EXECUTIVE CHAMBERS

HONOLULU

DAVID Y. IGE
GOVERNOR

Testimony of the Office of the Governor
State of Hawaiʻi

Before the
Senate Committee on Ways and Means
February 28, 2018, 10:45 a.m.
Conference Room 211

In consideration of
Senate Bill No. 2757, S.D.1
RELATING TO HOUSING

Chair Dela Cruz , Vice Chair Keith-Agaran, and committee members:

The Office of the Governor **strongly supports** Senate Bill 2757, 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 the task force by improving the economics of building and operating rental housing in Hawaiʻi. Section 201H of the Hawaii Revised Statutes was amended under Act 54 last year to expand the types of rental housing projects that could be exempted from general excise tax(GET). This bill lifts the cap on GET exemptions to spur production and extends the sunset date to June 30, 2026 to allow for an entire project cycle.

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

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DAVID Y. IGE
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DOUGLAS S. CHIN
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To: The Honorable Donovan M. Dela Cruz, Chair
and Members of the Senate Committee on Ways and Means

Date: Wednesday, February 28, 2018
Time: 10:45 A.M.
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 2757, S.D. 1, Relating to Housing

The Department of Taxation (Department) strongly supports S.B. 2757, S.D. 1, an Administration measure, defers to the Hawaii Housing Finance and Development Corporation (HHFDC) on the merits of this bill, and provides the following comments for your consideration.

S.B. 2757, S.D. 1, is intended to increase low income housing by extending the exemption from the general excise and use taxes costs for certain rental housing projects certified pursuant to Hawaii Revised Statutes (HRS) section 201H-36(a)(5) to June 30, 2026, expanding the exemption to cover rents, and repealing the existing per year cap of $7 million for the exemption. The measure also provides that project owners cannot refuse to rent to an applicant because the applicant is utilizing vouchers or certificates of eligibility under Section 8 of the United States Housing Act of 1937. The measure has an effective date of July 1, 2018 and applies to taxable years beginning after December 31, 2017.

Under HRS section 201H-36, HHFDC certifies that a housing project is entitled to the tax exemption. Only after receiving such certification can a taxpayer claim the tax exemption. As the regulatory agreements and the eligibility determinations remain with HHFDC, this measure will not have a substantial administrative impact on the Department.

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

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
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IN REPLY REFER TO:

Statement of
Craig K. Hirai
Hawaii Housing Finance and Development Corporation
Before the

SENATE COMMITTEE ON WAYS AND MEANS
February 28, 2018 at 10:45 a.m.
State Capitol, Room 211

In consideration of
S.B. 2757, S.D. 1
RELATING TO HOUSING.

The HHFDC ***strongly supports*** S.B. 2757, S.D. 1, an Administration bill. S.B. 2757, S.D. 1 would expand the general excise tax exemption for rental projects developed by the private sector under a contract described in section 201H-2(i)(2), HRS, to include substantial rehabilitation projects, affordable rents, remove the per annum cap on such exemptions, extend the sunset date of Act 54, Session Laws of Hawaii (SLH) 2017, from June 30, 2022, to June 30, 2026, and require that certified projects accept qualified residents with Section 8 Housing Choice Vouchers as a condition of certification for the exemption.

The proposed exemption of affordable rents would apply only to rental housing projects certified or approved by HHFDC before June 30, 2026, to provide an incentive to developers to act quickly to begin the development or rehabilitation of affordable rental projects to meet the high demand for affordable rentals statewide.

Thank you for the opportunity to provide written comments in support of this bill.

DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
LUIS P. SALAVERIA
Director
Department of Business, Economic Development and Tourism

before the
SENATE COMMITTEE ON WAYS AND MEANS
Wednesday, February 28, 2018
10:45 a.m.
State Capitol, Conference Room 211

in consideration of
SB 2757, SD 1
RELATING TO HOUSING.

Chair Dela Cruz, Vice Chair Keith-Agaran and Members of the Committee.

