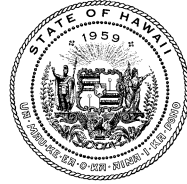


DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
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RONA M. SUZUKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

To: The Honorable Stanley Chang, Chair;
The Honorable Dru Mamo Kanuha, Vice Chair;
and Members of the Senate Committee on Housing

From: Rona M. Suzuki, Director
Department of Taxation

Re: S.B. 3138, Relating to Housing

Date: Tuesday, February 11, 2020

Time: 1:45 P.M.

Place: Conference Room 225, State Capitol

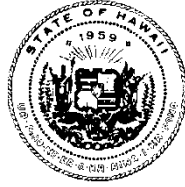
The Department of Taxation (Department) provides the following comments regarding S.B. 3138. S.B. 3138 expands the general excise tax (GET) exemption available to projects certified under section 201H-36(a)(5), Hawaii Revised Statutes (HRS).

Under current law, projects certified under section 201H-36(a)(5), HRS, are granted GET exemptions limited to contracting costs only. S.B. 3138 would expand the exemption to cover all costs included in the source provision at section 237-29, HRS, which would include financing, sales, and leasing costs.

The Department notes that the Hawaii Housing Finance Development Corporation certifies this GET exemption. Therefore, this measure does not have a significant administrative impact on the Department.

Thank you for the opportunity to provide comments.

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. 3138
RELATING TO HOUSING.

The HHFDC **supports** S.B. 3138, which expands the exemption from General Excise Taxes (GET) for projects developed under a contract described in §104-2(i)(2), HRS to (1) include affordable rents, subject to the annual limit of \$30,000,000 per year; and (2) allow said projects to be eligible for the exemption if they receive no other direct or indirect financing from any other governmental contracting agency of the State.

We believe these amendments will make this GET exemption more attractive to affordable rental housing developers, and therefore help add more rental units to the statewide inventory.

Thank you for the opportunity to testify.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Make Non-Contracting Costs Exempt

BILL NUMBER: SB 3138

INTRODUCED BY: S. CHANG

EXECUTIVE SUMMARY: Removes limit on costs eligible for exemption from general excise tax for development costs of affordable rental housing certified by the Hawaii housing finance and development corporation.

SYNOPSIS: Amends section 201H-36, HRS, to remove the requirement that allowable general excise and use tax costs shall apply to contracting only in order to be creditable.

EFFECTIVE DATE: July 1, 2020.

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 section 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 requirement that the exemption applies to contracting costs only. 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 2/7/2020



HAWAII REGIONAL COUNCIL OF CARPENTERS

Senate Committee on Housing
The Honorable Stanley Chang, Chair
The Honorable Dru Mamo Kanuha, Vice Chair
Tuesday, February 11, 2020
1:45 PM, State Capitol Room 225

Statement of the Hawaii Regional Council of Carpenters – Strong Support for SB3138

Aloha Chair Chang, Vice Chair Kanuha, and Members of the Committee:

The Hawaii Regional Council of Carpenters (HRCC) writes in strong support of SB3138, which would remove the limit on costs eligible for exemption from general excise tax for development costs of affordable rental housing certified by the Hawaii housing finance and development corporation.

As you know, HRCC has been extremely concerned about the chronic deficiency of rental apartment housing across the state. Along with our partners in the banking, development, landowning, contracting, architecture, and engineering communities, we formed the “Hawaii Rental Housing Coalition,” with the aim of identifying and carrying out concrete private-sector steps to make a meaningful impact on the economics of building and operating rental housing for families in the 80-140% AMI range.

We are very grateful for the hard work of the legislature during previous sessions, which resulted in the passage of Act 54 (2017) and Act 39 (2018), establishing and expanding the 201H-36(a)(5) general excise tax program for certain rental housing projects.

We have been buoyed by the fact that several developers have expressed interest in or applied to utilize the program, but have been frustrated by a recent attorney general’s opinion which finds that the program, as currently drafted, cannot be utilized in combination with county-level incentives such as those in Ordinance 18-01 (also referred to as the “Bill 59 Incentives”).

SB3138 seeks to provide clarifying language to allow the 201H-36(a)(5) general excise tax program for certain rental housing projects to be used in combination with county-level incentives. Therefore, we humbly request your committee’s favorable action on SB3138.

Thank you for the opportunity to provide these comments in strong support of SB3138.

