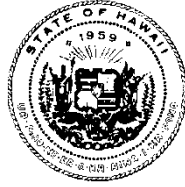


DAVID Y. IGE
GOVERNOR



DENISE ISERI-MATSUBARA
INTERIM 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
DENISE ISERI-MATSUBARA
Hawaii Housing Finance and Development Corporation
Before the

SENATE COMMITTEE ON HOUSING

February 11, 2020 at 1:45 p.m.
State Capitol, Room 225

In consideration of
S.B. 3062
RELATING TO THE CONVEYANCE TAX.

The HHFDC supports S.B. 3062, which increases the cap on conveyance taxes dedicated to the Rental Housing Revolving Fund (RHRF) from \$38,000,000 to \$43,000,000. We note that we prefer the language of Part VI of S.B. 3104, which lifts the cap in its entirety.

Based on data provided in the Department of Taxation's annual reports, since FY2015, when the RHRF's share of conveyance taxes was increased to 50 percent, there has only been one fiscal year in which the \$38 million cap has not been reached.

In 2018, HHFDC received \$200 million in General Funds for infusion into the RHRF to support affordable rental housing development statewide. In 2019, HHFDC made RHRF project awards totaling \$212,544,681 to 11 project applicants totaling 1,329 new rental units on Oahu, Maui and Hawaii. Of the awarded rental projects, 3 are elderly and 8 are family.

Thank you for the opportunity to testify.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

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

BILL NUMBER: SB 3062

INTRODUCED BY: MORIWAKI, S. CHANG, GABBARD, K. RHOADS, Kanuha, Kim, Shimabukuro, Taniguchi, Wakai

EXECUTIVE SUMMARY: Increases the cap to be paid into the rental housing revolving fund from Conveyance Tax revenues.

SYNOPSIS: Amends section 247-7, HRS, such that the maximum amount of conveyance tax that is earmarked to go to the rental housing revolving fund is raised from \$38 million to \$43 million.

EFFECTIVE DATE: July 1, 2020.

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. 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.

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.

Conf. Comm. Rep. No. 156 (2015).

Raising the 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 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 2/7/2020



SB 3062, RELATING TO THE CONVEYANCE TAX

FEBRUARY 11, 2020 · SENATE HOUSING
COMMITTEE · CHAIR SEN. STANLEY CHANG

POSITION: Support, with amendments.

RATIONALE: IMUAlliance supports and suggests an amendment for SB 3062, relating to the conveyance tax, which increases the cap to be paid into the rental housing revolving fund from conveyance tax revenues.

Today, **the lack of affordable housing exacerbates the economic insecurity suffered by local families, which sex traffickers use to prey upon potential victims with false promises of financial stability and prosperity.** 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 2019* report found that a full-time worker would need to earn \$36.82/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 111 hours per week to afford a modest one-bedroom apartment at fair market value and 146 hours per week to afford a two-bedroom—a number that is equivalent to working over 20 hours a day with no days off year-round. In the past five 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 \$16.68/hour, according to NLIHC, 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, 63 percent of households are severely cost-burdened, following NLIHC data, 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, with only 74 homes available for every 100 households earning 80 percent of their respective area's median income.

Unsurprisingly, our state is now experiencing population decline. Hawai'i saw domestic out-migration increase for a third consecutive year in 2019, as the state's high cost of living continued to push people to the mainland. Census estimates show that our state's population dropped by more than 4,700 people, to 1,415,872, from July 2018 to July 2019, when births, deaths, and migration were accounted for. That's the biggest numerical population drop since 2015 and it made Hawai'i one of just ten states in the country to lose population in 2019, according to the U.S. Census Bureau. People are simply being priced out of paradise.

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 conveyance tax cap entirely and urge the committee to do so**, so that our state can spend as much money as possible addressing the housing crisis, which has become the defining economic issue of our generation in the islands.

Finally, according to a study released in May of 2016 by DBEDT, 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).” Thus, there exists a direct nexus between increasing conveyance tax rates and disincentivizing the actions of real estate speculators, who are driving up Hawai’i’s housing costs and, in turn, rental prices with no regard for local residents.

We cannot continue to allow the islands to be used as a private Monopoly board for real estate speculators. To ensure that our islands are affordable for ourselves and future generations, we must take bold action **now** to increase our affordable housing supply for working families.



February 10, 2020

Senator Stanley Chang, Chair
Hawaii State Senate Committee on Housing
Hawaii State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

Subject: Support of SB 3062 Relating to the Conveyance Tax, Committee Hearing February 11, 2020, 1:45pm, Room 225

Chair Chang, Vice Chair Kanuha and members of the Committee:

I am Kevin Carney, Vice President of EAH Housing. EAH is a 51-year-old non-profit public benefit corporation whose mission is to develop, manage and promote quality affordable rental housing. We depend on the State's Rental Housing Revolving Fund (RHRF) as the principal source of our gap financing for our affordable rental projects that serve those with incomes at or below 60% of the area median income (AMI).

