JOSH GREEN, M.D.
GOVERNOR | KE KIAʻĀINA

SYLVIA LUKE
LIEUTENANT GOVERNOR | KA HOPE KIAʻĀINA

STATE OF HAWAIʻI | KA MOKUʻĀINA ʻO HAWAIʻI
DEPARTMENT OF LAND AND NATURAL RESOURCES
KA ʻOIHANA KUMUWAIWAI ʻĀINA

P.O. BOX 621
HONOLULU, HAWAII 96809

DAWN N.S. CHANG
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

RYAN K.P. KANAKAʻOLE
FIRST DEPUTY

CIARA W.K. KAHAHANE
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES
BOATING AND OCEAN RECREATION
BUREAU OF CONVEYANCES
COMMISSION ON WATER RESOURCE MANAGEMENT
CONSERVATION AND COASTAL LANDS
CONSERVATION AND RESOURCES ENFORCEMENT
ENGINEERING
FORESTRY AND WILDLIFE
HISTORIC PRESERVATION
KAHOOLAWE ISLAND RESERVE COMMISSION
LAND
STATE PARKS

Testimony of
DAWN N. S. CHANG
Chairperson

Before the House Committee on
HOUSING

Wednesday, January 29, 2025
9:15 AM
State Capitol, Conference Room 430, and Via Videoconference

In consideration of
HOUSE BILL 1410
RELATING TO HOUSING

House Bill 1410 proposes restructuring the distribution of conveyance tax collections, including reducing the percentage of conveyance tax collections distributed to the Land Conservation Fund and increasing the dollar amount cap on that distribution. **The Department of Land and Natural Resources (Department) offers comments.** If enacted, this bill would both assist and inhibit the Department's efforts to fully restore and fulfill the intent of Act 156 (SLH 2005) to "establish permanent adequate funding for land conservation."

Increasing the cap on annual distributions to the Land Conservation Fund from $5.1 million to $10 million is a long-overdue first step in restoring the adequacy of funding for land conservation. However, reducing the percentage of conveyance tax collections distributed to the Land Conservation Fund by 2% would have adverse effects in years when collections sink below $112.5 million, the level of collections needed, at 8%, to support the current $9 million operating budget for LNR102 (which includes $6.7 million in available funds for land acquisition grants plus $1.5 million for Turtle Bay debt service). This week, the Legacy Land Conservation Commission is developing its funding recommendation for seven applications for FY2025 land acquisition grants that represent a total request of over $16.6 million from the Land Conservation Fund, with an estimated match of over $37 million from various federal, county, and private sources.

Mahalo for the opportunity to testify with comments on this measure.

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR

DEAN MINAKAMI
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

Statement of
DEAN MINAKAMI
Hawaii Housing Finance and Development Corporation
Before the

HOUSE COMMITTEE ON HOUSING
January 29, 2025 at 9:15 a.m.
State Capitol, Room 430

In consideration of
H.B. 1410
RELATING TO HOUSING.

Chair Evslin, Vice Chair Miyake, and members of the Committee.

HHFDC **supports** HB 1410, which establishes the Supportive Housing Special Fund (SHSF); restructures the conveyance tax to a marginal rate system and adjusts the tax for multifamily properties to reflect value on a per-unit basis; and allocates revenues from conveyance tax collections to SHSF. It also allocates a portion of conveyance tax collections to the Dwelling Unit Revolving Fund (DURF) to fund infrastructure programs in county-designated transit-oriented development (TOD) areas that meet minimum standards of transit-supportive density.

HHFDC supports the development of high-density communities near transit stations, and particularly stations near a locally preferred alternative for a mass transit project. TOD has the potential to lower transportation costs for residents, reduce traffic congestion, improve accessibility to businesses and services, efficiently use infrastructure, and create healthier, walkable communities.

HHFDC supports the modification of the conveyance tax collections for RHRF and the new 10% allocation for DURF for infrastructure programs in county-designed TOD zones. Both DURF and RHRF need substantial, recurring funding to support the development and preservation of affordable housing. DURF is primarily used to carry out the purposes of housing development programs and regional State infrastructure programs. RHRF is primarily used to provide loans for the development, pre-development, construction, acquisition, preservation, and substantial rehabilitation of rental housing units.

Thank you for the opportunity to testify on this bill.

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR

GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

STATE OF HAWAIʻI
DEPARTMENT OF TAXATION
Ka ʻOihana ʻAuhau
P.O. BOX 259
HONOLULU, HAWAIʻI 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

TESTIMONY OF GARY S. SUGANUMA, DIRECTOR OF TAXATION

TESTIMONY ON THE FOLLOWING MEASURE:
H.B. No. 1410, Relating to Housing.

BEFORE THE:
House Committee on Housing

DATE:	Wednesday, January 29, 2025
TIME:	9:15 a.m.
LOCATION:	State Capitol, Room 430

Chair Evslin, Vice-Chair Miyake, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following comments regarding H.B. 1410 for your consideration.

Section 3 of H.B. 1410 amends section 247-2(a), Hawaii Revised Statutes (HRS), to restructure the conveyance tax to a marginal rate system. Additionally, it specifies a new method of applying the conveyance tax rates to “multifamily residential property,” defined as “a structure that is located within the state urban land use district and divided into five or more dwelling units.” For conveyances of multifamily residential properties, the conveyance tax rates under section 247-2(a)(2), HRS, are to be determined based on dividing the actual and full consideration by the number of residential dwelling units in the property and then applying that rate to the actual and full consideration for the transfer of the property.

Section 3 also amends section 247-2(b), HRS, to require the director of taxation to recompute the rates in section 247-2(a), HRS, based on a cost-of-living adjustment factor. The cost-of living adjustment factor is calculated by 1.0 to the percentage change in the Consumer Price Index for All Urban Consumers, as published by the United States Department of Labor, from July of the preceding calendar year to July of the current year.

Section 4 amends section 247-7 by adding two special funds to the allocation of conveyance tax revenues. It also increases the minimum distribution amounts for the two special funds currently receiving allocations from conveyance tax revenue.

DOTAX notes that page 14 of the bill includes amendments to section 247-7, HRS, prescribing how the funds from the dwelling unit revolving fund are expended. However, DOTAX is not authorized to administer expenditures from this fund and recommends that these provisions be adopted in section 201H-191, HRS, which establishes the dwelling unit revolving fund.

For clarity, DOTAX recommends that section 247-2(b), relating to the cost-of-living adjustment, on pages 11 to 12, be amended as follows:

> (b) For each taxable year beginning after December 31, 2025, the director of taxation, no later than December 15 of the preceding calendar year, shall recompute the rates in subsection (a) by multiplying the dollar amount for the preceding taxable year by the cost-of-living adjustment factor, if the cost-of-living adjustment factor is greater than <u>1.0</u>, and rounding off the resulting product to the nearest $1; <u>provided that,</u> if the cost-of-living adjustment factor is less than or equal to <u>1.0</u> in a given year, then no adjustment shall occur in the following year.
>
> As used in this subsection, "cost-of-living adjustment factor" means a factor calculated by adding 1.0 to the <u>quotient of the percent change</u> in the <u>Urban Hawaii Consumer Price Index for all items divided by 100,</u> as published by the United States Department of Labor, from July of the preceding calendar year to July of the current calendar year; provided that, if the <u>Urban Hawaii Consumer Price Index</u> is discontinued, the Chained Consumer Price Index for All Urban Consumers, as published by the United States Department of Labor, shall be used to calculate the cost-of-living adjustment factor."

