

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION

Ka 'Oihana 'Auhau
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GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

S.B. No. 866, S.D.1, Relating to Housing

BEFORE THE:

House Committee on Housing

DATE: Wednesday, March 15, 2023

TIME: 9:00 a.m.

LOCATION: State Capitol, Room 312

Chair Hashimoto, Vice-Chair Aiu, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding S.B. 866, S.D.1, for your consideration.

Section 2 of S.B. 866, S.D.1, amends section 201H-36(a)(5), Hawaii Revised Statutes, (HRS), to specify that the general excise tax exemption for housing projects certified or approved by the Hawaii Housing Finance and Development Corporation (HHFDC) pursuant to section 237-29, HRS, is not restricted to contracting only. The bill has a defective effective date of July 1, 2050.

The Department defers to HHFDC on its ability to certify the exemption pursuant to the requirements in the bill and notes that the Department would be able to implement section 2 of the bill with a July 1, 2023 effective date.

Thank you for the opportunity to provide testimony on this measure.

LATE

SB-866-SD-1

Submitted on: 3/14/2023 3:52:54 PM

Testimony for HSG on 3/15/2023 9:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Nani Medeiros	Office of the Governor, Chief Housing Officer	Support	In Person

Comments:

JOSH GREEN, M.D.
GOVERNOR



DENISE ISERI-MATSUBARA
EXECUTIVE DIRECTOR



STATE OF HAWAII
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

677 QUEEN STREET, SUITE 300
HONOLULU, HAWAII 96813
PHONE: (808) 587-0620
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IN REPLY PLEASE REFER TO:

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

HOUSE COMMITTEE ON HOUSING

March 15, 2023 at 9:00 a.m.
State Capitol, Room 312

In consideration of
S.B. 866 SD1
RELATING TO HOUSING.

HHFDC **supports** S.B. 866 SD1, which proposes various fixes to Act 39, Session Laws of 2018, as it pertains to the General Excise Tax (GET) exemption and prevailing wages.

This bill seeks to allow certain affordable rental housing projects that meet the prevailing wages requirement to also receive waivers from various county fees. The stacking of these exemptions may be what is needed to promote use of the Act 39 to generate more affordable rentals in light of the increased costs of construction.

Thank you for the opportunity to provide testimony.

BOARD OF WATER SUPPLY

CITY AND COUNTY OF HONOLULU
630 SOUTH BERETANIA STREET
HONOLULU, HI 96843
www.boardofwatersupply.com



March 15, 2023

RICK BLANGIARDI, MAYOR

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ERNEST Y. W. LAU, P.E.
Manager and Chief Engineer

ERWIN M. KAWATA
Deputy Manager

The Honorable Troy N. Hashimoto, Chair
and Members
Committee on Housing
House of Representatives
Hawaii State Capitol, Room 312
Honolulu, Hawaii 96813

Dear Chair Hashimoto and Members:

Subject: Senate Bill 866, SD1 - Relating to Housing

The Honolulu Board of Water Supply (BWS) strongly opposes Senate Bill (SB) 866, Senate Draft (SD) 1, which allows certain affordable rental housing projects to receive a waiver of various development fees from a county. Specifically, the BWS is opposed to the language on page 2, line 16, whereby a project for which section 201H-36(a)(5) prevailing wages have been deemed the prevailing wages may receive a waiver of water development fees.

Loss of control over water revenues can have serious financial impacts that would be borne by the community we serve. Every day, BWS supplies precious drinking water to nearly one million people here on Oahu.

Our mission is to provide safe, dependable, and affordable water now and into the future. As a semi-autonomous agency of the City, BWS is financially self-sufficient and does not receive any funds from the City's primary revenue source – real property taxes. BWS generates its revenue directly from people paying their water bills and related charges. This money pays for the operation of the island-wide water system, for the repair, renewal and replacement of aging infrastructure, and to develop new capacity to supply growth in our community.

Our Board of Directors (Board) passed Resolution No. 889, 2018, Adopting Revisions to the Schedule of Rates and Charges for the Furnishing of Water and Water Service for Fiscal Years 2019 – 2023, effective September 10, 2018, through June 30, 2023. The Board focused on providing safe, dependable and affordable drinking water for our customers. The pandemic has only reinforced the importance of the service we provide.

At that time, the Board also recognized the importance of affordable housing in our community and included the waiver of the Water System Facilities Charge (WSFC) and new meter cost for the development of qualified affordable and homeless dwelling units, for up to 500 dwelling units per year. The amount of money that would not be collected

The Honorable Troy H. Hashimoto, Chair
and Members
March 15, 2023
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for these 500 dwelling units is about \$1 million annually. This program will continue until June 30, 2023. The Board may extend this waiver program beyond 2023. Dwelling units must meet certain requirements as specified in the BWS Resolution. The limit of 500 units per year is critical to allow BWS to estimate the financial impact to the revenue collected for its operating and capital improvement budgets for that period. The majority of the waiver cost is covered by the WSFC. It is a fee that new water users pay to connect new projects and developments to the water system. The WFSC pays for increasing the capacity of the backbone of the water system to pump, treat, transport, and store enough water to serve our customers. The cost for water system capacity is not free and must be paid for to accommodate new or expanding developments. BWS operates on the basis that growth pays for growth. This bill proposes to:

1. Waive water development fees for projects paying BWS fees for the water meters and related water system facilities charges (i.e., impact) with **no limit** on the amount to be waived while the law is in effect; and
2. Transfer the cost of providing water system capacity from the development or project to existing BWS customers.

