Testimony of WILLIAM J. AILA, JR.
Chairperson

Before the Senate Committee on WAYS AND MEANS

Thursday, February 28, 2013
9:35AM
State Capitol, Conference Room 211

In consideration of SENATE BILL 1166
RELATING TO THE CONVEYANCE TAX

Senate Bill 1166 proposes to amend the Conveyance Tax on certain real estate transactions and allocates a portion of conveyance tax revenues to the Natural Area Reserve (NAR) Fund for watershed protection and invasive species control and to the Rental Housing Trust Fund. The Department of Land and Natural Resources (Department) strongly supports this Administration.

This bill proposes modifying the Conveyance Tax on properties over $2 million, affecting approximately 2% of total transactions, based on Fiscal Year 2012 data. The funding amounts proposed in SB1166 are predicted to generate approximately $10.5 million more for the NAR Fund. Also, it is expected to provide an additional $1.7 million per year for the Land Conservation Fund and an additional $5.1 million per year for the Rental Housing Trust Fund. The projected $17 million generated by the tax increase offsets the reduction in the General Fund’s percentage.

The conveyance tax is an appropriate funding source for watershed and natural area protection.

Act 156, Session Laws of Hawaii 2005 (The Legacy Land Act) states:

“The legislature has also determined that there is a clear nexus between the source of the conveyance tax and providing funding for watershed protection and other natural resource preservation programs. The development, sale, and improvement of real estate in Hawaii adds additional pressure on natural areas, coastal access, agricultural production, and Hawaii’s water resources and watershed recharge areas.”

Currently, 13 states fund conservation with a portion of real estate transfer taxes. In Hawaii, the NAR Fund receives a percentage of the state Conveyance Tax from the sale of real property and
utilized by various program areas to further watershed protection and maintenance. The NAR Fund is the only dedicated funding source for watershed protection. In Fiscal Year 2011, the Watershed Partnership Program, which supports 11 partnerships state-wide, shared $1.25 million from the NAR Fund. The five island-based committees that control invasive species and contribute to watershed initiative have no authorized dedicated funding whatsoever. In Fiscal Year 2012, the Legislature provided $2.5 million in capital improvement project funding and directed $2.5 million of special funding for the watershed initiative. The Department has used the NAR Fund to provide these special funds.

This bill also provides a dedicated funding source for the control and eradication of harmful invasive species infestations throughout the state and for preventing the introduction of other invasive species that may be potentially harmful. Funding the Hawaii Invasive Species Council is critical for protecting watershed forests from invasive species threats both from mainland United States and neighboring countries that Hawaii does regular commercial trade with.

Hawaii’s water supply and economy depend on the health of mauka native forests, which capture and absorb rain and can increase groundwater supply by up to 50%. Forests are essential to provide water at affordable rates. Lower groundwater levels mean higher pumping costs to transport water for human use. When groundwater levels decline to a point that they cannot be pumped, expensive alternative water sources are needed – long transport pipes, new wells, and even desalination plants.

Water users already pay for the loss of native forests – and those costs are high. Invasive and widespread strawberry guava evapotranspires 27%-53% more water than native forests, causing extensive water loss across landscapes. For example, in East Hawai`i invasive plants have already reduced estimated groundwater recharge by 85 million gallons a day. When one considers that a 5 million gallon per day desalination plant costs $40 million to construct and over $5.4 million per year to operate, the superior economic value of protecting our forests is readily apparent.

This measure implements the central natural resource stewardship goals of the Abercrombie Administration’s A New Day in Hawaii plan. This Administration bill is a responsible measure to provide immediate action to ensure wide-ranging benefits essential to Hawaii’s environmental and economic health for current and future generations.

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To: The Honorable David Y. Ige, Chair  
And Members of the Senate Committee on Ways and Means

Date: Thursday, February 28, 2013  
Time: 9:35 A.M.  
Place: Conference Room 211, State Capitol

From: Frederick D. Pablo, Director  
Department of Taxation

Re: S.B. 1166 Relating to the Conveyance Tax

The Department of Taxation (Department) strongly supports this measure.

S.B. 1166 increases the Conveyance Tax on transfers of real property with values of at least $2 million. Under this measure, properties with a value between $2 million and less than $4 million would be taxed at 80 cents per $100 of value. Properties with a value between $4 million and less than $6 million would be taxed at $1.10 per $100 of value. Properties with a value between $6 million and less than $10 million would be taxed at a rate of $1.45 per $100 of value. Properties with a value of $10 million and greater would be taxed at $1.75 per $100 of value. This measure also increases amounts deposited in the rental housing trust fund and the natural area reserve fund.

The Department predicts a revenue loss for the general fund of about $4 million annually as a result of this bill. This amount would go to the natural area reserve fund and the housing trust fund.

Thank you for the opportunity to provide comments.
SB1166
RELATING TO THE CONVEYANCE TAX
Senate Committee on Ways and Means
February 28, 2013  9:35 a.m.  Room 211

The Office of Hawaiian Affairs SUPPORTS SB1166, which seeks to increase revenues for the Natural Area Reserves Fund to protect and restore watershed areas for the benefit of Hawai‘i’s natural areas and future water supply.

Fresh water is unquestionably one of Hawai‘i’s most valuable resources. The importance of fresh water to Hawai‘i and its people is reflected in the ‘ōlelo no‘eau, “Ola i ka Wai (Water is Life).” Accordingly, traditional water sharing and management practices reflected the critical nature of fresh water to these islands and helped to ensure sufficient fresh water for food production, drinking, and other domestic uses, as well as numerous ecological services. Fortunately, despite the disruption of these traditional practices and many mauka-to-makai surface water resources, the discovery and utilization of Hawai‘i’s groundwater aquifer system has continued to bless its residents with potable fresh water of the highest quality.

