

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

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

**SENATE COMMITTEE ON HOUSING
AND
SENATE COMMITTEE ON PUBLIC SAFETY AND INTERGOVERNMENTAL AND
MILITARY AFFAIRS**

February 13, 2023 at 3:00 p.m.
State Capitol, Room 225

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

HHFDC **supports** SB. 866, 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.

Thank you for the opportunity to provide testimony.

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
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**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

S.B. No. 866, Relating to Housing

BEFORE THE:

Senate Committee on Housing and Senate Committee on Public Safety and Intergovernmental and Military Affairs

DATE: Monday, February 13, 2023
TIME: 3:00 p.m.
LOCATION: State Capitol, Room 225

Chair Chang and Wakai, Vice-Chair Kanuha and Elefante, and Members of the Committees:

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

Section 2 of S.B. 866 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 an effective date of July 1, 2023.

The Department defers to HHFDC on its ability to certify the exemption pursuant to the requirements in the bill and notes that it is able to implement section 2 of the bill by the current effective date.

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

TAX FOUNDATION OF HAWAII

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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

INTRODUCED BY: CHANG, AQUINO, MCKELVEY, Kidani

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, 2023.

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: 2/11/2023



LATE

February 13, 2023

Senator Stanley Chang, Chair
Senator Dru Mamo Kanuha, Vice Chair
Members of the Committee on Housing

Senator Glenn Wakai, Chair
Senator Brandon J.C. Elefante, Vice Chair
Members of the Committee on Public Safety
& Intergovernmental and Military Affairs

RE: **SB 866 – RELATING TO HOUSING**
Hearing date – February 13, 2023 at 3:00 pm

Aloha Chair Chang, Chair Wakai and members of the committees,

My name is Moe Mohanna and I am President of Highridge Costa Development Company (“HCDC”). Thank you for allowing me to submit testimony in **SUPPORT of SB 866 – RELATING TO HOUSING**. HCDC is an affordable housing developer with significant experience in Hawaii. We currently have over 2,300 affordable rental units in development or operation throughout Oahu and Maui, including downtown Honolulu, Kapolei, Waipahu and Kihei. HCDC works closely with various state and local agencies to bring low- and moderate-income housing to communities Hawaii’s communities.

SB 866 would allow affordable rental housing projects to receive a waiver of certain county development fees. The bill would also remove the limit on the type of costs eligible for GET exemptions for affordable rental housing. Under current market conditions and with increased costs of construction, it is nearly impossible to build affordable rental housing in Honolulu and throughout other counties in Hawaii. SB 866 would provide some relief to county exactions and provide the incentives needed to make projects feasible. HCDC strongly supports SB 866 as a common-sense approach to development of affordable housing. I strongly urge to pass this bill. Mahalo for your consideration.

Aloha,

Moe Mohanna, President
Highridge Costa Development Corporation