STAND. COM. REP. NO. 1179

Honolulu, Hawaii

MAR 20 2025

RE: H.B. No. 740
H.D. 2
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirty-Third State Legislature
Regular Session of 2025
State of Hawaii

Sir:

Your Committee on Housing, to which was referred H.B. No. 740, H.D. 2, entitled:

"A BILL FOR AN ACT RELATING TO HOUSING,"

begs leave to report as follows:

The purpose and intent of this measure is to establish the Accessory Dwelling Unit Financing and Deed Restriction Program to allocate funds to the counties to provide grants to eligible homeowners or homebuyers to finance construction costs, development costs, and non-reoccurring closing costs associated with the construction of an accessory dwelling unit and purchase deed restrictions on such property.

Your Committee received testimony in support of this measure from the Hawaii Housing Finance and Development Corporation, Office of Hawaiian Affairs, one member of the Maui County Council, Office of Housing of the City and County of Honolulu, Office of Housing and Community Development of the County of Hawaiʻi, Hawaii Appleseed Center for Law and Economic Justice, Hawaiʻi YIMBY, Housing Hawaiʻi's Future, Hawaiʻi Children's Action Network Speaks!, Maui Chamber of Commerce, Catholic Charities Hawaiʻi, Council for Native Hawaiian Advancement, Save Medicaid Hawaii, Hawaiʻi Community Foundation, Chamber of Commerce Hawaii, and six individuals.

Your Committee received comments on this measure from the Department of Taxation, Hawai'i Association of REALTORS, Holomua Collaborative, and Tax Foundation of Hawaii.

Your Committee finds that the State is experiencing a chronic housing shortage. An accessory dwelling unit (ADU) is a small, separate living area that is attached or detached from a primary single-family residence on a single-family lot and is an important type of housing that can efficiently add gentle density to existing, established neighborhoods. While ADUs can help increase the supply of lower-cost housing, there are many financial barriers for homeowners interested in constructing ADUs, including high construction costs, financing challenges, and infrastructure insufficiencies. Incentivizing the construction of ADUs through the deed restriction program established by this measure could help increase housing stock that aligns with specific community needs while ensuring the units constructed are occupied by local workers, thereby maintaining employment within the State and preventing the conversion of the units into vacation rentals or investment properties and reducing speculation in the State's housing market.

Your Committee notes, however, that the counties already have the authority to implement the ADU and deed restriction program proposed in this measure. Maui County initiated a similar grant program that includes an owner-occupancy requirement, buyback program, and equity sharing. Therefore, the Legislature should study Maui County's deed restriction program before committing additional state funds for the development of a similar program.

Your Committee additionally recognizes the concerns raised by the Office of Housing of the City and County of Honolulu, generally supporting ADUs as an innovative approach to increase housing inventory but noting the County's existing challenges to implement this measure in its current form with regard to capacity, lack of positions and staff, potential impacts to real property tax revenues, eligibility criteria, implementation timelines, enforceability, and potential liability. Your Committee finds that these issues merit further consideration and respectfully requests that these concerns be examined by subsequent Committees that choose to deliberate on this measure as it continues through the legislative process.

Your Committee further notes that loans or other forms of investment, rather than a grant program, would allow the State to recover on its investment, thereby enabling the State to finance additional ADUs in the future. For example, the Dwelling Unit Revolving Fund Equity Program enables the State to share in the capital gain of units receiving state funds. Alternatively, other ways for the State to unlock the value of its investment and maximize future housing construction should be explored.

Your Committee has amended this measure by:

(1) Changing the source of funding from the Dwelling Unit Revolving Fund to the Rental Housing Revolving Fund;

(2) Changing the Accessory Dwelling Unit Financing and Deed Restriction Program from a grant program to an equity purchase program;

(3) Clarifying that the Hawaii Housing Finance and Development Corporation (HHFDC) may allocate a dollar amount necessary for a county to carry out the program; provided that the total contribution amount from a county distributed per accessory dwelling unit shall not exceed eight percent of the appraised value of the property;

(4) Specifying that HHFDC shall not allocate more than $2,000,000 per year for the program between all counties;

(5) Authorizing the counties to use an unspecified percentage of awarded funds for administrative costs;

(6) Clarifying that eligible homeowners or homebuyers under the program shall own no other real property;

(7) Expanding the terms of the required indemnification agreement to include the counties and county officers, agents, and employees;

(8) Inserting language to require the program to prioritize homeowners or homebuyers and prospective tenants that are government employees;

(9) Inserting language to require a homeowner participating in the purchase of equity program to repay HHFDC its prorated share of the appraised value of the completed accessory dwelling unit, with appreciation, within fifteen years or upon sale or transfer of the property, whichever occurs first;

(10) Clarifying that each dwelling unit on the property shall be occupied exclusively by owner-occupants or tenants who meet certain eligibility criteria;

(11) Requiring HHFDC to submit a report to the Legislature evaluating the program no later than twenty days prior to the convening of the Regular Session of 2031;

(12) Clarifying the exemption to the Conveyance Tax shall apply to taxable years beginning January 1, 2026;

(13) Sunsetting the program on December 31, 2030;

(14) Inserting an effective date of July 1, 2050, to encourage further discussion; and

(15) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the record of votes of the members of your Committee on Housing that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 740, H.D. 2, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 740, H.D. 2, S.D. 1, and be referred to your Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Housing,

STANLEY CHANG, Chair

The Senate
Thirty-Third Legislature
State of Hawaiʻi

Record of Votes
Committee on Housing
HOU

Bill / Resolution No.:*	Committee Referral:	Date:
HB 740, HD2	HOU, WAM	3-11-25

☐ The Committee is reconsidering its previous decision on this measure.

If so, then the previous decision was to: ____________________

The Recommendation is:

☐ Pass, unamended 2312 ☑ Pass, with amendments 2311 ☐ Hold 2310 ☐ Recommit 2313

Members	Aye	Aye (WR)	Nay	Excused
CHANG, Stanley (C)	✓			
HASHIMOTO, Troy N. (VC)	✓			
AQUINO, Henry J.C.				✓
KANUHA, Dru Mamo	✓			
FEVELLA, Kurt				✓
TOTAL	3	0	0	2

Recommendation: ☑ Adopted ☐ Not Adopted

Chair's or Designee's Signature: [signature]

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*Only one measure per Record of Votes

Revised: 12/09/24