Unfortunately, our ever-growing agricultural and municipal water needs and practices, coupled with development- and climate-based impacts to the recharge rate of our groundwater aquifers, have begun to raise the possibility of fresh water shortfalls for many regions within these islands. The possibility for fresh water shortfalls is substantial in the very near future and probable in the long-term. The consequences and costs of such shortfalls counsel critical and timely examination of our water use and watershed conservation practices.

This bill will accordingly provide necessary funding to further the efforts of the Department of Land & Natural Resources to explore, develop, and implement short- and long-term plans to ensure the continued sustainability of our islands’ precious and ever-more limited groundwater resources. The rental housing trust fund will also receive an increased percentage of proceeds from the conveyance tax. The conveyance tax increases that will support these necessary investments will only affect real estate transactions involving properties with values greater than $2 million, ensuring that these added investments involve only those entities who have already obtained the most value from the resources of our islands.

Therefore, OHA urges the committee to PASS SB1166. Mahalo for the opportunity to testify on this important matter.
COMMENTS, with suggested AMENDMENT, FOR SB 1166: RELATING TO THE CONVEYANCE TAX

TO: Senator David Y. Ige, Chair; Senator Michelle N. Kidani, Vice Chair; and Members, Committee on Ways and Means

FROM: Betty Lou Larson, Legislative Liaison, Catholic Charities Hawaii

Hearing: Thursday, 2/28/13; 9:35 am; CR 211

Chair Ige, Vice Chair Kidani, and Members, Committee on Ways and Means:

Thank you for the opportunity to comment in support of SB1166 which would increase the conveyance tax on certain transactions and direct an additional ten percent of the proceeds to the Natural Area Reserve Fund for watershed protection and invasive species control. I am Betty Lou Larson, Legislative Liaison for Catholic Charities Hawaii. Catholic Charities strongly supports this funding for land protection which is critical to Hawaii’s future. We also support the increase in the rate for the conveyance tax on properties over $2 million. This would impact only 2% of all conveyances/year.

Amendment for page 5, Section 3, Section 247-7, (2): Catholic Charities Hawaii also urges you to restore the percentage of the conveyance allocated to the Rental Housing Trust Fund (RHTF) to 50%. In 2006, the Legislature recognized the dire need for more affordable housing, and increased the percentage of the conveyance tax allocated to the Trust Fund to 50% of the tax proceeds. With the economic crisis of the past few years, the amount to the Trust Fund has been dramatically decreased. It dropped to 30 percent in 2008, with the amount set at 25 percent from 2009-2012. As of July 1, 2012, the allocation was reset to 30% of the conveyance tax. The conveyance tax is the only dedicated source of funding to the RHTF. While this is projected to yield about $12 million for FY 13, this will not achieve the production of the 13,000 affordable rental units that are needed in the state.

As well as land protection, creating more affordable rental housing is also critical to our state’s future. Homelessness impacts on our tourist industry and on daily life in our neighborhoods. Hawaii has the 3rd highest rate for homelessness among the states. Catholic Charities receives calls every day from people who need an affordable place to live. The Rental Housing Trust Fund has a proven record of creating affordable rental units. It establishes public-private partnerships that leverage resources to add more affordable units to Hawaii’s housing stock. The RHTF has many more applications than can be funded. In FY 2012, the Trust Fund received $37 million in project requests but was only able to commit $20.7 million for 4 out of the 9 projects due to limited resources.

We urge your support of this bill and to amend it to restore 50% of the conveyance tax to the Rental Housing Trust Fund to provide a legacy of affordable housing.
Testimony of Hawai‘i Appleseed Center for Law and Economic Justice
Commenting on SB 1166 Relating to the Conveyance Tax
Senate Committee on Ways and Means
Scheduled for Decision Making on Thursday, February 28, 2013, 9:35 PM, Room 211

Thank you for an opportunity to comment on SB 1166, which would increase the conveyance tax on certain transactions and direct an additional ten percent of the proceeds to the Natural Area Reserve Fund for watershed protection and invasive species control.

Hawai‘i Appleseed Center for Law and Economic Justice is a nonprofit, 501(c)(3) law firm created to advocate on behalf of low income individuals and families in Hawai‘i on civil legal issues of statewide importance. Our core mission is to help our clients gain access to the resources, services, and fair treatment that they need to realize their opportunities for self-achievement and economic security.

In addition to increasing funds for watershed and invasive species initiatives, we respectfully encourage the committee to increase the percent of conveyance tax revenues dedicated to the Rental Housing Trust Fund.

Hawai‘i faces a severe shortage of affordable housing:
- More than 75 percent of poor households are paying more than half their income in housing costs.
- Among the states, Hawai‘i has the third highest rate of homelessness.
- In the next four years, Hawai‘i will need 13,000 more rental units to meet the need for affordable rentals.

The Rental Housing Trust Fund is a major tool for the creation of affordable housing with a long record of success. The Fund may be used to provide loans for the development, pre-development, construction, acquisition, preservation, and substantial rehabilitation of affordable rental housing units.
- As of June 2012, 4,250 rental units have been created or are in development thanks to the assistance of the Rental Housing Trust Fund and other leveraged funding.
- The public-private partnerships created by the fund help develop long broader, long-term strategies to address our affordable housing needs.
- However, the Fund is not able to fund many qualified projects due to lack of funds. It received $37 million in project requests in FY 2012 alone, but was only able to commit $20.7 for four of the nine projects submitting requests. Many projects are ready to be developed and only waiting on funding.
- The conveyance tax is the only dedicated source of funding for this program, and the amount allocated has been dramatically reduced over the last six years, from 50 percent in 2006 to 30 percent.

