

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
EXECUTIVE DIRECTOR

STATE OF HAWAII

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
677 QUEEN STREET, SUITE 300
Honolulu, Hawaii 96813
FAX: (808) 587-0600

IN REPLY REFER TO:

Statement of
Craig K. Hirai
Hawaii Housing Finance and Development Corporation
Before the

HOUSE COMMITTEE ON HOUSING

March 14, 2017 at 10:00 a.m.
State Capitol, Room 423

In consideration of
S.B. 1105, S.D. 2
RELATING TO HOUSING.

The HHFDC supports S.B. 1105, S.D. 2, which expands the General Excise Tax (GET) exemption for certified or approved housing projects pursuant to sections 201H-36 and 237-29, HRS, to include rental housing projects for households at or below 140 percent of the area median income (AMI), of which at least 20 percent of units are set-aside for households at or below 80 percent AMI, with a collective bargaining agreement described in proposed section 104-2(i)(2), HRS.

HHFDC is willing and able to expand its GET exemptions program to accommodate these types of affordable rental housing projects. We defer to the Departments of Labor and Taxation as to the bill's impact on their respective programs.

Thank you for the opportunity to testify.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



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DEPARTMENT OF TAXATION
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MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

To: The Honorable Tom Brower, Chair
and Members of the House Committee on Housing

Date: Tuesday, March 14, 2017

Time: 10:00 A.M.

Place: Conference Room 423, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 1105, S.D. 2, Relating to Housing

The Department of Taxation (Department) appreciates the intent of the measure to increase affordable housing and defers to the Hawaii Housing Finance and Development Corporation (HHFDC) on the merits of this bill. The Department provides the following comments regarding S.B. 1105, S.D. 2, for your consideration.

Among other things, S.B. 1105, S.D. 2, expands the types of rental housing projects that can be exempted from the general excise tax (GET) by allowing projects where all available units are for households with incomes at or below one hundred forty per cent of the area median family income as determined by the United States Department of Housing and Urban Development (HUD), and at least twenty per cent of which are reserved for households with incomes at or below eighty per cent of the area median family income as determined by the HUD. The measure has a defective effective date of January 7, 2059, and has an unspecified repeal date.

Under section 201H-36, Hawaii Revised Statutes, HHFDC certifies that a housing project is entitled to the GET exemption, and upon such certification, a taxpayer is entitled to claim the GET exemption. As the regulatory agreements and the determination of whether a taxpayer is eligible for the exemption remain with HHFDC, this measure will not have a substantial administrative impact on the Department.

The Senate Committee on Housing adopted the Department's request to make the measure effective for taxable years beginning after December 31, 2017. However, to avoid any confusion, the Department suggests replacing the word "credit" with the word "exemption" on page 12, line 6, since this provision is referring to an exemption from general excise tax and not a credit.

Thank you for the opportunity to provide comments.



HAWAII COMMUNITY
DEVELOPMENT AUTHORITY



KAKA'KO
KALAELOA

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Governor

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Chairperson

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STATEMENT OF

JESSE K. SOUKI, EXECUTIVE DIRECTOR
HAWAII COMMUNITY DEVELOPMENT AUTHORITY

BEFORE THE
HOUSE COMMITTEE ON HOUSING

Tuesday, March 14, 2017
10:00 A.M.

State Capitol, Conference Room 423

in consideration of
SB1105, SD2 – RELATING TO HOUSING

Chair Brower, Vice Chair Nakamura and members of the committee.

The Hawaii Community Development Authority (HCDA) offers the following **comments** on SB1105, SD2.

This bill would make rental housing projects aimed at families in the 80 to 140 percent Area Median Income (AMI) range more affordable to construct and would encourage the private sector to develop units at the lower end of the affordability market. Rental housing for families in the 80 to 140 percent AMI is in strong demand. However, few projects are targeted to those families, in large part due to the cost of construction in Hawaii.

This bill is a private sector effort by the Rental Housing Coalition (that includes labor unions) to address issues of cost-effectiveness for these projects.

The proposal supports HCDA's legislative mandate to create mixed use districts where residential development integrates a mixture of residents with varying incomes, ages, and family groups.

Thank you for the opportunity to provide **comments** on this bill.

