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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 20, 2019
Time: 10:05 A.M.
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 867 S.D. 1, Relating to Housing

The Department supports the intent of this measure, defers to the Hawaii Housing Finance and Development Corporation (HHFDC) on the merits of this bill, and provides the following comments regarding S.B. 867, S.D. 1, for your consideration.

S.B. 867, S.D. ,1 removes the $30 million per year aggregate cap on construction costs eligible for the general excise tax exemption for substantially renovated projects, and makes permanent the amendments to section 201H-36, Hawaii Revised Statues made by Act 54, Session Laws of Hawaii (SLH) 2017, as amended by Act 39, SLH 2018. The Senate Committee on Housing defected the effective date to July 1, 2050.

This measure does not have a significant administrative impact on the Department. As such, the Department is able to administer the changes, assuming that it is effective on July 1, 2019 as set forth in the original version of this measure.

Thank you for the opportunity to provide comments.

DAVID Y. IGE
GOVERNOR

CRAIG K. HIRAI
EXECUTIVE DIRECTOR

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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 20, 2019 at 10:00 a.m.
State Capitol, Room 211

In consideration of
S.B. 867, S.D. 1
RELATING TO HOUSING.

The HHFDC ***offers the following comments*** on S.B. 867, S.D. 1. HHFDC believes that this measure may be premature, as HHFDC has yet to receive any applicants for the General Excise Tax (GET) exemptions established by Act 54, Session Laws of Hawaii (SLH) 2017, as amended by Act 39, SLH 2018.

Since its enactment, HHFDC promulgated amendments to its administrative rules for the GET exemption program to add a new subchapter implementing the exemptions authorized by Act 54, SLH 2017 as amended, in consultation with stakeholders, the Department of Labor and Industrial Relations, and the Department of Taxation. The rules were effective on October 28, 2018, and may be found on the HHFDC website at the following link: https://dbedt.hawaii.gov/hhfdc/files/2018/10/201809261358ES-Approved-HAR-Chapter-15-306-GET-Exemptions.pdf.

Thank you for the opportunity to provide written comments on this bill.

LEGISLATIVE TAX BILL SERVICE

TAX FOUNDATION OF HAWAII
126 Queen Street, Suite 304 Honolulu, Hawaii 96813 Tel. 536-4587

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

BILL NUMBER: SB 867, SD-1

INTRODUCED BY: Senate Committee on Housing

EXECUTIVE SUMMARY: Part II of the bill 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, HRS, by deleting the GET exemption limitation to $30 million for category (a)(5) projects. Affordable housing projects in categories (a)(1) to (4) are not affected.

Amends Act 54, SLH 2017 (which was previously amended by Act 39, SLH 2018), to remove the provision stating that sections 104-2 and 201H-36 will revert to pre-2017 language on July 1, 2030.

EFFECTIVE DATE: July 1, 2050.

STAFF COMMENTS: Act 54, SLH 2017, as amended by Act 39, SLH 2018, allows the Hawaii Housing Finance and Development Corporation (HHFDC) to certify for tax exemption affordable rental housing projects developed through new construction or substantial rehabilitation between July 1, 2018 through June 30, 2030, under a contract described in §104-2(i)(2), HRS, provided that the exemption:

1. Applies to contracting only;

2. Is capped at $30,000,000 per year in the aggregate; and

3. Applies to projects for households at or below 140 percent of the HUD area median income, of which 20 percent is for households at or below 80 percent of the HUD area median income.

The bill would remove the $30 million aggregate cap on such projects. It would also make permanent the provisions in last year's "Bob Nakata Act," namely that for projects in this category 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, and an owner of a project in this category cannot refuse to lease a unit in the project to a qualified applicant solely because the applicant holds a Section 8 voucher. Note that category (a)(5) expires by its own terms on June 30, 2030, and that expiration is not affected by this bill.

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 softens 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 2/17/2019