The Joint Economic Package of bills presented by this legislature has made it clear to the people of Hawai'i that affordable housing is one of the State's priorities. We thank you and the entire legislature for recognizing this issue. According to the latest study prepared by SMS Research & Marketing Services, Hawai'i will need an additional 50,156 housing units by 2025 with nearly seventy percent of those units designated as low-income households - those below 80% AMI. That AMI level translates to affordable rental housing and not for-sale housing.

SB 3062 increases the allocation of conveyance tax funds (CTF) to the RHRF from 50% of CTF or \$38M whichever is less to 50% of CTF or \$43M whichever is less. EAH is supportive of any measure to increase funding to the RHRF. While we support SB3062, with the above reference study indicating that our state needs nearly 35,109 affordable rental units, we would like to see the cap of \$43M removed and go back to what the allocation was years ago – simply 50% of CTF with no cap.

Thank you for the opportunity to provide input on this extremely important issue.

Sincerely,



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

SB-3062

Submitted on: 2/10/2020 1:30:42 PM

Testimony for HOU on 2/11/2020 1:45:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Galen Fox	Testifying for Faith Action	Support	No

Comments:

Faith Action supports SB 3062 because it will expand the number of affordable homes here.

SB-3062

Submitted on: 2/10/2020 9:28:09 PM

Testimony for HOU on 2/11/2020 1:45:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Ashleigh Loa	Individual	Support	No

Comments:



CATHOLIC CHARITIES HAWAI'I

COMMENTS ON SB 3062: RELATING TO THE CONVEYANCE TAX

TO: Senator Stanley Chang, Chair, Senator Dru Mamo Kanuha, Vice Chair, and Members, Committee on Housing

FROM: Rob Van Tassell, President and CEO, Catholic Charities Hawai'i

Hearing: Tuesday, 2/11/20; 1:45 PM; CR 225

Chair Chang, Vice Chair Kanuha, and Members, Committee on Housing

Thank you for the opportunity to provide comments on HB 3062, which would increase the cap from \$38 million to \$43 million on revenues from the conveyance tax to be paid into the Rental Housing Revolving Fund . I am Rob Van Tassell, 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 70 years. CCH has programs serving elders, children, families, homeless, and immigrants. Our mission is to provide services and advocacy for the most vulnerable in Hawai'i. Catholic Charities Hawai'i has a long history of working in the areas of affordable housing and homelessness.

While Catholic Charities Hawaii supports any increase to this fund, **CCH strongly supports removing the cap on these revenue to the Rental Housing Revolving Fund (RHRF), as proposed in HB 3104, the omnibus bill on land development.** This fund works and is a critical pathway to create the rentals that can both enable Hawaii's workforce to find an affordable place to live, as well as prevent homelessness in the long term. It needs robust and consistent funding to achieve that State goal. In 2017, it lost out on \$9,250,000 in revenues due to the \$38 million cap. In 2018, \$12,300,000 was lost and in 2019, \$5,000,000. Originally, the legislature authorized that 50% of the conveyance tax should go to this fund, due to the dire need. This need has only increased over the years.

Without additional funding to create sufficient affordable rental housing, the future of Hawaii is at risk and local residents face dire social and economic consequences. Housing is a major component in the high cost of living in Hawai'i. The legislature is focusing on the ALICE population. Creating affordable rentals is one key factor of the cost of living over which the Legislature has some control. Funding the creation of units of rental housing, along with for-sale and other housing, is a key option to enable our work force to remain here. More affordable rental units will also address the projected 300% increase in elder homelessness over the next 10 years.

We urge you to amend SB 3062 to remove the \$38 cap on funding to the RHRF, and reinstate 50% of the conveyance tax to be payable to this fund. Please contact our Legislative Liaison, Betty Lou Larson at (808) 373-0356 or bettylou.larson@catholiccharitieshawaii.org if you have any questions.



SB-3062

Submitted on: 2/10/2020 3:01:53 PM

Testimony for HOU on 2/11/2020 1:45:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Ellen Godbey Carson	Individual	Support	No

Comments:

I support this bill, We need more dedicated funds for affordable housing. I am a member of Faith Actiona and Church of the Crossroads, and we've been very concerned about the lack of affordable housing in the state. It adverstly affects all of us, but particularly those struggling to survive financially. This bill raises the cap from \$38 million to \$43 million for conveyance tax proceeds, to benefit the Rental Housing Revolving Fund. Please pass this bill.