We completely agree that the environmental initiatives proposed in this bill are crucial to preserving Hawai‘i’s environmental and natural resources and support the proposed increases. But we also emphasize that the lack of affordable housing and resulting rates of homelessness form a social crisis that requires immediate action. Because this bill increases the conveyance tax on properties valued at over $2 million, the general fund tax will result in greater overall revenues that can fund both environmental and affordable housing efforts, making both allocations financially feasible.
February 28, 2013

The Honorable David Ige, Chair
Senate Committee on Ways and Means
State Capitol, Room 211
Honolulu, Hawaii 96813

RE: S.B. 1166, Relating to Conveyance Tax

HEARING: Thursday, February 28, 2013 at 9:35 a.m.

Aloha Chair Ige, Vice Chair Kidani, and Members of the Committee:

I am Myoung Oh, Government Affairs Director, submitting comments on behalf of the Hawai‘i Association of REALTORS® (“HAR”), the voice of real estate in Hawai‘i, and its 8,000 members. HAR strongly opposes S.B. 1166 which increases the Conveyance Tax on certain real estate transactions.

As proposed, the Conveyance Tax increase will apply to the conveyance of multi-family rentals, land for residential subdivisions, mixed-income and multi-use properties, commercial properties, resort properties, and agricultural lands, as well as condominium and single-family homes. HAR believes that, while watershed protection may have value, the Conveyance Tax increases set forth in S.B. 1166 will again increase the already high cost of housing, living and doing business in Hawaii.

In 2005, the Conveyance Tax was increased on a tiered scale on 1) the sale of realty for all transfers or conveyance of realty or any interest (i.e. commercial, timeshare, agricultural, industrial, etc, and condominium or single family residence for which the purchaser is eligible for a county homeowner’s exemption) and 2) the sale of a condominium or single family residence for which the purchaser is ineligible for a county homeowner’s exemption.

In 2009, the Legislature once again increased the Conveyance Tax on 1) the sale of realty from 30 cents per $100 (.30%) for properties over $1,000,000 to a maximum of $1.00 (1%) per $100 for properties over $10,000,000 -- an increase of over 333%, and 2) the sale of a property ineligible for a county homeowner exemption from 30 cents per $100 to $1.25 per $100 (1.25%) -- an increase of over 416.66%.

Section 2 of S.B. 1166 increases the Conveyance Tax by an additional:
1. 60% for properties valued at least $2 million but less than $4 million;
2. 57% for properties valued at least $4 million but less than $6 million;
3. 61% for properties valued at least $6 million but less than $10 million; and
4. 75% for properties valued at least $10 million and greater.
For the sale of a condominium or single family residence for which the purchaser is ineligible for a county homeowner’s exemption, Conveyance Tax in increased by an additional:

1. 50% for properties valued at least $2 million but less than $4 million;
2. 47% for properties valued at least $4 million but less than $6 million;
3. 50% for properties valued at least $6 million but less than $10 million; and
4. 60% for properties valued at least $10 million and greater.

The Conveyance Tax applies whether or not a property is sold at a gain or a loss and (as opposed to the Real Property Tax.) Please note also that the Conveyance Tax under S.B. 1166 has the effect of reducing the value of a $10,000,001 commercial property, agricultural property, or a multi-family rental property to an owner by $200,000 (the 2.00% Conveyance Tax on the sale of property ineligible for a county homeowner’s exemption).

HAR further adds that the Conveyance Tax was originally created to cover administrative costs of recording real estate transactions, such as those performed by the Bureau of Conveyance, for which there is a clear nexus. We believe the allocation structure of the Conveyance Tax should benefit those programs and initiatives where there is a clear linkage such as the Rental Housing Trust Fund.

Hawaii’s natural resources are enjoyed by residents and visitors as a whole, and as such, should be supported via funds from a broader tax because of the broad public benefit.

Mahalo for the opportunity to submit comments in strong opposition.
DATE: February 26, 2013
TO: Senate Committee on Ways & Means
Senator David Ige, Chair
Senator Michelle Kidani, Vice Chair
From: Walter Yoshimitsu, Executive Director
Re: Support for SB 1166 Relating to the Conveyance Tax

Honorable Chair and members of the Senate Committees on Ways & Means, I am Walter Yoshimitsu, representing the Hawaii Catholic Conference. The Hawaii Catholic Conference is the public policy voice for the Roman Catholic Church in the State of Hawaii, which under the leadership of Bishop Larry Silva, represents Roman Catholics in Hawaii.

As you may already know, the Diocese of Honolulu unveiled a strategic plan several years ago entitled, “Witness to Jesus: Diocesan Road Map for Pastoral, Program, and Facility Needs.” That plan, following closely to the legacy of dedication and service embodied by our own Mother Marianne and Father Damien, declared homelessness and affordable housing as one of its six primary areas of focus. That priority is still of the utmost importance to our diocese. We support the bill for two reasons:

CARE OF THE EARTH
The effects of environmental degradation surround us: the smog in our city; chemicals in our water and food; the loss of valuable fresh water resources; and serious threats to the production of food grown by our own local farm workers. American Catholics are rising to a new level of awareness and action. As a community of faith, we have a commitment to understand both the ethical and religious dimensions of this challenge. Passage of this bill will help restore Hawaii to its natural state of beauty by increasing funding toward watershed protection and the control of invasive species.

