill No. 2756, S.D.1**  
**RELATING TO THE CONVEYANCE TAX**

Chair Brower , Vice Chair Nakamura, and committee members:

The Office of the Governor **strongly supports** Senate Bill 2756, S.D.1. Housing is a top priority for the Ige administration. Governor Ige convened a housing task force comprised of representatives from the Land Use Research Foundation, the Building Industry Association, the development community, housing advocacy organizations, and the state legislature to work collaboratively on solutions to the housing shortage.

This measure supports the goals of that task force by removing the cap on the allocation of conveyance taxes dedicated to the Rental Housing Revolving Fund (RHRF). There is a substantial need for affordable rental housing in Hawaii and lifting the cap would allow a greater infusion of funds into this important resource that provides the gap financing necessary to ensure projects are economically feasible.

We urge you to pass this bill. Thank you for the opportunity to testify on this measure.

Denise Iseri-Matsubara  
Office of the Governor  
(808) 586-0805



**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**

March 20, 2018 at 10:00 a.m.  
State Capitol, Room 423

In consideration of  
**S.B. 2756, S.D. 1**  
**RELATING TO THE CONVEYANCE TAX.**

The HHFDC **strongly supports** S.B. 2756, S.D. 1, an Administration bill to remove the cap on the allocation of conveyance taxes dedicated to the Rental Housing Revolving Fund (RHRF).

The RHRF was created to fill the financing gap between the cost of developing an affordable rental housing project and the amount of rental income such projects can reasonably expect to generate. The fund currently provides loans or grants to projects that set aside units affordable to families at or below this income range. The RHRF is funded primarily by a dedicated allocation of 50 percent of conveyance taxes, or \$38,000,000, whichever is less.

In Fiscal Year 2016-2017, the statutory maximum of \$38,000,000 in conveyance tax revenues was reached in April 2017. Based on prior year real estate sales activity in the months of May and June, an additional \$6,000,000 could have been deposited into the RHRF if the cap did not exist. If there were no cap, that \$6,000,000 could have financed an additional 40 affordable rental units.

We respectfully request your support of this bill. Thank you for the opportunity to testify.



## DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

DAVID Y. IGE  
GOVERNOR

LUIS P. SALAVERIA  
DIRECTOR

MARY ALICE EVANS  
DEPUTY DIRECTOR

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Statement of  
**LUIS P. SALAVERIA**  
Director  
Department of Business, Economic Development and Tourism  
before the  
**HOUSE COMMITTEE ON HOUSING**  
Tuesday, March 20, 2018  
10:00 a.m.  
State Capitol, Conference Room 423

in consideration of  
**SB2756, SD1**  
**RELATING TO THE CONVEYANCE TAX.**

Chair Brower, Vice Chair Nakamura and Members of the Committee.

The Department of Business, Economic Development and Tourism (DBEDT)  
**strongly supports** SB2756, SD1, an Administration bill to remove the cap on the allocation of conveyance taxes dedicated to the Rental Housing Revolving Fund (RHRF) to support the financing of additional affordable rental housing units statewide.

In Fiscal Year 2017, the RHRF hit the \$38 million cap in April. Based on typical real estate activity in last two months of the fiscal year, the RHRF lost an additional \$6,000,000 that could have supported the financing of an additional 40 affordable rentals. This bill would prevent this situation from recurring.

Thank you for the opportunity to offer support of SB2756, SD1.

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  
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To: The Honorable Tom Brower, Chair  
and Members of the House Committee on Housing

Date: Tuesday, March 20, 2018  
Time: 10:00 A.M.  
Place: Conference Room 423, State Capitol

From: Linda Chu Takayama, Director  
Department of Taxation

Re: S.B. 2756, S.D. 1, Relating to the Conveyance Tax

The Department supports S.B. 2756, S.D. 1, an Administration measure, defers to the Hawaii Housing Finance and Development Corporation on the merits of this bill, and provides the following comments for your consideration.

S.B. 2756, S.D. 1, amends Hawaii Revised Statutes section 247-7(2) by removing the allocation cap of \$38.0 million, resulting in a possible increased allocation of the conveyance tax to the rental housing revolving fund (RHRF) established under section 201H-202. This bill has a defective effective date of July 1, 2050.

The Department notes that in fiscal year 2017, total conveyance tax revenues was \$94.5 million, and the allocation to the RHRF was cap at \$38.0 million. By removing the \$38.0 million cap, the RHRF will receive 50% of conveyance tax revenues, which would have been \$47.3 million in fiscal year 2017 (or \$9.3 million higher than the current allocation).

Thank you for the opportunity to provide testimony in support of this measure.



## CATHOLIC CHARITIES HAWAII

### TESTIMONY IN SUPPORT OF SB 2756 SD1: Relating to the Conveyance Tax

**TO:** Representative Tom Brower, Chair, Representative Nadine K. Nakamura, Vice Chair, and Members, Committee on Housing  
**FROM:** Terrence L. Walsh, Jr., President and Chief Executive Officer  
**Hearing:** **Tuesday, 3/20/18; 10:00 AM; CR 423**

Thank you for the opportunity to provide testimony **in support** of SB 2756 SD1, which repeals the cap on proceeds from the conveyance tax to the Rental Housing Revolving Fund. I am Terry Walsh, with Catholic Charities Hawai'i. We are also a member of Partners in Care.

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. To end homelessness we must create significantly more affordable housing on an ongoing basis. This is a top priority for 2018.