Hawai'i Construction Alliance

P.O. Box 179441
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March 10, 2017

The Honorable Tom Brower, Chair
The Honorable Nadine K. Nakamura, Vice Chair
and members
House Committee on Housing
415 South Beretania Street
Honolulu, Hawai'i 96813

RE: Strong Support for SB1105 SD2, Relating to Housing

Dear Chair Brower, Vice Chair Nakamura, and members:

The Hawai'i Construction Alliance is comprised of the Hawai'i Regional Council of Carpenters; the Laborers' International Union of North America, Local 368; the Operative Plasterers' and Cement Masons' Union, Local 630; International Union of Bricklayers & Allied Craftworkers, Local 1; and the Operating Engineers, Local Union No. 3. Together, the member unions of the Hawai'i Construction Alliance represent 15,000 working men and women in the basic crafts of Hawai'i's construction industry.

We **strongly support SB1105 SD2**, which would allow the terms of collective bargaining agreements and associated provisions to be deemed the prevailing wages and terms serving as the basis of compliance with Chapter 104, Hawai'i Revised Statutes, for the construction of certain rental housing projects and would expand the types of rental housing projects that can be exempt from general excise taxes. The bill currently would take effect on January 7, 2059 and sunset on an unspecified date.

The Hawai'i Construction Alliance is extremely concerned about the chronic deficiency of rental apartment housing across the state. Simply put: the shortage of units for working moderate- and lower-income households is at a crisis level. Said shortage is negatively affecting families throughout the entire community, including our members, many of whom fall within the 80-140% AMI "middle income range."

Along with our partners in the banking, development, landowning, contracting, architecture, and engineering communities, we have formed the "Hawai'i Rental Housing Coalition," with the aim of identifying and carrying out concrete private-sector steps to make a meaningful impact on the economics of building and operating rental housing for families in the 80-140% AMI range. Through SB1105 SD2, we are seeking the State's assistance in this effort as well.

SB1105 SD2 would expand the existing general excise tax exemptions for allowable construction, development, and financing costs for projects wherein at least twenty percent of available units are for households whose incomes are at or below 80%AMI, and wherein all remaining units are households whose incomes are at or below 140%AMI. Compliance with these affordability requirements would be governed by HHFDC through the existing regulatory agreement process found in HRS §201H-36(b).

We believe that relief from general excise tax would immediately improve the economics of constructing, developing, and financing these types of rental housing projects.

Among the many concrete steps from the private sector is a commitment from the Hawai'i Construction Alliance unions to work to negotiate a special wage rate and benefits package to build rental housing projects meeting the same qualifications as described above.

In order to ensure that the Hawai'i Construction Alliance unions – or other unions who wish to participate – can negotiate a special wage rate and benefits package to build such rental housing projects, we are seeking to modify HRS Chapter 104 as part of SB1105 SD2. Specifically, we are seeking to clarify that if a developer has entered into a contract with a general contractor or subcontractors whose workforce is subject to a collective bargaining agreement with a bona fide labor union for the construction of the project, then the terms of the collective bargaining agreement and associated provisions shall be deemed the prevailing wages and terms serving as the basis of compliance with this chapter for work on the project.

The bill also includes a housekeeping measure to clarify that except for the special prevailing wage that already exists in HRS §104-2(h) and the special prevailing wage proposed for HRS §104-2(i), prevailing wages shall be not less than the wages payable under federal law to corresponding classes of laborers and mechanics employed on public works projects in the State that are prosecuted under contract or agreement with the government of the United States.

The Hawai'i Construction Alliance is excited to take a leadership role in encouraging the production of rental housing across our state. We ask your committee to join us in this effort by **passing out SB1105 SD2 unamended** so that the next committee can take up the bill – and consider any further amendments that may be required – in an expeditious manner.

Mahalo,

A handwritten signature in black ink that reads "Tyler Dos Santos-Tam". The signature is written in a cursive, flowing style.

Tyler Dos Santos-Tam
Executive Director
Hawai'i Construction Alliance
execdir@hawaiiiconstructionalliance.org

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Broaden Affordable Housing Exemption

BILL NUMBER: SB 1105, SD-2

INTRODUCED BY: Senate Committees on Judiciary and Labor and Ways and Means

EXECUTIVE SUMMARY: Allows another category of affordable housing project, but only where the contractor uses union labor. This bill shows where two policy initiatives may collide: the policy to encourage the construction of affordable housing, and the policy to mandate that construction workers be paid the prevailing wage on public works projects.

SYNOPSIS: Amends HRS section 104-2, part of Hawaii’s “Little Davis-Bacon Act,” to provide that a properly submitted collective bargaining agreement with a general contractor or subcontractors that applies to a certified affordable housing project will determine the “prevailing wages and terms” for purposes of compliance with chapter 104.