INCREASE OF FUNDING FOR THE RENTAL HOUSING TRUST FUND
This bill appropriates crucial and necessary funding to the rental housing trust fund. The Hawaii Catholic Conference has supported the Rental Housing Trust Fund from its inception and we strongly believe that the funding that it has yielded over the past several years has produced much-needed housing. However, we strongly agree with our community partner, Catholic Charities Hawaii, that the decrease from 50% (in 2006) to the current proposed 35% is not enough to cover the increasing need for more affordable rental units.

We understand that many services are vying for funding at this critical time and we appreciate your ongoing support for the Rental Housing Trust Fund. Mahalo for the opportunity to testify.
Testimony of the
HAWAI‘I INVASIVE SPECIES COUNCIL

Before the Senate Committee on
WAYS AND MEANS

Thursday, February 27, 2013
9:35 AM
Hawai‘i State Capitol, Room 211

In consideration of
Senate Bill 1166
RELATING TO THE CONVEYANCE TAX

Senate Bill 1166 increases the conveyance tax on certain high value properties (those over $2M in value) and directs an additional ten per cent of conveyance tax proceeds to the natural area reserve fund for watershed protection and invasive species control. This bill further adds invasive species projects, including the Hawai‘i Invasive Species Council, as designated beneficiaries of natural area reserve funds. The Hawai‘i Invasive Species Council strongly supports this bill.

In addition to supporting the Rental Housing Trust Fund, the conveyance tax provides revenue to conservation programs to offset the environmental demands of rapidly expanding development in Hawai‘i. Current recipients of conveyance tax revenues include the Legacy Land Conservation Program and the natural area reserve fund, which in turn supports conservation projects including, but not limited to, the Natural Area Reserve System, the Watershed Partnerships, and the island-based Invasive Species Committees.

The increase in conveyance tax described by this bill would affect those properties valued above $2M, which in FY12 accounted for approximately 2% of properties sold in Hawai‘i.

The A New Day in Hawai‘i plan established by Governor Abercrombie describes the importance of protecting Hawai‘i’s watersheds for local water production, as well as the critical need to prevent and control invasive species that negatively impact Hawai‘i’s ecosystems. The Governor’s Watershed Initiative (also known as The Rain Follows the Forest) and the Hawai‘i Invasive Species Council (an interdepartmental council of State cabinet members created to address invasive species issues) are established programs that address these essential goals in the A New Day in Hawai‘i plan.
The annual cost of the *The Rain Follows the Forest* program is estimated at $11M. In addition the Hawai‘i Invasive Species Council has provided as much as $4M annually to projects focusing on prevention, control, research and outreach regarding invasive species. In FY12 the legislature provided for *The Rain Follows the Forest* $2.5M in Capital Improvement Program funding and designated $2.5M of special funds at the Department of Land and Natural Resources.

Since its creation by the legislature in 2003, the Hawai‘i Invasive Species Council has not been provided with a dedicated funding source. While $2M annually was originally provided in general funds from the legislature, no general funds have been provided since FY09. Special funds provided by the Division of Forestry and Wildlife at the Department of Land and Natural Resources have allowed the Hawai‘i Invasive Species Council to maintain an annual budget, which in FY13 is supporting 17 projects across the state. These projects protect our shores from nonnative marine organisms found on ship hulls or in ballast water, assist homeowners with the control of stinging invasive ants, control damaging forest pests such as *Miconia calvescens*, and support the control of pests such as the coqui frog. Senate Bill 1166 would add the Hawai‘i Invasive Species Council as a designated beneficiary of the natural area reserve fund, finally providing this program with a dedicated funding source.

Senate Bill 1166 is a necessary and responsible measure that will provide funding for critical environmental programs to support the health of Hawai‘i’s ecosystems and our way of life. Therefore, the Hawai‘i Invasive Species Council strongly supports this bill.

*The Hawai‘i Invasive Species Council is an interagency collaboration established by Chapter 194, Hawai‘i Revised Statutes, for the purpose of cabinet-level direction on invasive species prevention, control, research, and outreach issues in Hawai‘i.*
Comments: Dear Committee Members, As the Chair of the Kaua‘i Watershed Alliance (KWA) and the Director and CEO of the National Tropical Botanical Garden (NTBG), I am writing to you to express my STRONG support for SB 1166 Relating To The Conveyance Tax, particularly its proposal to use revenue to support watershed protection programs. The Kauai Watershed Alliance (KWA) has been actively managing portions of the mauka watershed on Kauai since 2003. Our members make up a diverse group of public and private entities including the Kauai Water Department, who own land within the mountainous watershed and understand the importance of protecting and preserving the forests that capture the water - our most precious resource. Healthy and diverse Hawaiian forests that are not degraded by invasive pests act like a sponge, collecting rain and moisture from passing clouds, slowly delivering fresh water into streams and aquifers, absorbing greenhouse gases, and reducing runoff and siltation into streams and onto coral reefs during storm events. Hawaii’s Natural Resources are unique and provide value for our people and our economy; and thus would make them a reasonable beneficiary to a portion of the funds generated by such a measure. Mahalo for your support. Chipper Wichman - KWA Chair & NTBG Director and CEO

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

Do not reply to this email. This inbox is not monitored. For assistance please email webmaster@capitol.hawaii.gov
COMMENTs, WITH SUGGESTED AMENDMENT, FOR SB 1166: RELATING TO THE CONVEYANCE TAX

TO: Senator David Y. Ige, Chair; Senator Michelle N. Kidani, Vice Chair; and Members, Committee on Ways and Means

FROM: Gladys Peraro, Partners In Care, Advocacy Committee Co-Chair

Hearing: Thursday, 2/28/13; 9:35 am; CR 211

Chair Ige, Vice Chair Kidani, and Members, Committee on Ways and Means:

Thank you for the opportunity for Partners In Care (PIC) to comment in support of SB1166, which would increase the conveyance tax on certain transactions and direct an additional ten percent of the proceeds to the Natural Area Reserve Fund for watershed protection and invasive species control. I am Gladys Peraro, Advocacy Committee Co-Chair for Partners In Care (PIC), a coalition of care providers focusing on the needs of homeless persons and strategies to end homelessness. Partners In Care strongly supports this funding for land protection which is critical to Hawaii’s future. We also support the increase in the rate for the conveyance tax on properties over $2 million. This would impact only 2% of all conveyances/year.