The Department of Business, Economic Development and Tourism (DBEDT) ***supports*** SB2757, SD1, an Administration bill.

SB2757, SD1 would expand the general excise tax exemption for projects developed under a contract described in section 201H-2(i)(2), HRS, established by Act 54, Session Laws of Hawaii 2017. DBEDT supports this effort to provide a more robust incentive for the development of affordable rentals in the near term.

Thank you for the opportunity to offer support on SB2757, SD1.

DAVID Y. IGE
GOVERNOR

HAKIM OUANSAFI
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Statement of
Hakim Ouansafi
Hawaii Public Housing Authority
Before the

SENATE COMMITTEE ON WAYS AND MEANS

Wednesday, February 28, 2018
10:45 AM
Room 211, Hawaii State Capitol

In consideration of
SB 2757, SD1
RELATING TO HOUSING

Honorable Chair Dela Cruz and Members of the Senate Committee on Ways and Means, thank you for the opportunity to provide testimony concerning Senate Bill (SB) 2757, SD1, relating to housing.

The Hawaii Public Housing Authority (HPHA) **strongly supports** SB 2757, SD1. This Administration Bill expands and extends to June 30, 2026, the certification for exemption from general excise tax and use tax costs for certain rental housing projects pursuant to section 201H-36(a)(5), Hawaii Revised Statutes, to include affordable rents. Requires said project owners to accept Section 8 Housing Choice Vouchers as a condition of certification.

The Hawaii Public Housing Authority (HPHA) assists low-income families through the Housing Choice Voucher Program, also known as “Section 8”. The Section 8 program is one of the federal government’s major programs for assisting very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market, including single-family homes, townhouses and apartments.

Because of the overwhelming need in our community to assist our low-income families, the passage of this measure will greatly assist our Section 8 participants in being considered as tenants in these future projects. Due to the unfortunate stigma that Section 8 participants damage rental units, our Section 8 participants have a difficult time in finding landlords who will rent to them. The Section 8 program is an important part of the State’s efforts in addressing the affordable housing needs of our low-income families that would otherwise be homeless, and the HPHA is willing to work and assist all future landlords that participate in these projects.

The HPHA appreciates the opportunity to provide the Senate Committee on Ways and Means with the HPHA’s testimony regarding SB 2757, SD1. We thank you very much for your dedicated support.

OFFICE OF HAWAIIAN AFFAIRS

Legislative Testimony

SB2757 SD1

RELATING TO HOUSING

Senate Committee on Ways and Means

February 28, 2018 10:45 a.m. Room 211

The Office of Hawaiian Affairs (OHA) offers the following **COMMENTS** on HB2757 SD1, which proposes to extend and provide additional incentives under Hawaiʻi Revised Statutes (HRS) Chapter 201H, to developers who provide certified new or "substantially rehabilitated" housing for certain income levels, and who do not refuse to lease any such units to persons with section 8 housing vouchers..

OHA appreciates efforts to produce affordable rental housing options that will assist Native Hawaiians and many of Hawaiʻi's residents who are struggling to afford their rent. Native Hawaiians, whose homeownership rate is significantly lower than the state average, must rely substantially on the rental housing market.[1] Native Hawaiian renters also have a particular need for affordable rental units, as more than half of Native Hawaiian renters, many of whom already live in overcrowded situations[2] to reduce costs, live in homes they are struggling to afford.[3] Native Hawaiians may therefore be disproportionately impacted by the lack of affordable rental housing opportunities in the state. Accordingly, OHA supports the intended purpose of this measure, to encourage the generation of affordable rental housing opportunities, and discourage discrimination against low-income renters, through the extension and expansion of tax incentives for projects qualifying under HRS § 201H-36.