The Star Advertiser (1/10/18) reported on a study by Aloha United Way, which found that nearly half of isle households do not earn enough to cover basic needs, much less save anything for an emergency. Any crisis can put these families at great risk for long-term problems like loss of housing. The situation is dire and demands a great investment to create rental units that struggling families can afford.

The Rental Housing Revolving Fund provides crucial gap financing to build affordable rental projects. However, one major break on the ability of the RHRF to create more affordable housing is the \$38 million cap on funding from the conveyance tax. In FY 2017, the RHRF lost \$6 million in potential funding. Without the cap, the additional funding could have been used toward another 40 units of affordable rental housing.

These annual funds are critical, especially now that the new federal Tax Cut law is cutting into the ability of the RHRF to create new rentals. Due to this new law, it is estimated that the federal Low Income Housing Tax Credits will suffer a loss of 14% in value. This is 14% that projects must now find from other resources like the RHRF, in order to make their housing projects pencil out. Current projects, already "100% funded" now show short-falls totalling millions of dollars. This added demand on the resources of the RHRF will result in fewer overall units, unless action is taken this year!

The State Legislature tasked the Special Action Team on Affordable Rental Housing to make recommendations on actions to promote rental housing and set a goal of 22,500 additional rental units by the year 2026. This bill is also recommended by the Special Action Team. Catholic Charities Hawaii supports repealing the cap on funding to the RHRF, in order to fund projects not just this year, but ongoing into the future. Hawaii's housing crisis demands a multi-year response. This bill is a strong step in the right direction.

We need to act now. 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.



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

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**TESTIMONY FOR SENATE BILL 2756, SENATE DRAFT 1, RELATING TO THE  
CONVEYANCE TAX**

**Senate Committee on Housing  
Hon. Tom Brower, Chair  
Hon. Nadine K. Nakamura, Vice Chair**

**Tuesday, March 20, 2018, 10:00 AM  
State Capitol, Conference Room 423**

Honorable Chair Brower 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 Senate Bill 2756, SD1, 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 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 43 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 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



March 19, 2018

To: House Committee on Housing  
Date: Hearing March 20, 2018 at 10:00 A.M.  
Subj: SB2756, SD1, Relating to the Conveyance Tax

### Testimony in Support

Chair, Brower, Vice Chair, Nakamura and members of the Committee on Housing. Please accept our testimony today in support of SB2756, SD1 which pertains to the Conveyance Tax.

This measure would repeal the statutory cap on disposition of conveyance taxes dedicated for deposit into the Rental Housing Revolving Fund for financing of affordable rental housing development.

We would point out to the committee that the great majority of the bills introduced this session refer to increasing our affordable rental housing stock, which we strongly support. However, we also strongly believe that we need to increase our affordable ownership housing stock. ***Increasing rentals while not providing home ownership opportunities for our lower income middle class families will further attenuate the schism between the “haves and have nots”. We know that the lack of affordable housing of both types is responsible for the exodus of our younger families to the mainland who cannot afford to live here anymore.***

Mahalo, for the opportunity to offer this testimony here today.

George Massengale  
Chair, Advocacy Committee



**SB-2756-SD-1**

Submitted on: 3/19/2018 9:57:42 AM

Testimony for HSG on 3/20/2018 10:00:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Melodie Aduja	Oahu County Committee on Legislative Priorities, Democratic Party of Hawai'i	Support	No

Comments:



808-733-7060

808-737-4977

1259 A'ala Street, Suite 300  
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March 20, 2018

**The Honorable Tom Brower, Chair**  
Senate Committee on Housing  
State Capitol, Room 423  
Honolulu, Hawaii 96813

**LATE**

**RE: Senate Bill 2756, SD1, Relating to Conveyance Tax**

**HEARING: Tuesday, March 20, 2018, at 10:00 a.m.**

Aloha Chair Brower, Vice Chair Nakamura, 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 close to 9,500 members. HAR **supports** Senate Bill 2756, SD1, which repeals the statutory cap on the disposition of conveyance taxes dedicated for deposit into the Rental Housing Revolving Fund (RHRF) for the financing of affordable rental housing development.

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.



# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: CONVEYANCE, Remove Cap on Earmark to Rental Housing Revolving Fund

BILL NUMBER: SB 2756, SD-1

INTRODUCED BY: Senate Committee on Ways & Means

EXECUTIVE SUMMARY: Proposes to reverse Act 84, SLH 2015, which imposed the \$38 million cap on the conveyance tax revenues to be redirected to the rental housing revolving fund. The cap was imposed to make general fund forecasting more reliable and increase transparency and accountability.

SYNOPSIS: Amends section 247-7(2), HRS, to delete the \$38 million cap on the conveyance tax revenues to be redirected to the rental housing revolving fund.

EFFECTIVE DATE: July 1, 2050.

STAFF COMMENTS: This is an Administration bill sponsored by the Department of Business, Economic Development, and Tourism and designated BED-14 (18).

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.

In 2015, the Conference Committee explained the rationale for the cap on the earmark as follows:

Your Committee on Conference finds that budgetary planning and transparency are key components to ensuring the ongoing fiscal health of the State. Your Committee on Conference believes that, by establishing maximum amounts to be distributed to various non-general funds from the conveyance tax, this measure will make forecasts of general fund revenues more reliable, will increase legislative oversight of agencies and programs supported by the non-general funds, and will subject those agencies and programs to competition for limited public funds if the agencies or programs want more than the amount automatically distributed to their non-general funds.

Reinstating the prior law that contained no cap on the earmarked revenues should be done only with great caution. 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 revolving 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 3/16/2018