DOTAX requests that the effective date of July 1, 2025 be amended to January 1, 2026 for DOTAX to adopt the form, instruction and system changes necessary for the conveyance tax rate changes and amendments to the allocation of revenues.

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

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LIEUTENANT GOVERNOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAI'I EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAIʻI
DEPARTMENT OF BUDGET AND FINANCE
Ka ʻOihana Mālama Moʻohelu a Kālā
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LUIS P. SALAVERIA
DIRECTOR

SABRINA NASIR
DEPUTY DIRECTOR

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT

WRITTEN ONLY

TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON HOUSING
ON
HOUSE BILL NO. 1410

January 29, 2025
9:15 a.m.
Room 430 and Videoconference

RELATING TO HOUSING

The Department of Budget and Finance (B&F) offers comments on this bill.

House Bill (H.B.) No. 1410 does the following: 1) establishes the Supportive Housing Special Fund (SHSF) to be administered by the Hawaiʻi Housing Finance and Development Corporation for the purpose of developing, operating, and maintaining affordable permanent housing, and the provision of supportive services for individuals or families with special needs; 2) increases the conveyance tax rates for properties valued at $600,000 or above, and adjusts the tax for properties with multiple dwelling units to reflect value on a per-unit basis; 3) adjusts the conveyance tax allocation for the Land Conservation Fund from 10% or $5,100,000, whichever is less, to 8% or $10,000,000, whichever is less; 4) adjusts the conveyance tax allocation for the Rental Housing Revolving Fund from 50% or $38,000,000, whichever is less, to 38% or $50,000,000, whichever is less; 5) and establishes two new conveyance tax allocations for the SHSF and Dwelling Unit Revolving Fund set at 8% or $10,000,000, whichever is less, and 10%, respectively.

As a matter of general policy, B&F does not support the creation of any special fund which does not meet the requirements of Section 37-52.3, HRS. Special funds should: 1) serve a need as demonstrated by the purpose, scope of work and an explanation why the program cannot be implemented successfully under the general fund appropriation process; 2) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries or a clear link between the program and the sources of revenue; 3) provide an appropriate means of financing for the program or activity; and 4) demonstrate the capacity to be financially self-sustaining. Regarding H.B. No. 1410, it is difficult to determine whether the proposed SHSF would be self-sustaining.

Thank you for your consideration of our comments.

CATHOLIC CHARITIES HAWAIʻI

TESTIMONY IN SUPPORT OF HB 1410: RELATING TO HOUSING

TO: House Committee on Housing
FROM: Tina Andrade, President and CEO, Catholic Charities Hawai`i
Hearing: Wednesday, 1/29/25; 9:15 AM; CR 430 & Videoconference

Chair Evslin, Vice Chair Miyake, and Members, Committee on Housing:

Thank you for the opportunity to provide testimony **in Support HB 1410 with one amendment, below.** This bill restructures the conveyance tax and adjusts the tax for multifamily properties to reflect value on a per-unit basis. Allocates revenues from this tax to the Supportive Housing Special Fund and to the Dwelling Unit Revolving Fund (DURF).

Catholic Charities Hawai`i (CCH) is a tax exempt, non-profit agency that has been providing social services in Hawai`i for over 75 years. CCH has programs serving elders, children, families, homeless and immigrants. Our mission is to provide services and advocacy to the most vulnerable of the people in Hawai`i. Creating affordable housing and ending homelessness are our top priorities.

The conveyance tax is a critical funding tool to provide ongoing and predictable funding for the long-term needs in our state. The conveyance tax rates have not been updated since 2009, making Hawaii's tax significantly lower than that in comparable high-cost areas of the US. With our housing crisis, now is the time to overhaul this tax. It could increase revenue by about 30%, adding about $35 million each year to work on essential housing and infrastructure needs.

We urge you **to amend the bill to <u>retain the current 50%</u> of revenues to the Rental Housing Revolving Fund, as well as increasing the cap to $50 million (as proposed in this bill).** Our affordable housing crisis is dire. Now is not the time to reduce revenues to the RHRF to 38%. Predictable dedicated funding is critical for developers to plan developments. Legislative funding is uncertain which increases risk. Continuing the 50% allocation signals that the State still makes affordable housing a top priority.

We support the proposed <u>10% to the DURF</u> since funding for infrastructure is currently a very fragmented process which is a source of inequitable outcomes. The lack of infrastructure is a barrier to creating affordable housing and mixed-use development near transit.

We support <u>8% (or $10 million)</u> to the Supportive Housing Special Fund. Dedicated funding is critical to this fund to support housing designed for the growing number of people with special housing needs. The lack of affordable housing with ongoing services can result in costly institutional care, other high public costs, and unfortunately, many deaths. These supportive services are needed for the long-term. Without this dedicated funding stream, developers and the counties will face significant risk in developing permanent supportive housing.

Catholic Charities Hawai`i urges **your support, with the amendment.** If you have any questions, please contact our Legislative Liaison, Betty Lou Larson, at (808) 527-4813.

GRASSROOT
INSTITUTE OF HAWAII

1050 Bishop St. #508
Honolulu, HI 96813
808-864-1776
info@grassrootinstitute.org

Removing barriers to Hawaii's prosperity

Jan. 29, 2025, 9:15 a.m.
Hawaii State Capitol
Conference Room 430 and Videoconference

To: House Committee on Housing
Rep. Luke A. Evslin, Chair
Rep. Tyson K. Miyake, Vice-Chair

From: Grassroot Institute of Hawaii
Ted Kefalas, Director of Strategic Campaigns

RE: TESTIMONY OPPOSING HB1410 — RELATING TO HOUSING

Aloha Chair Evslin, Vice-Chair Miyake and other members of the committees,

The Grassroot Institute of Hawaii would like to offer **comments in opposition** to HB1410, which would substantially increase the property conveyance tax in all categories but the lowest tier.

Put simply, these proposed higher conveyance taxes would harm the economy and likely negatively affect Hawaii's already-fragile housing market.

A report by the Sage Policy Group on real estate transfer taxes — exactly the type of tax contemplated in this bill — noted that such laws can "lead to decreases in population, real incomes, real estate transactions, investment in structures, and quality of the built environment."[1]

When applied to higher-value properties, transfer taxes reduce investment in both commercial and residential properties, leading to lost jobs and reduced economic activity.

Under this bill, even homes at or below the average property value for Hawaii would see a significant increase in conveyance tax rates.

[1] "The Unintended Consequences of Excessive Transfer Taxes," Sage Policy Group, Inc. on behalf of the Community Coalition for Jobs and Housing, June 2022, p. 3.

We at Grassroot believe it is counterintuitive to pursue affordable housing initiatives while simultaneously making it more expensive to buy and sell homes of average and below-average value.

Further, this measure could discourage adaptive reuse — the conversion of old buildings to new purposes. Hawaii's counties can leverage adaptive reuse to add to their housing stock, as they are doing now,[2] but higher conveyance taxes could chill the sale of old buildings, which might not necessarily qualify as "multifamily residential property" at the time of sale.

The Sage report stated: "Many properties will need to be upgraded and/or adaptively reused to remain viable. Excessive transfer tax rates can frustrate the exchange of property that is often required to return to commercial viability."[3]

This bill deserves some praise for seeking to adjust the tax for multifamily residential properties to reflect value on a per-unit basis. This would help address some concerns related to the purchase of property for affordable housing or rentals. However, it would not fully mitigate the potential harm from a large increase in the conveyance tax.