As amended, SB2757 SD1 would require that a project qualifying under HRS section 201H-36 set aside all of its units for households at or below 140% of the Area Median Income (AMI), and set aside at least twenty percent of its units for households at or below 80% AMI. This would equate to a weighted average for all units in a qualifying project to be 128% AMI.[4] **Notably, half of the projected residential demand for 65,000**

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[1] The Native Hawaiian homeownership rate for non-DHHL properties is only 38.9%, 18.3 percentage points below the statewide rate of 57.2% *See* Census Bureau. (2017). American Community Survey (ACS) 1-year Estimates: 2016; DHHL: Homestead Services Division. (01/24/17) Commission submittal

[2] The average Native Hawaiian household size was 3.63, notably larger than the 2.62 average for non-Native Hawaiian households. *See* SMS, HAWAIʻI HOUSING PLANNING STUDY, at 70 (2016), *available at* https://dbedt.hawaii.gov/hhfdc/files/2017/03/State_HHPS2016_Report_031317_final.pdf

[3] 24.8% of Native Hawaiian households, compared to 9.6% of state households include more than two generations or unrelated individuals. 14.1% of Native Hawaiian households, compared to 4.2% of state households have a hidden homeless family member. *See id*, at 70.

[4] This weighted average is calculated by multiplying the sum of the number of units provided at 140% AMI by 140, adding the number of units provided at 80 AMI multiplied by 80, and dividing by the total units in

more housing units by 2025, is for units at or below 80% AMI.[5] Accordingly, to better serve the affordable housing needs of Native Hawaiians and Hawai'i residents generally, we respectfully request that the Committee consider amending page 3, lines 3 through 17 of SB2757 SD1 to read:

> "[~~(B) All~~] all available units are for households with incomes at or below one hundred forty per cent of the area median family income as determined by the United States Department of Housing and Urban Development, of which at least twenty per cent of the available units are for households with incomes at or below eighty per cent of the area median family income as determined by the United States Department of Housing and Urban Development[~~.~~]; provided that the total weighted average of all units provided in an approved and certified project shall be no more than one hundred percent of the area median family income; provided further that an owner shall not refuse to lease a unit in the project to a qualified applicant solely because the applicant holds a voucher or certificate of eligibility under section 8 of the United States Housing Act of 1937."

Mahalo for the opportunity to provide comments on this matter.

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the project. For example: If the total units in a project is 100 units, with 80 of these units at 140% AMI and 20 of these units at 80% AMI, the weighted average would equal ((80 x 140 = 11,200) + (20 x 80 = 1,600))/100 = 128% AMI.

[5] *See* SMS, HAWAI'I HOUSING PLANNING STUDY, Table 27b at 34 (2016), *available at* https://dbedt.hawaii.gov/hhfdc/files/2017/03/State_HHPS2016_Report_031317_final.pdf.

SUBJECT: GENERAL EXCISE, Expand and Extend Affordable Rental Housing Exemption

BILL NUMBER: SB 2757, SD-1

INTRODUCED BY: Senate Committee on Housing

EXECUTIVE SUMMARY: Expands and extends to June 30, 2026, the affordable housing exemption from general excise tax and use tax costs for certain rental housing projects pursuant to section 201H-36(a)(5), Hawaii Revised Statutes. Requires affordable rental project owners to accept Section 8 Housing Choice Vouchers as a condition of certification.

SYNOPSIS: Amends section 201H-36(a)(5), HRS, to apply to projects approved or certified from July 1, 2018, to June 30, 2026.

Requires projects in this category to be newly constructed or substantially rehabilitated.

Repeals the requirement that the allowable GET and Use Tax exemptions apply to contracting only and do not exceed $7 million in the aggregate.

Adds a proviso that an owner of a project in this category cannot refuse to lease a unit in the project to a qualified applicant because the applicant holds a Section 8 voucher.

Repeals the sunset date in Act 54, SLH 2017.

EFFECTIVE DATE: July 1, 2018.

STAFF COMMENTS: This bill is sponsored by the Department of Business, Economic Development, and Tourism and is designated BED-15 (18).

