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IN REPLY REFER TO

Statement of
Karen Seddon
Hawaii Housing Finance and Development Corporation
Before the

HOUSE COMMITTEE ON HOUSING
March 17, 2010, 9:00 a.m.
Room 325, State Capitol

In consideration of
S.B. 2594, S.D. 1
RELATING TO HOUSING.

The HHFDC ***opposes*** S.B. 2594, S.D. 1 because it establishes different eligibility criteria for only one of the four types of housing projects eligible for the GET exemption.

The HHFDC has concerns about the fairness of establishing a residency requirement for only affordable rental housing projects that meet specific income requirements. For fairness reasons, as well as for reasons of uniform program administration, if it is the Committee's intent to move this bill forward, we suggest that the desired changes be applied to all projects eligible for GET exemptions. This includes government assistance projects, which constitute nearly all projects certified for GET exemptions by the HHFDC and its predecessors.

Thank you for the opportunity to testify.

L E G I S L A T I V E

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SUBJECT: GENERAL EXCISE, Add residency requirement to qualify for exemption

BILL NUMBER: SB 2594, SD-1

INTRODUCED BY: Senate Committee on Education and Housing

BRIEF SUMMARY: Amends HRS sections 201H-1 and 237-1 to add a definition of "qualified person or firm" as an individual, partnership, joint venture, corporation, association, limited liability partnership, limited liability company, business, trust, or any organized group of persons or legal entities, or any combination thereof, which possesses all professional or vocational licenses necessary to do business in the state of Hawaii in conjunction with the planning, design, financing, construction (including materials and supplies for new construction, moderate rehabilitation, and substantial rehabilitation), sale, or rental of eligible housing projects.

Amends HRS section 201H-36 to add a residency requirement for households in a newly constructed or moderately or substantially rehabilitated housing project by a qualified person or firm, in order for that qualified person or firm to be eligible for a general excise tax exemption. Also provides that the general excise tax exemption shall apply to only that portion of rental income received from households that meets the residency and gross annual income requirements delineated.

EFFECTIVE DATE: July 1, 2050

STAFF COMMENTS: The proposed measure would limit the general excise tax exemption for newly constructed or moderately or substantially rehabilitated housing projects to those whose occupants not only meet the income requirements but also the proposed residency requirement. If it is the intent of the legislature to restrict the general excise tax exemption to those housing projects with occupants who are residents, then such requirements should be made applicable to other projects eligible for a general excise tax exemption. It should be noted that adding a residency requirement could possibly be unconstitutional.

It should be noted that conferring the general excise tax exemption only for that portion of the rental income received from households that meet gross annual income requirements disregards the growing move toward mixed-income developments where a portion of the affordable housing project is rented at market rates to families who do not have to meet the income requirements. This allows the developer or manager of the project to subsidize the operation of the project with market rentals to the advantage of the below-market units. Having a mix of below-market units and market units also helps in setting a tone and a lifestyle for the project as those who are in market units more than likely have a stake in the project, exercising greater concern about the maintenance, upkeep, and security of the project. Levying the general excise tax on these types of projects makes it all that much more difficult to adequately maintain the project while continuing to provide a substantial discount to the below-market units.

Having an affordable housing project rely solely on subsidized units insures failure not only for the socialization of that community, but also for the prospects of a well-maintained project. Thus, the exemption once granted based on the fact it is providing the majority of the units as affordable housing should be able to count on the exemption in penciling out the operating costs.

Digested 3/16/10