How substantial are the rate increases we are talking about? Under this bill:

>> Properties valued at between $600,000 up to $1 million would see a 75% rate hike along with an extra $600 fee.

>> For properties between $1 million and $2 million, the rate would double and a $2,000 fee added.

>> Properties between $2 million and $4 million would see a 70% rate increase and an $8,000 fee.

>> Homes between $4 million and $6 million would see an increase of 71% plus a $25,000 fee.

>> Properties between $6 million and $10 million would see a 94% increase plus a $49,000 fee.

>> Properties valued at more than over $10 million would see their conveyance tax rate triple along with an additional charge of $119,00.

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[2] Lana Teramae, "Local Architects Talk About Repurposing Existing Buildings in Post-Pandemic Hawai'i," Hawaii Business Magazine, Sept. 6, 2021.
[3] "The Unintended Consequences of Excessive Transfer Taxes," p. 3.

Moreover, for the sale of residences where the purchaser is not eligible for the homeowner's exemption on property tax, the tax hikes would balloon even more at the $2 million tier, where the rate is increased by more than 230%. The rates continue to soar in higher tiers.

Ultimately, the conveyance tax is not the proper mechanism to fund new housing initiatives. Rather than help, it would harm the state's economy and housing market.

We urge the committee to defer HB1410.

Thank you for the opportunity to testify.

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

HAWAII APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of the Hawaiʻi Appleseed Center for Law and Economic Justice
Support for HB1410 – Relating to Housing
House Committee on Housing
Wednesday, January 29, 2025 at 9:15AM Conf. Rm. 430 and via Videoconference

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Aloha Chair Evslin, Vice Chair Miyake, and members of the committee;

Mahalo for the opportunity to testify in **strong support of HB1410**, which would modernize Hawaii's conveyance tax structure, increase the burden of conveyance tax investment owners and reduce the tax burden on the average resident homeowner, and create a dedicated 10% allocation to the Dwelling Unit Revolving Fund (DURF) and an 8% allocation to a Supportive Housing Special Fund.

Conveyance taxes are a necessary funding stream for affordable housing, infrastructure, and other housing services. By capturing revenue from real estate transactions, we create a direct link between market activity and community investment. When property values and sales increase, generating more conveyance tax revenue, we are able to expand our response to the heightened housing affordability challenges that often accompany such market conditions. These taxes help ensure that real estate development contributes to meeting the increased housing and infrastructure demands that it creates.

However, the current conveyance tax structure is inadequate to address Hawaii's needs. Our housing crisis has intensified while our infrastructure and housing needs, particularly around transit-oriented development, have grown substantially. Yet Hawaii's current conveyance tax rates have remained unchanged since 2009, despite dramatic increases in property values.

HB1410 recognizes that real estate transactions in Hawaii's high-cost market should contribute more equitably and aims to rectify this issue by:

- implementing a more progressive rate structure that primarily impacts high-value investment properties while protecting owner-occupants,
- applying a cost-of-living adjustment mechanism that prevents future erosion of these critical revenue streams
- Creating a dedicated 10% allocation to the Dwelling Unit Revolving Fund (DURF)
- Establishing and creating a dedicated 8% allocation to a Supportive Housing Special Fund

<u>Infrastructure Needs around TOD</u>

The Dwelling Unit Revolving Fund (DURF), established in 1970, supports infrastructure investments connected to housing development, crucial for maintaining housing production aligned with our increasing demand. Hawaii was given a D+ rating by the American Society of Civil Engineers in the "2019 Hawaii Infrastructure Report Card"[1]. Lack of adequate infrastructure further exacerbates delays to our needed additional housing construction. Increasing funding to DURF is necessary to reach the housing goals across the state. Hawai'i Appleseed commends the legislature for proposing a 10% dedicated fund from high cost property sales to address our infrastructure needs.

Housing Development Needs

The 2019 Hawaii Housing Planning (HHPS 2019) Study identified the need for 50,000 additional housing units by 2025 to meet pent-up demand[2]. Estimates from the HHPS 2019 indicated that over 50 percent of our housing production needs to be affordable rentals (0-100% AMI) for low-income and workforce families to meet demand. The RHRF provides financing for Low Income Housing Tax Credit (LIHTC) projects for individuals making 0-60% AMI and financing for Tier 2 program which utilizes the RHRF for 80-100% AMI focused projects. Without financing of DURF for our infrastructure needs we will not be able to address the housing needs across the state[3].

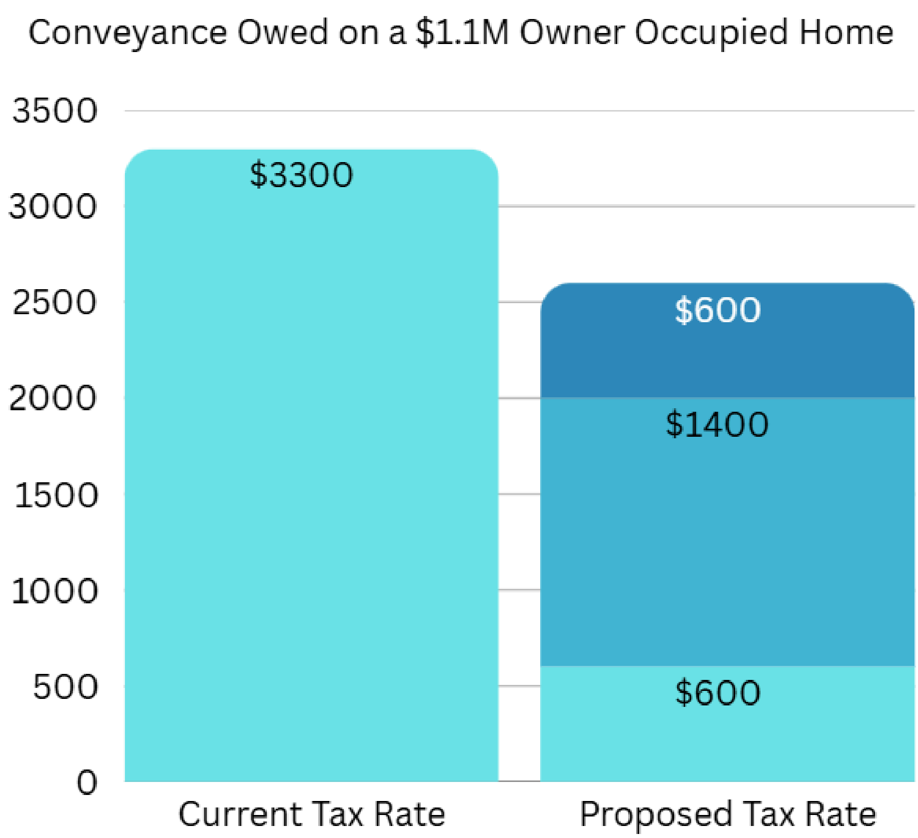
Marginal Tax Rate

A marginal rate system prevents the "cliff effect" that exists in Hawaii's current tax structure, where a small increase in property value can trigger a dramatically higher tax bill on the entire amount. This creates artificial market barriers and incentivizes price manipulation to avoid threshold crossings.

