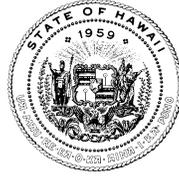


DAVID Y. IGE
GOVERNOR
STATE OF HAWAII

JOSH GREEN
LT. GOVERNOR
STATE OF HAWAII



WILLIAM J. AILA, JR.
CHAIRMAN
HAWAIIAN HOMES COMMISSION

TYLER I. GOMES
DEPUTY TO THE CHAIRMAN

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS

P. O. BOX 1879
HONOLULU, HAWAII 96805

TESTIMONY OF WILLIAM J. AILA, JR, CHAIRMAN
HAWAIIAN HOMES COMMISSION
BEFORE THE SENATE COMMITTEE ON HAWAIIAN AFFAIRS
HEARING ON FEBRUARY 4, 2021 AT 1:00PM VIA VIDEO CONFERENCE

SB 1121 RELATING TO HOUSING

February 4, 2021

Aloha Chair Shimabukuro, Vice Chair Keohokalole, and members of the Committee:

The Department of Hawaiian Home Lands (DHHL) strongly supports this bill that exempts any housing development for DHL from general excise taxes. This bill was approved by the Hawaiian Homes Commission and included in the Governor's administrative package by request of our department.

DHHL currently has four (4) large-scale development projects underway for consideration by HHFDC for GET exemptions as follows:

<u>Projects Pending GET Exemption</u>	<u>Est. Dev. Costs</u>	<u>Est. GET Savings</u>
1) HHL Rent with Option to Purchase (Laiohua) (163 Units)	\$ 5,000,000 (x 4.25%) =	\$212,500
2) Pu'unani Subdivision (160 Lots) (136 turnkey/24 vacant Lots)	\$ 23,350,013 (x 4.0%) =	\$934,000
3) Former Voice of America Site (253 Units)	\$ 50,000,000 (x 4.5%) =	\$2,250,000
4) 822 Isenberg Street (Bowl-O-Drome site) (270 Units)	\$ 137,000,000 (x 4.5) =	<u>\$6,165,000</u>
	TOTAL:	\$9,561,500

The cost savings for these development projects could be used to develop more lots.

Thank you for your consideration of our testimony.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Exemption for development for DHHL

BILL NUMBER: SB 1121; HB 967

INTRODUCED BY: ELI

EXECUTIVE SUMMARY: Exempts any housing development for the Department of Hawaiian Home Lands from general excise taxes.

SYNOPSIS: Adds a new section to chapter 237, HRS, that exempts all gross income received by any qualified person or firm for the planning, design, financing, or construction of any housing development for the Department of Hawaiian Home Lands.

Allows DHHL to certify for exemption a newly constructed, or a moderately or substantially rehabilitated, project that is: (1) Developed under a government assistance program approved by DHHL; (2) Developed under the sponsorship of a private nonprofit organization providing home rehabilitation or new homes for qualified families in need of decent, low-cost housing; (3) Developed by a qualified person or firm to provide affordable rental housing where at least fifty per cent of the available units are for households with incomes at or below eighty per cent of the area median family income as determined by the United States Department of Housing and Urban Development; or (4) Developed by contract or project developer agreement to provide affordable housing through new construction or substantial rehabilitation; provided that: (A) The allowable general excise tax and use tax costs shall apply to contracting only and shall not exceed \$30,000,000 per year in the aggregate for all projects approved and certified by the department; and (B) At least twenty per cent of the available units are for households with incomes at or below eighty per cent of the area median family income as determined by the United States Department of Housing and Urban Development.

Requires that a developer wishing to claim the credit enter into a regulatory agreement with DHHL to ensure the project's continued compliance with the applicable eligibility requirements, unless exempted by DHHL.

Defines "moderate rehabilitation" means rehabilitation to upgrade a dwelling unit to a decent, safe, and sanitary condition, or to repair or replace major building systems or components in danger of failure.

Defines "substantial rehabilitation" as: (1) the improvement of a property to a decent, safe, and sanitary condition that requires more than routine or minor repairs or improvements. It may include but is not limited to the gutting and extensive reconstruction of a dwelling unit, or cosmetic improvements coupled with the curing of a substantial accumulation of deferred maintenance; and (2) includes renovation, alteration, or remodeling to convert or adapt structurally sound property to the design and condition required for a specific use, such as conversion of a hotel to housing for elders.