Amendment for page 5, Section 3, Section 247-7, (2): Partners In Care also urges you to restore the percentage of the conveyance allocated to the Rental Housing Trust Fund (RHTF) to 50%. In 2006, the Legislature recognized the dire need for more affordable housing, and increased the percentage of the conveyance tax allocated to the Trust Fund to 50% of the tax proceeds. With the economic crisis of the past few years, the amount to the Trust Fund has been dramatically decreased, dropping to 30 percent in 2008, with the amount set at 25 percent from 2009-2012. As of July 1, 2012, the allocation was reset to 30% of the conveyance tax. The conveyance tax is the only dedicated source of funding to the RHTF. While this is projected to yield about $12 million for FY 13, this will not achieve the production of the 13,000 affordable rental units that are needed in the state.

As well as land protection, creating more affordable rental housing is also critical to our state’s future. Homelessness impacts on our tourist industry and on daily life in our neighborhoods. Hawaii has the 3rd highest rate for homelessness among the states. Partners In Care service agencies receive calls on a daily basis from individuals who are in need of an affordable place to live. The Rental Housing Trust Fund has a proven record of creating affordable rental units. It establishes public-private partnerships that leverage resources to add more affordable units to Hawai‘i’s housing stock. The RHTF has many more applications than can be funded. In FY2012, the Trust Fund received $37 million in project requests but was only able to commit $20.7 million for four (4) out of the nine (9) projects due to limited resources.
SUBJECT: CONVEYANCE, Increase certain rates, amend disposition

BILL NUMBER: SB 1166; HB 935 (Identical)

INTRODUCED BY: SB by Kim by request; HB by Souki by request

BRIEF SUMMARY: Amends HRS section 247-2 to increase the following conveyance tax rates for properties eligible for a home exemption with a value of $2 million and over:

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<thead>
<tr>
<th>Rate per $100</th>
<th>Property Value</th>
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<tbody>
<tr>
<td>from $.50 to $.80</td>
<td>$2,000,000 but less than $4,000,000</td>
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<tr>
<td>from $.70 to $1.10</td>
<td>$4,000,000 but less than $6,000,000</td>
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<tr>
<td>from $.90 to $1.45</td>
<td>$6,000,000 but less than $10,000,000</td>
</tr>
<tr>
<td>from $1.00 to $1.75</td>
<td>$10,000,000 and over</td>
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Also increases the following conveyance tax rates for properties ineligible for a home exemption with a value of $2 million and over:

<table>
<thead>
<tr>
<th>Rate per $100</th>
<th>Property Value</th>
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<tbody>
<tr>
<td>from $.60 to $.90</td>
<td>$2,000,000 but less than $4,000,000</td>
</tr>
<tr>
<td>from $.85 to $1.25</td>
<td>$4,000,000 but less than $6,000,000</td>
</tr>
<tr>
<td>from $1.10 to $1.65</td>
<td>$6,000,000 but less than $10,000,000</td>
</tr>
<tr>
<td>from $1.25 to $2.00</td>
<td>$10,000,000 and over</td>
</tr>
</tbody>
</table>

Amends HRS section 247-7 to increase the amount of conveyance tax revenues earmarked to the natural area reserve fund from 20% to 35% provided that monies in the fund shall be used for: (1) projects undertaken with watershed management plans of the department of land and natural resources to protect and restore Hawaii’s source of water; and (2) projects for invasive species control.

EFFECTIVE DATE: July 1, 2013

STAFF COMMENTS: This is an administration measure submitted by the department of land and natural resources LNR-08 (13). The proposed measure increases certain conveyance tax rates and increases the amount earmarked to the natural area reserve fund and expands the uses of the monies in the natural area reserve fund. While the measure proposes to raise additional funds for the natural area reserve fund, it should be noted that as with any earmarking, the legislature will be giving their stamp of approval for another “automatic funding” mechanism for the particular program and its purposes. It should be noted that while funds would be diverted to the fund without any legislative intervention, they will also avoid legislative scrutiny, and it will be difficult to ascertain the effectiveness of the program. It would also be difficult to ascertain whether or not the fund has too little or too much revenue.
Further, while this measure also proposes to increase certain conveyance tax rates, it should be remembered that the conveyance tax is one of the least dependable sources upon which to rely for funding with collections rising and falling with the fortunes of the real estate market. Any amount collected under this tax will depend on activity in the real estate market. As the housing market slows down, revenues may not be sufficient to meet the expectations of the fund. If the additional revenues are not sufficient or another “important” program needs funding, will the conveyance tax rates need to be “adjusted” to generate even more revenue?

This increase appears to target more expensive properties being bought and sold perhaps in the belief it will target wealthy prospective homeowners because the increase initiates at the $2 million level. However, it should be remembered that this schedule also applies to non-residential properties covering everything from a mom and pop supermarket in Waialua to the Ala Moana Shopping Center to the car repair shop in Kaka’ako to the farm lot in Waimanalo, all of which probably are valued at greater than $2 million. Thus, this proposal makes it even more expensive to do business in Hawaii.