The proposed marginal rate system, modeled after the income tax structure, would apply higher rates only to the portion of a property's value exceeding each threshold. This approach ensures a fairer tax burden while creating a smoother, more equitable progression that better reflects the ability to pay and market realities. Additionally, it **has the potential to increase conveyance tax revenue by approximately one-third, providing a significant boost to funding for critical housing and infrastructure needs.**

[1] ASCE, "2019 Hawaii Infrastructure Report Card", https://infrastructurereportcard.org/wp-content/uploads/2021/07/ASCE-24199_Full-REPORT-2019-FINAL.pdf
[2] "Hawaii Housing Planning Study, 2019" HHFDC, December 2019, pg. 38 https://dbedt.hawaii.gov/hhfdc/files/2020/01/FINAL-State_Hawaii-Housing-Planning-Study.pdf
[3] "TOD Infrastructure Finance and Delivery Strategy" https://files.hawaii.gov/dbedt/op/lud/Reports/TOD_InfraFin_Strategy_20231221.pdf

For example, under the current system, a property valued at $1.1M, which was the median sales price for Oahu in December 2024[4] would be taxed at a 0.3% rate owing $3,300 in conveyance tax. Under the new proposed system a $1.1M home would owe $2,600–effectivley reducing the burden of conveyance tax on owner occupants.



This approach ensures that tax policy doesn't create unintended barriers to property transactions, especially for resident owners, shifting the burden to high valued property sales which are by-in-large investors. Under the current structure a $4.5M investment home would owe $22,500 on the sale, under the new system investors would owe $24,900.

[4] https://www.locationshawaii.com/learn/market-reports/oahu-real-estate-report/

HAWAII APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of the Hawai'i Appleseed Center for Law and Economic Justice
Support for HB1410 – Relating to Housing
House Committee on Housing
Wednesday, January 29, 2025 at 9:15AM Conf. Rm. 430 and via Videoconference

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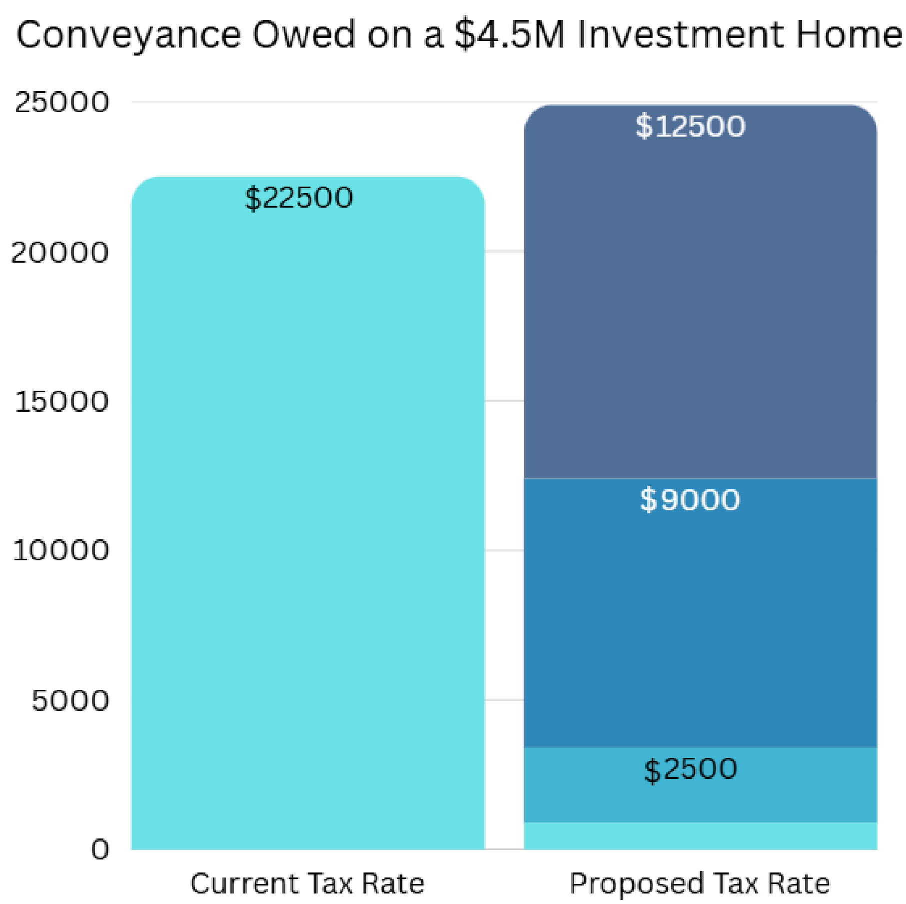
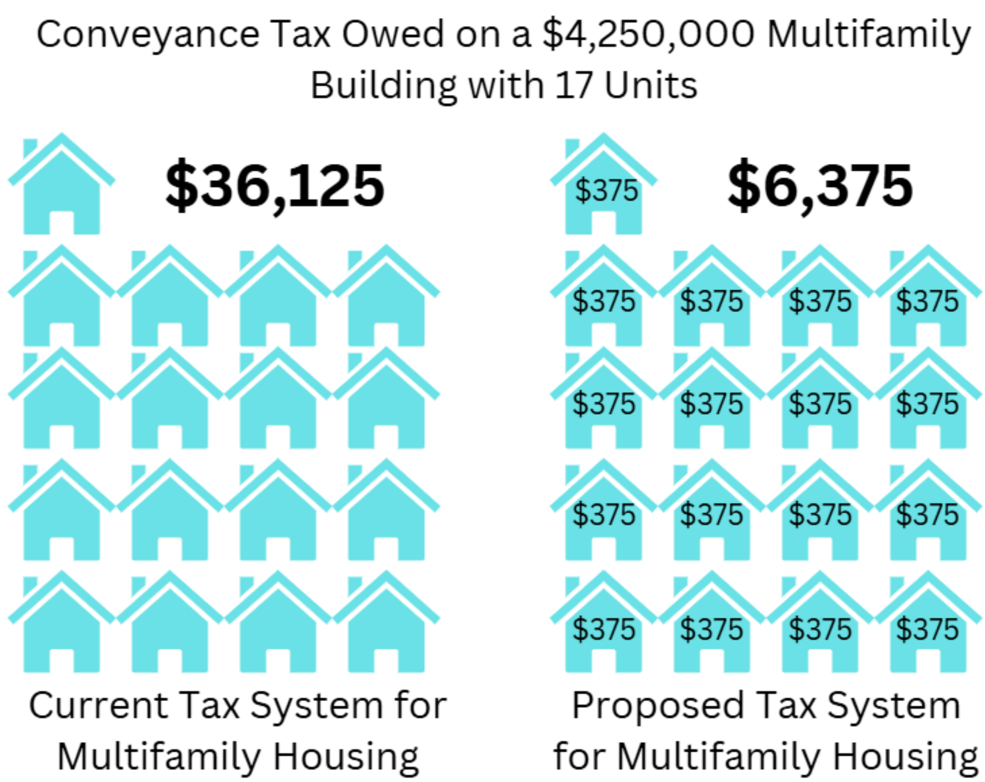


<u>Progressive Rates and Multiple Unit Dwellings</u>
HB1410 introduces a progressive tax approach for multifamily housing, specifically targeting rental properties with five or more units. Under this proposal, the building's total sale price is divided by the number of units to determine the rate structure for each individual unit. These individual rates are then summed to calculate the total conveyance tax owed for the property.