Section 1 of this bill places a heavy financial burden on the people and businesses we serve. It makes it difficult for BWS to forecast the cost of these exemptions, and the cost to develop new capacity in the water system to supply growth would have to be borne by existing water customers. In other words, growth not paying for growth.

Section 2 of this bill indicates the waiver from all state and county fees and exactions for affordable housing projects will be for the next seven years, or until the sunset date of June 30, 2030.

This would effectively require the BWS to forego fees for such affordable housing projects, thus increasing the cost of water service for existing water customers.

For the foregoing reasons, the BWS opposes SB866, SD1, as written and respectfully requests your consideration to delete the language waiving water development fees in this bill.

Very truly yours,



ERNEST Y. W. LAU, P.E.
Manager and Chief Engineer

cc: County of Kauai Board of Water Supply
County of Hawaii Department of Water Supply
County of Maui Department of Water Supply

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE; Hawai'i Housing and Finance Development Corporation; Rental Housing Projects; Affordable Housing; General Excise Tax Exemption; Prevailing Wages

BILL NUMBER: SB 866 SD 1

INTRODUCED BY: Senate Committee on Ways and Means

EXECUTIVE SUMMARY: Clarifies that the eligibility for the general excise tax exemption includes the nonreceipt of financing from the Hawai'i Housing and Finance and Development Corporation. Allows certain affordable rental housing projects to receive a waiver of various development fees from a county. Removes the limit on the type of costs eligible for exemption from the general excise tax for development of affordable rental housing certified by the Hawai'i Housing Finance and Development Corporation.

SYNOPSIS: Amends section 104-2, HRS, part of Hawaii's "Little Davis-Bacon Act," to provide that an affordable housing project paying workers prevailing wages may receive a waiver of real property taxes, permitting fees, water and sewer development fees, and other development fees from a county.

Amends section 201H-36, HRS, to provide that for an affordable housing project described in section 201H-36(a)(5), HRS, HHFDC may certify for exemption under HRS section 237-29 costs that are not limited to contracting, but may not exceed \$30 million per year in the aggregate.

EFFECTIVE DATE: July 1, 2050.

STAFF COMMENTS: Currently, the HHFDC may certify affordable rental housing projects under HRS 201H-36 as qualifying for the exemption under HRS 237-29. There are five categories of eligible projects listed in HRS 201H-36(a).

The fifth category of eligible projects is for an affordable rental housing project where all 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. To qualify for 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. This category was originally added in 2017 by Act 54, SLH 2017.

The 2017 legislation stated that the new category would be temporary, for projects certified between July 1, 2018, and June 30, 2022; that only contracting costs would be eligible for the exemption; and that there would be a statewide cap on costs of \$7 million.

Act 39, SLH 2018, extended the life of the category to expire on June 30, 2030, and raised the statewide cap to \$30 million. That is where we are today.

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. In 2015, lawmakers authorized \$10 million to cool the sweltering classrooms in our public schools, but added so many requirements that the request for proposals to the industry for school cooling looked more like a novel than a pamphlet. Schools couldn't use the money to go down to the local hardware store; the work called for was a lot more complicated. Thus, the \$10 million initiative to cool the schools turned out to be a miserable failure. Only about 200 Hawaii classrooms were cooled by the end of 2015, nowhere near the 1000 classrooms promised.

This bill seems to relax one of the conditions imposed in 2017, which seems like a step in the right direction, but it should be realized that the \$30 million cap still applies and will bite harder given that there are going to be more eligible costs per project.

Digested: 3/11/2023



MAUI
CHAMBER OF COMMERCE
VOICE OF BUSINESS

LATE

**HEARING BEFORE THE HOUSE COMMITTEE ON
HOUSING
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 312
WEDNESDAY, MARCH 15, 2023 AT 9:00 A.M.**

To The Honorable Troy N. Hashimoto, Chair
The Honorable Micah P.K. Aiu, Vice Chair
Members of the committee on Housing

SUPPORT FOR SB866 SD1 RELATING TO HOUSING.

The Maui Chamber of Commerce **supports SB866 SD1** which clarifies that the eligibility for the general excise tax exemption includes the nonreceipt of financing from the Hawai'i Housing and Finance and Development Corporation (HHFDC); allows certain affordable rental housing projects to receive a waiver of various development fees from a county; removes the limit on the type of costs eligible for exemption from the general excise tax for development of affordable rental housing certified by the HHFDC.

The Chamber notes that affordable housing and rentals is one of our top priorities and we support this bill as it will help reduce the costs of construction. Current market conditions and increased costs of construction make it nearly impossible to build affordable rental housing in the State. We believe that the "stacking" of exemptions allowed under certain circumstances by this measure will incentivize developers to generate more affordable rental housing in the current economy by including relief from certain county exactions.

At a time when costs are continuing to rise, this bill will help to curb some of those expenses which helps stimulate more affordable housing.

For these reasons, we **support SB866 SD1**.

Sincerely,

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.