If the number seems unfathomable, take a car repair shop in Kaka’ako valued at $5 million. Under the current schedule for all properties, the rate is 70 cents and the resulting conveyance tax is $35 thousand. Under the proposed schedule, the conveyance tax on that property would amount to an additional $20 thousand for an overall transfer tax of $55,000. While some might say that a business can afford that amount in tax, imagine what another $20,000 means to a small business like that car repair shop. How many cars will have to be repaired to make up the extra $20 thousand in conveyance taxes? Yet exorbitant as the sale price of that property may seem, that is reality in the commercial and industrial area of Honolulu.

And what about the purchase of a residential apartment house that will be renovated and put on the market as affordable housing? Say the apartment building is valued at $10 million. Under the current schedule for residential properties which will not qualify for the home exemption, the tax would be $125 thousand. If this measure is adopted, the tax would rise by $75 thousand to $200 thousand. This additional cost will have to be recovered in the subsequent sale of the units which may or may not then be defined as affordable housing.

If the legislature deems that programs and purposes funded out of the natural area reserve 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. When the legislature dipped into housing special funds to maintain funding for programs like education and social services, that was poor tax policy. So for example, because the housing market slowed last year, the rental housing trust fund realized only $21 million in FY 2008 as compared to the $23 million it received in the prior year. If asked, housing officials would probably say that is not enough to carry out their mandate, thus the program is underfunded. If the money were appropriated, lawmakers could then evaluate the real or actual needs of this particular program.

Digested 2/4/13
Testimony to the Senate Committee on Ways and Means  
Thursday, February 28, 2013 at 9:35 A.M.  
Conference Room 211, State Capitol

RE: SENATE BILL NO. 1166, RELATING TO CONVEYANCE TAX

Chair Ige, Vice Chair Kidani, and Members of the Committee:

The Chamber of Commerce of Hawaii opposes S.B. No. 1166. The bill proposes to increase the Conveyance Tax on certain real estate transactions and to direct an additional ten per cent of Conveyance Tax proceeds to the Natural Area Reserve Fund for watershed protection and invasive species control.

The Chamber is the largest business organization in Hawaii, representing more than 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the “Voice of Business” in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state’s economic climate and to foster positive action on issues of common concern.

We are deeply troubled by the manner in which the Conveyance Tax has been and is being applied. There is no rational nexus between the real estate transactions that are being taxed at the time of its sale, and the uses identified in HRS 247 as the beneficiaries of the tax.

The Conveyance Tax was created to cover the administrative costs of recording the real estate transactions, such as those performed by the Bureau of Conveyance. With the recent amendments to the statutes, a portion of the conveyance tax is deposited into the general fund after certain percentages have been allocated into the following funds:

1. Land Conservation Fund;

2. Rental Housing Trust Fund; and

3. Natural Area Reserve Fund, which includes funding of the following programs:

   a. Natural Area Partnership and Forest Stewardship Programs;
   b. Projects undertaken in accordance with:
      i. Watershed management plans; or,
      ii. Watershed management plans negotiated with private landowners; and,
      iii. Management of the natural area reserves system;
   c. The youth conservation corps.

We do not believe that the funds generated from the conveyance (sale or transfer of real estate) should be used to fund natural resource management programs and the rental housing trust...
fund. We understand that raising the conveyance tax is a convenient way to generate additional funds because it is difficult if not impossible to organize a group of future buyers/sellers of property, and, more importantly, the beneficiaries of these conveyance tax increases have lobbied the legislature effectively to fund these worthwhile programs.

While we strongly support the various programs receiving funding from the revenues generated by the Conveyance Tax, we do not believe that the conveyance tax is the appropriate means to fund these programs. The proposed bill only exacerbates the current problem. We suggest that these beneficiaries be funded from other means more closely related to their purposes.

Thank you for the opportunity to express our views on this matter.
Testimony of The Nature Conservancy of Hawai‘i
Supporting S.B. 1166 Relating to the Conveyance Tax
Senate Committee on Ways and Means
Thursday, February 28, 2013, 9:35AM, Room 211

The Nature Conservancy of Hawai‘i is a private non-profit conservation organization dedicated to the preservation of the lands and waters upon which life in these islands depends. The Conservancy has helped to protect nearly 200,000 acres of natural lands in Hawai‘i. Today, we actively manage more than 32,000 acres in 10 nature preserves on Maui, Hawai‘i, Moloka‘i, Lāna‘i, and Kaua‘i. We also work closely with government agencies, private parties and communities on cooperative land and marine management projects.

The Nature Conservancy of Hawai‘i strongly supports S.B. 1166 and its purpose to generate additional funding to protect Hawaii’s forested watersheds and to control invasive species. We would also support increased funding in this measure to help meet the state’s critical affordable rental housing needs via the State Rental Housing Trust Fund.

Under HRS §247-7, a portion of conveyance tax revenue has been appropriately used for land preservation and forested watershed conservation via the DLNR’s Land Conservation Fund and the Natural Area Reserve Fund, respectively. The Legislature recognized this clear nexus in Act 156 (HB 1308 CD1, 2005), stating:

The legislature has also determined that there is a clear nexus between the source of the conveyance tax and providing funding for watershed protection and other natural resource preservation programs. The development, sale, and improvement of real estate in Hawaii adds additional pressure on natural areas, coastal access, agricultural production, and Hawaii's water resources and watershed recharge areas.