This change aims to address the disproportionate tax burden multifamily properties currently face compared to single-family investment properties. Many multifamily housing sales involve naturally occurring affordable housing (NOAH), and higher tax burdens on these properties could lead to rent increases for residents or discourage investment in affordable housing.

For example, under the current system, a multifamily property in Honolulu priced at $4,250,000 with 17 units would be flat-taxed at 0.85%, resulting in a $36,125 conveyance tax. This significant tax burden is often passed onto residents in the form of higher rents. Under HB1410, the $4,250,000 sale price would be divided by 17, resulting in an average unit price of $250,000 which then the tax rate would be 0.15%. This price would then be taxed at a progressive rate of 0.15%, leading to a total tax of $6,375—a much lower and more equitable outcome for multifamily housing.



HB1410 represents an innovative step in addressing housing affordability and infrastructure challenges. By modernizing the conveyance tax structure with progressive rates, creating dedicated funding for the Dwelling Unit Revolving Fund and the Supportive Housing Special Fund, and introducing equitable measures like the marginal tax rate system, this bill ensures that Hawaii's tax policy better aligns with our values of fairness and community investment.

HAWAII APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of the Hawaiʻi Appleseed Center for Law and Economic Justice
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House Committee on Housing
Wednesday, January 29, 2025 at 9:15AM Conf. Rm. 430 and via Videoconference

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This proposal not only generates much-needed revenue to address housing and infrastructure needs but also provides targeted relief for owner-occupants and multifamily housing, preventing unintended burdens on local residents while holding high-value transactions and investment properties accountable.

Mahalo for your time and consideration.

LEGISLATIVE TAX BILL SERVICE

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: CONVEYANCE TAX; Supportive Housing Special Fund; Dwelling Unit Revolving Fund; Infrastructure Funding; County-designated Transit-oriented Development

BILL NUMBER: HB 1410

INTRODUCED BY: EVSLIN, AMATO, BELATTI, IWAMOTO, KAHALOA, KAPELA, LAMOSAO, MARTEN, MORIKAWA, TARNAS, Kila

EXECUTIVE SUMMARY: Establishes the Supportive Housing Special Fund. Restructures the conveyance tax to a marginal rate system and adjusts the tax for multifamily properties to reflect value on a per-unit basis. Allocates revenues from conveyance tax collections to the Supportive Housing Special Fund. Allocates a portion of conveyance tax collections to the Dwelling Unit Revolving Fund to fund infrastructure programs in county-designated transit-oriented development areas that meet minimum standards of transit-supportive density.

SYNOPSIS: Adds a new section to Chapter 201H, HRS, to establish the Supportive Housing Special Fund, ("Fund") administered by the Hawaii Housing Finance and Development Corporation, ("Corporation"). The purpose of the Fund is to develop, operate, and maintain affordable, permanent housing and provide supportive services for individuals or families with special needs. Monies in the Fund may be used to:

1) Make loans to finance the development, pre-development, construction, acquisition, preservation, or substantial rehabilitation of supportive housing projects;
2) Make project-based rental assistance payments;
3) Make payments for supportive services for households residing in the supportive housing projects; and
4) For other housing services or activities as provided in rules adopted by the Corporation.

The Corporation shall consult with the counties and community-based organizations to leverage funds and obtain input on selection of projects.

Amends section 247-2(a)(1), HRS, to delete the current conveyance tax rates and increase the tax as follows:

A) for properties with a value of less than $600,000: (no change) at 10 cents per $100;

B) for properties with a value of at least $600,000, but less than $1,000,000: $600 plus 35 cents per $100 of excess over $600,000;

C) for properties with a value of at least $1,000,000, but less than $2,000,000: $2,000 plus 60 cents per $100 of excess over $1,000,000;

D) for properties with a value of at least $2,000,000, but less than $4,000,000: $8,000 plus 85 cents per $100 of excess over $2,000,000;

E) for properties with a value of at least $4,000,000, but less than $6,000,000: $25,000 plus $1.20 per $100 of excess over $4,000,000;

F) for properties with a value of at least $6,000,000, but less than $10,000,000: $49,000 plus $1.75 per $100 of excess over $6,000,000; and

G) for properties with a value of at least $10,000,000, : $119,000 plus $3 dollars per $100 of excess over $10,000,000.

Amends tax rates in section 247-2(a)(2), HRS, for sales of condominiums or single family residences for which the purchaser is ineligible for a county homeowner's property tax exemption:

A) for properties with a value of less than $600,000: (no change) 15 cents per $100;

B) for properties with a value of at least $600,000, but less than $1,000,000: $900 plus 40 cents per $100 of excess over $600,000;

C) for properties with a value of at least $1,000,000, but less than $2,000,000: $2,500 plus 65 cents per $100 of excess over $1,000,000;

D) for properties with a value of at least $2,000,000, but less than $4,000,000: $9,000 plus $2.00 per $100 of excess over $2,000,000;

E) for properties with a value of at least $4,000,000, but less than $6,000,000: $49,000 plus $2.50 per $100 of excess over $4,000,000;

F) for properties with a value of at least $6,000,000, but less than $10,000,000: $99,000 plus $3.25 per $100 of excess over $6,000,000; and

G) for properties with a value of $10,000,000 or greater : $229,000 plus $4.10 dollars per $100 of excess over $10,000,000.

Adds that these rates shall apply to the conveyance of a "multifamily residential property"; however, the "value" for purposes of determining the rate, shall be an amount calculated by dividing the actual and full consideration by the number of residential dwelling units in the property. Further, the tax shall be calculated by applying the applicable rate to the actual and full consideration for the transfer or conveyance of realty or any interest therein.

Multifamily residential property is defined as a structure that is located within the state urban land use district and divided into five or more dwelling units.

Adds section 247-2(b), HRS, for taxable years beginning after December 31, 2025, the director of taxation shall recompute the rates in subparagraph (a) by the cost-of-living adjustment factor, as defined in this added section.

Amends the disposition of conveyance tax in section 247-7, HRS, as follows:

1) 8% (currently 10%) or $10,000,000 (currently, $5,100,000), whichever is less, paid into the land conservation fund established pursuant to section 173A-5;
2) 38% (currently 50%) or $50,000,000 (currently $38,000,000), whichever is less, paid into the rental housing revolving fund established by section 201H-202;
3) 8% or $10,000,000, whichever is less, paid into the supportive housing special fund, section 201H-A, established pursuant to this Act; and
4) 10% paid into the dwelling unit revolving fund established pursuant to section 201H-191 to fund infrastructure programs in county-designated transit-oriented development zones or districts that meet minimum standards of transit -supportive density. Provides definition of "transit-supportive density".

EFFECTIVE DATE: July 1, 2025.

STAFF COMMENTS:

Special Fund

The 1989 Tax Review Commission noted that use of special fund financing is a "departure from Hawaii's sound fiscal policies and should be avoided." It also noted that special funds are appropriate where the revenues to the funds maintain some direct connection between a public service and the beneficiary of that service. The Commission found that special funds which merely set aside general funds cannot be justified as such actions restrict budget flexibility, create inefficiencies, and lessen accountability. It recommended that such programs can be given priority under the normal budget process without having to resort to this type of financing.

This bill creates a new special fund to develop, operate and maintain affordable, permanent housing and provide supportive services for individuals and families with special needs. The Fund is fed by new earmarks on the conveyance tax (HRS section 247-7). The program is to be administered by the Hawaii Housing Finance and Development Corporation.