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MAUI OFFICE: 330 Hookahi Street, Wailuku, Maui 96793-1449 • Ph. (808) 242-6891 Fax (808) 242-5961

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Testimony of
Pacific Resource Partnership

House Committee on Housing
The Honorable Stanley Chang, Chair
The Honorable Dru Mamo Kanuha, Vice Chair

SB 3138

Tuesday, February 11, 2020
1:45 P.M.
Conference Room 225

Aloha Chair Chang, Vice Chair Kanuha, and Members of the Committee:

Pacific Research Partnership (PRP) writes in support of SB3138, which would remove the limit on costs eligible for exemption from general excise tax for development costs of affordable rental housing certified by the Hawaii housing finance and development corporation.

PRP is appreciative of the legislature's hard work resulting in the passage of Act 54 (2017) and Act 39 (2018), establishing and expanding the 201H-36(a)(5) general excise tax program for certain rental housing projects.

Since passage of the Acts 54 and 39, developers have expressed an interest in taking advantage of both state and county-level incentives, including those exemptions set forth by the City and County of Honolulu in Ordinance 18-01 (previously Bill 59 (2017) CD2, FD1). Ordinance 18-01 specifically referenced "qualifying rental housing projects pursuant to HRS Section 201 H-36(a)(5) (Act 54, Session Laws of Hawaii 2017)." Nevertheless, upon information and belief, a subsequent opinion by the state's attorney general's office found that the state program, as currently drafted, cannot be utilized in combination with county-level incentives such as those in Ordinance 18-01.

SB3138 provides clarifying language, including a provision that permits the 201H-36(a)(5) general excise tax program for certain rental housing projects to be used in combination with county-level incentives. As such, PRP respectfully requests your committee's favorable action on SB3138 and thank you for this opportunity to submit written testimony.





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February 11, 2020

Representative Stanley Chang
Housing Committee
State Capitol
Honolulu, HI 96813

SUBJECT: Support for S.B. 3138

Dear Chair Chang and Housing Committee Members,

I develop rental workforce housing that serves the 80%-140%AMI households so I have firsthand knowledge of facing the challenges of feasibility for this type of housing and trying to convince investors and lenders to place their faith in the Hawaii rental market. I have developed all types of uses from retail, resort communities, office, and affordable workforce housing is one of the most difficult uses to develop and achieve feasibility. That is why I am submitting written testimony **in support of S.B. 3138.**

I recommend that the bill reference or follow State Statute 15-306-2 which outlines the exemption of the General Excise Tax for affordable workforce and low-income projects that meet a specific AMI criterion. This statute has been in existence for some time and has been widely used by developers to achieve financial feasibility for housing projects that serve our residents. It is extremely helpful when bills, statutes, and county ordinances are aligned and consistent in affordability criteria and policy to ultimately find success in producing housing units for the people of Hawaii. It is the sum of the parts that makes these programs effective enough to facilitate feasible workforce rental projects.

I am also in support of the change in Section 2. Item 3 which states that this proposed bill can be used in conjunction with other County incentive programs, while any State programs would be excluded. All counties have their incentive programs to stimulate the development of rental housing but alone they cannot achieve feasibility. With these changes in this bill it will provide a combination of incentives to ensure feasibility for workforce rental projects that fit within the 80%AMI to 140%AMI range. These households are the most underserved and often are not eligible for any County, State, or Federal direct subsidies. Households in this AMI range are the backbone of our residential community who make up the essential



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workforce that provides us services that keep our community safe and healthy. They are our fire fighters, police, nurses, medical technicians, teachers, postal worker, government worker, child day care worker, college teachers, senior care professional, etc.

I can count only a handful of workforce rental projects that have been developed over the last decade or so for these 80-140%AMI households. Most of the large rental projects for these households were built in the 60's through to the early 80's. Not much has been built since in 40 years. Almost half of our households in Hawaii need to rent. They have been making do by doubling and tripling up or finding subpar conditions in makeshift rental situations. My family is no exception with three generations and three households under one roof. As we've seen in the most recent DBEDT study with population decline on Oahu, they eventually leave Hawaii because they can no longer find the quality of life they deserve. With S.B. 3138 it provides a fighting chance for developers to produce rental projects of scale for these households who want to live and stay in our community. We need them to live in our community to keep us healthy, safe, and provide much needed services like educating our children.

Thank you again for the opportunity to submit this testimony. If there are any questions, or if additional information is needed, please do not hesitate to contact me at (808)428-8717.

Warmest Regards,

A handwritten signature in black ink that reads "Linda Schatz".

Linda Schatz
Principal