Currently, the HHFDC may certify affordable rental housing projects under HRS 201H-36 as qualifying for the exemption under HRS 237-29.

One of the existing categories of affordable housing projects that can be certified is an affordable rental housing project where at least 50% of the available units are for households with incomes at or below 80% of the area median family income, of which at least 20% of the available units are for households with incomes at or below 60% of the area median family income.

Act 54, SLH 2017, added another category of affordable rental housing project, where all available units are for households with incomes at or below 140% of the area median family income, of which at least 20% of the available units are for households with incomes at or below 80% of the area median family income. However, the developer would need to use a union contractor whose collective bargaining agreement or project labor agreement was properly submitted to DLIR under Hawaii's Little Davis-Bacon Act. Furthermore, the allowable GET and Use Tax costs apply to contracting only, are not to exceed $7 million per year for all projects in this category, and this category sunsets on June 30, 2022. (The bill would repeal this sunset date.)

This bill would expand the second category by deleting the requirement that eligible costs be for contracting only, by deleting the $7 million per year cap, and by moving the sunset date to June 30, 2026.

If the policy goal is to build more affordable housing, we need to be wary of attaching conditions to the goal that would bog down the process. This bill takes away some of the conditions that were attached in the 2017 legislation, and the challenge now is to make sure that taxpayers can afford the enhanced bill.

Digested 2/26/2018

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GCA of Hawaii

GENERAL CONTRACTORS ASSOCIATION OF HAWAII

Quality People. Quality Projects.

Uploaded via Capitol Website

February 28, 2018

TO: HONORABLE DONOVAN DELA CRUZ, CHAIR, HONORABLE GIL KEITH AGARAN, VICE CHAIR AND MEMBERS OF THE SENATE COMMITTEE ON WAYS AND MEANS

SUBJECT: **S.B 2757, SD1, RELATING TO HOUSING.** Extends to June 30, 2026, the certification requirements for exemption from the general excise tax for certain affordable rental housing projects. Amends the certification requirements for exemption from the general excise tax for those affordable rental housing projects. Conditions certification upon the project owners not refusing to lease units in the projects to qualified applicants because they hold a voucher or certificate of eligibility under the Section 8 Housing Choice Voucher Program. (SD1)

Public Decision Making
DATE: Wednesday, February 28, 2018
TIME: 10:45 AM
PLACE: Conference Room 211

Dear Chair Dela Cruz, Vice Chair Keith Agaran, and Members of the Committee,

The General Contractors Association of Hawaii (GCA) is an organization comprised of over five hundred general contractors, subcontractors, and construction related firms. The GCA was established in 1932 and is the largest construction association in the State of Hawaii. The GCA's mission is to represent its members in all matters related to the construction industry, while improving the quality of construction and protecting the public interest.

S.B. 2757, SD1, Relating to Housing will extend the life of Act 54 (2017) passed last year to allow exemptions from certain requirements that use 201H to build affordable units while being completely privately financed and subject to certain requirements under Section 104-2(i)(2) and labor conditions for the project. This measure extends Act 54 from 2022 to 2026 to allow developers more time to utilize the 201H exemptions and also deletes the cap on the allowable GE Tax and Use Tax exemptions. This measure also restricts the owner of the units from disallowing the use of Section 8 vouchers to stay in the units. While this law just took effect last year it has not been given the time necessary to show it can incentivize developers to build affordable units.

The availability of affordable housing, whether for rent or for purchase is a vital priority for our state's residents and the Hawaii Housing Finance Development Corporation (HHFDC) needs support in order to ensure the availability of funding options for private partners and developers to be incentivized to build such units. Since 2006, HHFDC has facilitated the development or preservation of 7,750 housing units, which about 83 percent were rentals with incomes at or under 60 percent of area median income and 17 percent were for sale to households earning 80-140 percent AMI. Hawaii needs more of these affordable market units available to meet the demand of our residents. This measure provides a mechanism to deliver such.

Thank you for the opportunity to comment on this measure.