Special funds are pots of money that exist for a specific purpose and largely bypass the legislative appropriation process. The existence of hundreds of these special funds has often confounded those who seek answers to simple questions like "How much money does the State have?"

Our Legislature is supposed to be the steward of all state moneys, but special funds make it very easy to lose track of where the money is and how it is being spent. Departments are supposed to tell the Legislature if they have special funds and how much is in them, but let's just say they don't always.

Perhaps as the result of the foregoing concerns, the Legislature has itself established criteria for when a special fund may be maintained (HRS section 37-52.3). Those criteria are that the special fund:

(1) Serves a need, as demonstrated by: (A) The purpose of the program to be supported by the fund; (B) The scope of the program, including financial information on fees to be charged, sources of projected revenue, and costs; and (C) An explanation of why the program cannot be implemented successfully under the general fund appropriation process;

(2) Reflects a clear nexus between the benefits sought and charges made upon the program users or beneficiaries or a clear link between the program and the sources of revenue, as opposed to serving primarily as a means to provide the program or users with an automatic means of support that is removed from the normal budget and appropriation process;

(3) Provides an appropriate means of financing for the program or activity that is used only when essential to the successful operation of the program or activity; and

(4) Demonstrates the capacity to be financially self-sustaining.

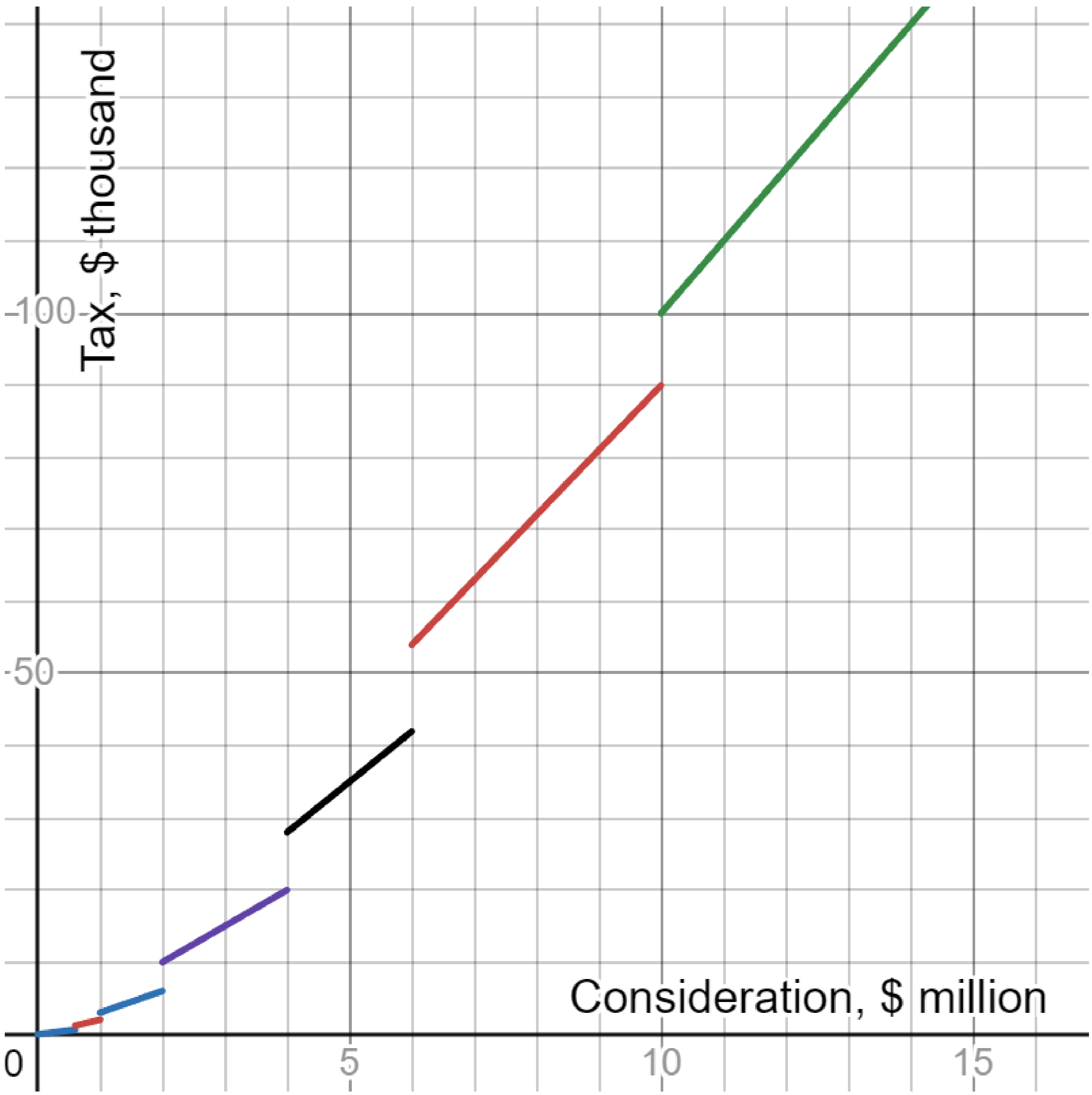
The bill as currently drafted allows for reasonable service fees to ce charged in connection with financing, services, and approvals under the program. However, the bill requires 8% or $10 million of conveyance tax collections to be diverted to the fund, indicating that it is not self-sustaining. Thus, etablishing this special fund is inappropriate, as is the proposed method of financing the fund.