While the development and sale of real estate can have very positive effects on the state’s economy, it also poses some significant challenges. For example, fresh water is not a limitless resource that can forever be tapped to support developed real estate. The source of fresh water is not the faucet, pipe, or even the well or stream it’s drawn from. The real source is a system of healthy forested watersheds—not forests overrun by invasive plants and animals—that captures rain and cloud moisture and delivers it efficiently to aquifers and surface sources for subsequent consumption in our daily lives.

Over the years, enormous amounts have been invested in the development and sale of real estate in Hawai‘i. However, we make a comparatively tiny investment in protecting the natural resources that also drive our economy and provide benefits that allow us to survive in the middle of the vast Pacific. Several locations in the state are experiencing ongoing drought, water management areas being declared, climate change is likely to produce more severe storms but overall less rainfall, and the University of Hawaii’s 2012 Rainfall Atlas catalogues a century of declining rainfall that is worse in recent decades.

We must plan and implement mitigative and adaptive measures to ensure the resilience of our natural and human systems. One of the most effective tools we have to help address the effects of climate change and declining rainfall in Hawai‘i is to protect our forests. Healthy and diverse Hawaiian forests that are not degraded by invasive pests act like a sponge, collecting rain and moisture from passing clouds, slowly delivering fresh water into streams and aquifers, absorbing greenhouse gases, and reducing runoff and siltation into streams and onto coral reefs during storm events.

This bill is a wise investment in our future. We urge your support.
The Trust for Public Land strongly supports SB 1136 relating to the conveyance tax. This bill will increase real estate conveyance taxes on real estate sales over $2 million, increase the Natural Area Reserve Fund’s share of the fund to 35%, and increase the Affordable Housing Rental Trust Fund’s share of the fund to 30%. The Legacy Land Conservation Fund’s share of 10% would remain the same.

This bill will increase support for key government services that have been consistently underfunded. The services supported by this tax are invaluable -- the people of Hawai‘i need clean drinking water and to get it, Hawai‘i must properly manage and protect the forests and watersheds that produce our clean drinking water. We applaud the Legislature’s support of the Governor’s Rain Follows the Forest Initiative.

Although the Trust for Public Land supports this bill, I will not be able to appear in person to testify due to scheduling conflict.

Mahalo for this opportunity to testify -

Lea Hong
Hawaiian Islands State Director
1136 Union Mall, Suite 202
524-8563 (office), 783-3653 (cell)
SB1166
Submitted on: 2/25/2013
Testimony for WAM on Feb 28, 2013 09:35AM in Conference Room 211

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<tr>
<td>Cynthia K.L. Rezentes</td>
<td>Individual</td>
<td>Support</td>
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Comments: Chair Ige and Members of the Committee on Ways and Means, I urge your strong support of this measure to increase the amount of conveyance taxes collected from certain properties and to increase the amount of conveyance taxes allocated to the department of land and natural resources to provide the support required to not only maintain but recover our degraded forests for the purpose of providing a healthy ecosystem allowing for protection of our potable water sources for now and the future. Over the years, our forests have degraded with the expansion of non-native species (many of which are invasive species) replacing our native forest vegetation. This replacement has actually degraded what used to be a symbiotic coalition of vegetation to allow a multi-story canopy while continuing to allow ground vegetation to grow, providing a filter for sediment run-off, etc. which also eventually affects our near shore waters. If we are to protect our natural resources from mountain to ocean to provide for our future residents and our future visitor industry we must start NOW to correct the inadequacies of the past, before it is too late. I would also encourage consideration of increasing the percentage of conveyance tax allocated to the rental housing trust fund to 50% to accelerate the efforts of the state and nonprofits in providing more affordable housing as the requirements for affordable housing for purchase or rental increases. This increase will allow development of housing which will help to alleviate some of the pressures on people who have either become or are on the verge of becoming homeless to be able to afford housing and also provide a safety valve for those who currently can afford housing but with increased economic pressures may not be able to afford housing in the future. Mahalo for allowing me to provide testimony in strong support of this measure. Cynthia K.L. Rezentes

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SB1166
Submitted on: 2/26/2013
Testimony for WAM on Feb 28, 2013 09:35AM in Conference Room 211

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<td>Guy Kaulukukui</td>
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Comments:

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<tr>
<td>James Kimo Falconer</td>
<td>Individual</td>
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Comments: Dear members of the Senate Ways and Means committee, Please vote in support of this bill enabling watershed protection by way of helping protect the Natural Area Reserve system. Hawaii’s fragile ecosystem and fresh water resource is of utmost importance for our future. Aloha James Kimo Falconer

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Comments: We all know how precious water is, so to vote to help the DLNR continue and increase its fine work to restore forest that the rain follows is a no brainer.

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SB 1166
Submitted on: 2/27/2013
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<td>Keren Gundersen</td>
<td>Individual</td>
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Comments:

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<td>Mary Ikagawa</td>
<td>Individual</td>
<td>Support</td>
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Comments: Decades of underfunding and inattention have caused a serious decline in our vital watershed forests. Climate change brings with it even more risk of poor water recharge. Protecting our water supply is worth whatever it costs, and this bill provides a portion of what is needed to get the work done.

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(COMMENTS) Thank you for the opportunity to submit testimony in support of S.B. 1166. My name is Michael Buck, former Hawaii State Forester from 1989 to 2004. I applaud the intent of this measure as well as the sponsors who have introduced it. Senate Bill 1166 provides a commitment to protect and enhance Hawaii’s forested watershed resources. It is a commitment that our past generation gave to us and one that we should make for future generations.