Allows DHHL to establish a user fee for approvals and certification.

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: This bill is an Administration measure sponsored by the Department of Hawaiian Home Lands and identified as HHL-06 (21).

It seems that the proposed exemption has many similarities to the affordable housing exemption now in sections 46-15.1 and 201H-36, HRS. The proposed exemption appears to be looser, however:

- The existing low-income housing exemption requires a regulatory agreement of at least five years for moderate rehabilitation projects, ten years for substantial rehabilitation projects, and thirty years for new projects. No duration is specified for the regulatory agreement here.
- DHHL can exempt any developer from the compliance agreement requirement, and there are no standards around when the exemption may be exercised. This is an invitation to arbitrariness.

If the housing development is on Hawaiian homestead land, the beneficiaries to reside in the developed homes would be receiving several benefits unique to Hawaiian homesteads, as detailed in <https://dhhl.hawaii.gov/applications/applying-for-hawaiian-home-lands/>:

- Annual lease rent of \$1.00 per year;
- 99-year lease;
- Lease term which can be extended for an additional 100 years, allowing passage of the homestead from generation to generation;
- Seven-year exemption from real property tax;
- Complete exemption of tax on land;
- Minimal real property tax after the first seven years (applies only to County of Kauai and City and County of Honolulu, Oahu);
- And other benefits.

We suggest the same or stricter, not looser, standards to qualify for an exemption that is layered on top of these existing benefits.

Digested 2/1/2021

SB-1121

Submitted on: 2/3/2021 3:41:22 AM

Testimony for HWN on 2/4/2021 1:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Juanita Brown Kawamoto	Individual	Support	No

Comments:

Aloha mai kakou,

I support this bill in an effort to minimize the cost and expense to all Native Hawaiian potential homeowners on DHHL residential and agricultural lands. The consideration to minimize as many costs incurred during the planning and construction process will hopefully invite more interested contractors and planners to participate in offering more competitive bids therefore reducing the overall cost to what is an over-inflated expense to all residents of Hawaii. Native Hawaiians as the first people of Hawaii must be allowed the opportunity to afford to own their own homes and to have the choice to remain in the islands of their birth, as promised by our Ali'i and endless elected officials, past and present.

Mahalo for the opportunity to testify.

Me ka mana'o nui,

Juanita Mahienaena Brown Kawamoto

February 4, 2021

LATE

Senate Committee On Hawaiian Affairs
Senator Maile S.L. Shimabukuro, Chair
Senator Jarrett Keohokolole, Vice Chair

Re: S.B. 1121

RELATING TO HOUSING.

Exempts any housing development for the Department of Hawaiian Home Lands from general excise taxes.

Aloha Chair Shimabukuro, Vice Chair Keohokolole, and members of the Committee,

My name is Homelani Schaedel, a beneficiary residing in Malu'ohai, and a homestead leader in Kapolei.

Department of Hawaiian Home Lands - Beneficiaries Study Report

Applicants Survey	2020		2014	
Turn-Key (Lot with Single Family House)	12,496	53.9%	8,983	67.5%
Lot with water, sewer, electricity (No House)	5,146	22.2%	1,251	9.4%
Total	17,642	76.1%	10,234	76.9%

This study indicates the residential preference of applicants on the Waitlist. Lot development for homes by DHHL with funding approved by the Legislature has not been sufficient to address the demand. High cost of planning, design, and construction of affordable homes has increased from approximately \$50,000.00 in 2000 to \$150,000.00 in 2020 and will continue to rise.

Unlike Hawaii Housing & Finance Development Corporation's (HHFDC) who is exempt from general excise taxes and primarily develops affordable rental housing projects; DHHL does not receive a return of rental income to sustain cash flow from its' beneficiaries.

§15-306-1 Purpose. This chapter implements sections 201H-36 and 237-29, HRS, regarding general excise tax exemptions for qualified persons and firms involved in providing low and moderate income housing. The legislative intent of the general excise tax exemption is to achieve cost savings to assure economic feasibility which will encourage and enable the production of as many lower cost housing units as possible.

This bill proposes to exempt any housing development for the Department of Hawaiian Home Lands from general excise taxes. More importantly, it will bring parity and align the State's standards with the Legislature's intent highlighted above.

Mahalo for the opportunity to present my testimony.