Conveyance Tax Restructure

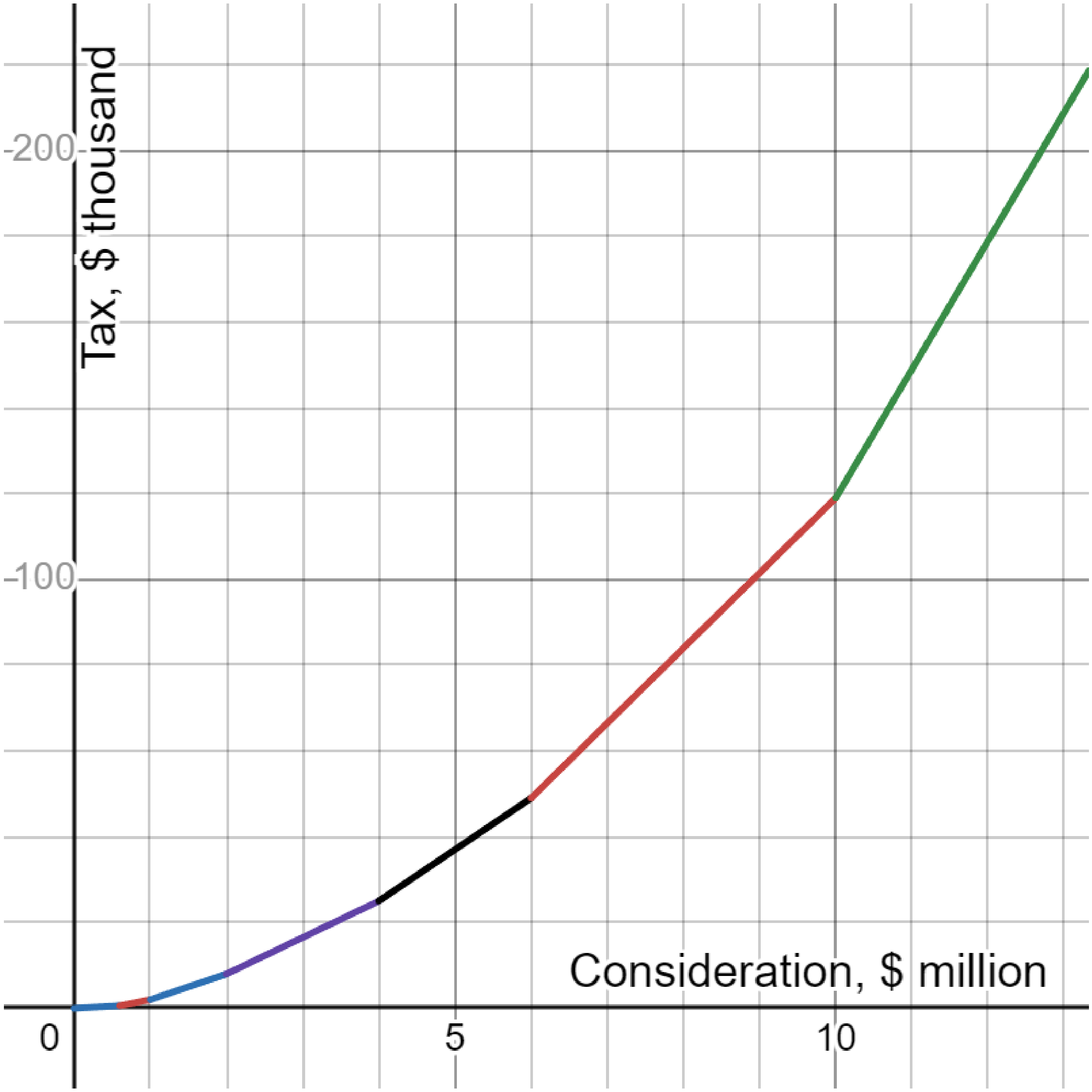
The conveyance tax was enacted by the 1966 legislature after the repeal of the federal law requiring stamps for transfers of real property. It was enacted for the sole purpose of providing the department of taxation (which at the time also administered the real property tax) with additional data for 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. Because 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 value transferred.

The conveyance tax now has discontinuities at the bracket break points, which means that if taxable income increases by $1 at a break point, such as from $9,999,999 to $10,000,000, the increase in tax will be substantially more than $1. In this example the tax would go from $200,000 to $300,000.



Substantial discontinuities such as these may motivate behavior for taxpayers near a break point. This behavior might not be desirable from an economic standpoint. This bill restructures the conveyance tax brackets more like the existing income tax brackets which do not have this problem.



Conveyance Tax Hike

This bill proposes to raise conveyance tax rates in dramatic fashion.

A tax increase of any magnitude in Hawaii's fragile economy will, no doubt, have a negative impact as costs soar due to higher taxes. As costs and overhead increase, employers must find ways to stay in business by either increasing prices to their customers or cut back on costs. This may take the form of reducing inventory, shortening business hours, reducing employee hours, or even laying off workers. A tax increase of any magnitude would send many companies, especially smaller ones, out of business taking with them the jobs the community so desperately needs at this time.

Tax Earmarks

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 a $6.8 million cap on the earmark to the land conservation fund and a $38 million cap on the earmark to the rental housing revolving fund. 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).

The cap on the earmark to the land conservation fund was reduced to $5.1 million in the budget bill of 2020, Act 9, SLH 2020.

The bill provides earmarks to two additional funds; the lesser of 38% or $10,000,000 to the proposed new section 201H-A Supportive Housing Special Fund and 10% (with no cap), to the dwelling unit revolving fund.

Firstly, there is no cap on funds earmarked to the dwelling unit revolving fund. Additionally, raising or removing the cap on the existing 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: 1/28/2025

HAWAI'I REALTORS®

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January 29, 2025

The Honorable Luke A. Evslin, Chair
House Committee on Housing
State Capitol, Conference Room 430 & Videoconference

RE: House Bill 1410, Relating to Housing

HEARING: Wednesday, January 29, 2024, at 9:15 a.m.

Aloha Chair Evslin, Vice Chair Miyake, and Members of Committee:

My name is Lyndsey Garcia, Director of Advocacy, testifying on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawaii and its over 10,000 members. HAR **opposes** House Bill 1410, which establishes the Supportive Housing Special Fund. Restructures the conveyance tax to a marginal rate system and adjusts the tax for multifamily properties to reflect value on a per-unit basis. Allocates revenues from conveyance tax collections to the Supportive Housing Special Fund. Allocates a portion of conveyance tax collections to the Dwelling Unit Revolving Fund to fund infrastructure programs in county-designated transit-oriented development areas that meet minimum standards of transit-supportive density.

HAR believes that the conveyance tax structure can benefit from reform and appreciates the Legislature's willingness to entertain such changes. In addition, we appreciate the restructuring of multifamily properties to reflect the value on a per-unit basis as these types of walk-up buildings can serve as true workforce and affordable housing for Hawaii families.

Nevertheless, we have some concerns about the effects of this bill. The Conveyance Tax applies not only to residential property such as single-family homes and condominiums, but to the conveyance of multi-family rentals, land for residential subdivisions, mixed-income and multi-use properties, commercial, resort, and agricultural lands. This measure proposes to increase the Conveyance Tax rates for real property and the following are examples of the rate increases:

Property Value:	Current *Per $100:*	Proposed:	Current Rate (in Dollars):	Proposed (in Dollars):
< $600,000	$0.10	No change	$500 ($500k property)	
$600k - $999,999	$0.20	$600 + $0.35 per $100 over $600,000	$1,400 ($700k property)	**$950**
$1 mil - $2.99 mil	$0.30	$2,000 + $0.60 per 100 over $1 mil.	$6,000 ($2 mil. property)	**$8,000**
$2 mil - $3.99 mil	$0.50	$8,000 + $0.85 per $100 over $2 million	$15,000 ($3 mil. property)	**$16,500**

$4 mil - $5.99 mil	$0.70	$25,000 + $1.20 per $100 over $4 mil.	$35,000 ($5 mil. property)	**$37,000**
$6 mil - $9.99 mil	$0.90	$49,000 + $1.75 per $100 over $6 mil.	$72,000 ($8 mil property)	**$84,000**
$10 mil +	$1.00	$119,000 + $3.00 per $100 over $10 mil.	$150,000 ($15 mil property)	**$269,000**

For condominiums and single-family homes which the purchaser is ineligible to qualify for a homeowner exemption, the following are the proposed rates:

Property Value:	**Current *Per $100:***	**Proposed:**	**Current Rate (in Dollars):**	**Proposed (in Dollars):**
< $600,000	$0.15	No change	$750 ($500k property)	**$750**
$600k - $999,999	$0.25	$900 + $0.40 per $100 over $600,000	$1,750 ($700k property)	**$1,300**
$1 mil - $2.99 mil	$0.40	$2,500 + $0.65 per 100 over $1 mil.	$8,000 ($2 mil. property)	**$9,000**
$2 mil - $3.99 mil	$0.60	$9,000 + $2.00 per $100 over $2 million	$18,000 ($3 mil. property)	**$29,000**
$4 mil - $5.99 mil	$0.85	$49,000 + $2.50 per $100 over $4 mil.	$42,500 ($5 mil. property)	**$74,000**
$6 mil - $9.99 mil	$1.10	$99,000 + $3.25 per $100 over $6 mil.	$88,000 ($8 mil property)	**$164,000**
$10 mil +	$1.25	$219,000 + $4.10 per $100 over $10 mil.	$187,500 ($15 mil property)	**$424,000**

HAR would also note that the Conveyance Tax applies even if someone sells a property at a loss. Often, it is the seller that pays the Conveyance Tax. This makes it a punishing tax, especially for someone that is already struggling financially and needs to sell their assets. One pays the same Conveyance Tax regardless of whether it is sold at a loss or a profit. If there is a profit, real property is also taxed with capital gains.