The intent of my testimony is to provide some policy and economic perspective of managing Hawaii’s forested watersheds in light of the enormous pressure you have as decision makers to allocate limited funds over a range of needs and requests. Hawaii’s forests exist today only because of a considerable investment and political consensus established over a century ago that involved extensive fencing, animal control, and reforestation. While natural resource valuation is not an exact science, Hawaii’s forested watersheds are obviously enormous assets to our economy and society and the need for dependable supplies of fresh water is expected to increase in the future.

Yet, many of our priority forested watershed landscapes are slowly degrading, and so is our water supply. Hawaii’s 11 watershed partnerships provide an innovative framework for the landscape level forest management activities needed, yet they are faced with inconsistent funding. The bottom line is that we are reaping the benefits of past investments made and are not assuring Hawaii’s future population of a dependable supply of water. A permanent funding mechanism for watershed management in Hawaii’s is needed.

When we pay our water bill in Hawaii, little or no monies are going to manage the forested watershed where that water originates. The price consumers pay for water generally includes: the amortized cost of infrastructure to collect, purify and distribute water; the cost of energy to move water from source to tap; and, the cost of staff and materials to maintain, monitor and administer water services. No cost is assigned to water resources in their natural state or the costs associated with insuring sustainable forested watersheds to collect and percolate our water supplies.

The question of who should pay the watershed bill has been an ongoing debate at the legislature for years. Allocating a portion of the conveyance tax in 2001 provided a portion of the dedicated funding needed but that has been diminished from reduced real estate values and other programs. All citizens and business sectors benefit from our forested watersheds, yet issues of State/county relationships, military use of water, role of tourism sector, and agricultural subsidies have complicated the identification of a fair and equitable mechanism for that payment.
It is important to remember that private lands comprise @ one half of the priority watershed areas in the State (and two thirds on the island of Oahu). Historically, private landowners allowed their forests to be managed by the Territory, under surrender agreements, but retained the water rights and did not pay any property tax. But times have changed as real property tax incentives for watersheds have not been adopted by the counties, the public now “owns” the water, and the majority of these lands are now in restrictive Conservation limits. While restrictive zoning can prevent development in priority forested watersheds, it does not pay for watershed management.

A 1911 quote from Ralph Hosmer, Hawaii’s first territorial forester, helps frame the economic argument:

“Why this constantly recurring talk of forests and forest protection. Why not leave it to government officials to look after the forests? That is what they are paid for. The answer to these questions is simply and solely because in Hawaii forestry is a business necessity. Wherever it can be got water is the most valuable product that the native Hawaiian forest can be made to yield. In Hawaii, without the native forest we should be without water. I am not making this plea on the grounds of abstract altruism. I am merely putting up to you as a business proposition.”

In 2001, a team of economists at the University of Hawaii did a natural resource valuation of the Koolau Mountains watershed on the island of Oahu. This forested watershed spans over 100,000 acres with an estimated sustained yield of over 133 billion gallons of water each year. It recharges the major aquifer that provides the majority of water for the city of Honolulu and Pearl Harbor. Their preliminary economic analysis of the amenities provided by the Koolau Mountains watershed on Oahu show an estimated Net Present Value of 7.44 to 14.0 billion dollars. Amenities considered in the analysis were ground water quantity, water quality, in-stream uses, species habitat, biodiversity, subsistence, hunting, aesthetic, commercial harvests, ecotourism, and climate control. Net present value per acre was estimated at $76,000 to $143,535, with a mean annual stream of benefits at roughly $165 million or $1,700 per acre.

Even without exploring Hawaii’s other forested watersheds in comparable depth, the authors found prima facie reasons for concluding that other forested watersheds around the state would be at least as valuable as that of the Koolau Mountains. Management costs for this area are less than one-half of one percent of the value of the asset that was being maintained - a sound investment.

Thank you for the opportunity to submit testimony.
Dear Sen. Ige and Members of the Ways and Means Committee:

I am writing to urge support of SB1166. This is an important investment in our future: our forests that provide us with fresh water. These forests need our help to continue to help us.

SB1166 would add a small amount to the conveyance tax, and only to large transactions, and dedicate a greater portion of the conveyance tax to the protection of Hawai‘i’s watersheds. This is one of the many ways that we can help protect this most precious natural resource.

Please pass this important bill.

Sincerely,

Noelie Rodriguez
Comments: I strongly support this measure. Funding to protect the health of our watersheds is critical for the present, future, and sustainability of Hawaii. The Administration’s goal of doubling the number of acres of watershed forest protected over the next decade requires approximately $11 million per year, supporting an estimated 150 direct local jobs. We need more jobs, especially jobs that appeal to young active local residents. The conveyance tax bill would support this watershed protection through essential forest management programs and invasive species control. Invasive species are lowering the ability of our watersheds to funnel and filter ground water, with bad impacts for coastal waters and coral reefs. Hawaii spends less than 1% of our state budget on departments DLNR and HDOA, yet these are the agencies managing essential resources for life. Agriculture must have clean plentiful water. Funding is needed to protect it. It is fitting that the conveyance tax be a funding source, as the development and sale of real estate helps drive Hawaii’s economy, but it also puts pressure on our natural resources, including water supplies. Higher value real estate consumes more resources. Fresh water is clearly a limiting and critical resource here on an island chain in the middle of the Pacific. Please support this measure.

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SB1166
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<td>Randy Ching</td>
<td>Individual</td>
<td>Support</td>
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Comments: Monies from an increase in the conveyance tax should help fund watershed restoration. Water is our most important natural resource and we must protect the source of our drinking water -- the watersheds. However we can fund fencing and active management of our native rain forests, we should do so. Please pass this bill. It is important for us and future generations. Mahalo.

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