Additionally, this measure proposes to reduce the percentage allocation but increase the cap amounts for the Land Conservation Fund and Rental Housing Revolving Fund. It also proposes to add funding for two additional special funds – the Supportive Housing Special Fund and Dwelling Unit Revolving Fund. The challenge with linking funding to the Conveyance Tax is that when the real estate market is down, there may not be enough funds to pay for the programs it supports. The Conveyance Tax is then often targeted for increase to cover these programs; however, when the market is up, there are excess funds over and above the programs' needs. This becomes a cyclical issue, and the Conveyance Tax is never lowered even in an up market, thereby contributing to the ever-increasing cost of housing in our state.

For the foregoing reasons, the Hawaiʻi Association of REALTORS® opposes this measure. Mahalo for the opportunity to testify.

LATE *Testimony submitted late may not be considered by the Committee for decision making purposes.

HB-1410
Submitted on: 1/29/2025 7:42:28 AM
Testimony for HSG on 1/29/2025 9:15:00 AM

Submitted By	Organization	Testifier Position	Testify
David Z. Arakawa	Land Use Research Foundation of Hawaii	Oppose	Written Testimony Only

Comments:

January 29, 2025

Representative Luke A. Evslin, Chair

Representative Tyson K. Miyake, Vice Chair

House Committee on Housing

Strong Opposition to "Conveyance Tax" Portions of HB1410 RELATING TO HOUSING (Establishes the Supportive Housing Special Fund. Restructures the conveyance tax to a marginal rate system and adjusts the tax for multifamily properties to reflect value on a per-unit basis. Allocates revenues from conveyance tax collections to the Supportive Housing Special Fund. Allocates a portion of conveyance tax collections to the Dwelling Unit Revolving Fund to fund infrastructure programs in county-designated transit-oriented development areas that meet minimum standards of transit-supportive density.)

Wednesday, January 29, 2025, at 9:15 a.m.

State Capitol, Conference Room #430, & Videoconference.

The Land Use Research Foundation of Hawaii (LURF) is a private, non-profit research and trade association whose members include major Hawaii landowners, developers, and utility companies. LURF's mission is to advocate for reasonable, rational, and equitable land use planning, legislation and regulations that encourage well-planned economic growth and housing, while safeguarding Hawaii's significant natural, cultural, and agricultural resources, and public health and safety.

Collectively, LURF Members include homebuilders, architecture, engineering, and legal professionals that have helped to build the most affordable housing units in the State of Hawaii and continue to work collaboratively with all state and county housing agencies to build more homes for Hawaii.

LURF appreciates that this bill may be well-intended, however, under the circumstances, we must respectfully state our **strong opposition to the current portion of HB 1410 that proposes change in Hawaii's conveyance taxes** that could increase the costs of housing and unfairly and detrimentally impact all local people that are buying, selling, or leasing a home, including kupuna, and young families.

HB 1410. This measure would establish the Supportive Housing Special Fund; restructures the conveyance tax to a marginal rate system, and adjusts the tax for multifamily properties to reflect value on a per-unit basis; allocates revenues from conveyance tax collections to the Supportive Housing Special Fund; allocates a portion of conveyance tax collections to the Dwelling Unit Revolving Fund to fund infrastructure programs in county-designated transit-oriented development areas that meet minimum standards of transit-supportive density.

LURF Position: LURF supports increases in funding to housing programs, and appreciates that this bill may be well-intended, however, under the circumstances, we must respectfully state our **strong opposition to the current portion of HB 1410** that proposes increases in conveyance taxes.

We are willing to work together with the introducer and proponents of this bill to propose amendments that will support more affordable housing in Hawaii.

For the above reasons, LURF **opposes HB1410** and respectfully urges **deferring this measure and holding it in this Committee**.

Thank you for the opportunity to present testimony regarding this matter.

GRASSROOT
INSTITUTE OF HAWAII

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Honolulu, HI 96813
808-864-1776
info@grassrootinstitute.org

Removing barriers to Hawaii's prosperity

Jan. 29, 2025, 9:15 a.m.
Hawaii State Capitol ex
Conference Room 430 and Videoconference

LATE

To: House Committee on Housing
Rep. Luke A. Evslin, Chair
Rep. Tyson K. Miyake, Vice-Chair

From: Grassroot Institute of Hawaii
Ted Kefalas, Director of Strategic Campaigns

RE: COMMENTS ON HB1410 — RELATING TO HOUSING

Aloha Chair Evslin, Vice-Chair Miyake and other members of the committees,

The Grassroot Institute of Hawaii would like to offer **comments on** HB1410, which would increase the property conveyance tax for higher tiers.

Put simply, we are concerned that these proposed higher conveyance taxes could harm the economy and negatively affect Hawaii's already-fragile housing market.

A report by the Sage Policy Group on real estate transfer taxes — exactly the type of tax contemplated in this bill — noted that such laws can "lead to decreases in population, real incomes, real estate transactions, investment in structures, and quality of the built environment."[1]

When applied to higher-value properties, transfer taxes reduce investment in both commercial and residential properties, leading to lost jobs and reduced economic activity.

We at Grassroot believe it is counterintuitive to pursue affordable housing initiatives while simultaneously making it more expensive to buy and sell homes.

[1] "The Unintended Consequences of Excessive Transfer Taxes," Sage Policy Group, Inc. on behalf of the Community Coalition for Jobs and Housing, June 2022, p. 3.

Further, this measure could discourage adaptive reuse — the conversion of old buildings to new purposes. Hawaii's counties can leverage adaptive reuse to add to their housing stock, as they are doing now,[2] but higher conveyance taxes could chill the sale of old buildings, which might not necessarily qualify as "multifamily residential property" at the time of sale.

The Sage report stated: "Many properties will need to be upgraded and/or adaptively reused to remain viable. Excessive transfer tax rates can frustrate the exchange of property that is often required to return to commercial viability."[3]

This bill deserves some praise for seeking to adjust the tax for multifamily residential properties to reflect value on a per-unit basis. This would help address some concerns related to the purchase of property for affordable housing or rentals. However, it would not fully mitigate the potential harm from an increase in the conveyance tax.

Ultimately, the conveyance tax is not the proper mechanism to fund new housing initiatives. Rather than help, it could harm the state's economy and housing market.

Thank you for the opportunity to testify.

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

[2] Lana Teramae, "Local Architects Talk About Repurposing Existing Buildings in Post-Pandemic Hawai'i," Hawaii Business Magazine, Sept. 6, 2021.
[3] "The Unintended Consequences of Excessive Transfer Taxes," p. 3.

HB-1410
Submitted on: 1/27/2025 4:07:41 PM
Testimony for HSG on 1/29/2025 9:15:00 AM

Submitted By	Organization	Testifier Position	Testify
Stacey Alapai	Individual	Support	Written Testimony Only

Comments:

Please support this effort to reign in extractive real estate speculation and profiteering. Housing is a basic need and should not be hoarded or exploited for profits.