Amends HRS section 237-29 to add a new eligible category of affordable housing project, namely one developed under a contract described above by a qualified person or firm to provide affordable rental housing where all available units are for households with incomes at or below one hundred forty per cent of the area median family income as determined by the United States Department of Housing and Urban Development (HUD), of which 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 HUD. Contains a proviso that the tax credit established under this paragraph shall be available for taxable years beginning after December 31, 2017.

Makes a conforming amendment to HRS section 201H-36.

EFFECTIVE DATE: Upon approval, repeals on _____.

STAFF COMMENTS: Currently, the HHFDC may certify affordable rental housing projects under HRS 201H-36 as qualifying for the exemption under HRS 237-29.

One of the existing categories of affordable housing projects that can be certified is an affordable rental housing project where at least 50% of the 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.

The proposed additional category is an affordable rental housing project where all of the available units are for households with incomes at or below 140% of the area median family income, of which at least 20% of the available units are for households with incomes at or below 80% of the area median family income. However, it appears that to qualify for this category the

developer would need to use a union contractor whose collective bargaining agreement was properly submitted to DLIR under Hawaii's Little Davis-Bacon Act.

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 and simply buy an air conditioner; the work called for was a lot more complicated. As a result, the \$10 million initiative to cool the schools turned out to be a miserable failure. Nowhere near the 1000 classrooms promised were cooled by the end of 2015.

As a technical matter, the proviso language in proposed HRS section 201H-36(a)(5) is inaccurate. No tax credit is established under that paragraph. Section 201H-36 refers to an exemption from general excise tax for certain projects, but the exemption is in section 237-29. This issue can be fixed by deleting the proviso and having the Act take effect for taxable years beginning after December 31, 2017.

Digested 3/10/2017

DAVID Y. IGE
GOVERNOR

SHAN S. TSUTSUI
LIEUTENANT GOVERNOR



LINDA CHU TAKAYAMA
DIRECTOR

LEONARD HOSHIJO
DEPUTY DIRECTOR

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LATE

March 14, 2017

To: The Honorable Tom Brower, Chair,
The Honorable Nadine K. Nakamura, Vice Chair,
and Members of the House Committee on Housing

Date: Tuesday, March 14, 2017
Time: 10:00 a.m.
Place: Conference Room 423, State Capitol

From: Linda Chu Takayama, Director
Department of Labor and Industrial Relations (DLIR)

Re: S.B. No. 1105 SD2 Relating to Housing

I. OVERVIEW OF PROPOSED LEGISLATION

DLIR supports the intent of the provisions of SB1105 SD2 pertaining to prevailing wages as an initiative to draw private sector financing, development and operation of workforce rental housing, into addressing the recognized deficit in Hawaii's housing inventory. As in the current 104-2(h), HRS, relating to projects financed with the proceeds of special purpose revenue bonds, the alternative of the terms of collective bargaining agreements provides a means to protect Hawaii industry standards and laborer and mechanic standards.

DLIR support for the measure is predicated on the understanding that it is not a categorical exemption from prevailing wages, but provides one alternative for a specific form of one type of construction. DLIR notes that the thousands of units of government assisted low-income rental housing, including public housing and private nonprofit or for profit housing, have been successfully developed in compliance with chapter 104, HRS, and/or Davis-Bacon prevailing wages, and SB1105 SD2 does not seek to change that.

II. CURRENT LAW

Section 104-2, HRS, requires all public works construction in excess of \$2,000, to pay laborers and mechanics working on the construction project the prevailing wages set by the DLIR Director, although housing projects with

a cost under \$500,000, developed under chapter 201H, HRS, by a non-profit corporation are exempt from the Wages and Hours of Employees on Public Works Law, chapter 104, HRS.

III. COMMENTS ON THE SENATE BILL

The Department supports the provisions of SB1105 SD2 pertaining to prevailing wages to assist in the building of affordable housing in Hawaii and defers to HHFDC and the Department of Taxation (DoTAX) on the provisions pertaining to the housing and tax laws.

The Department offers an amendment to §104-2(b)(2) by inserting the following at the beginning of 104(2)(b) as the provision was intended to be placed in section 104-2(b) and not as a new §104-2(h).

Except for the special prevailing wage established by section 104-2(h) and (i), [The] the prevailing wages shall be not less than the wages payable under federal law to corresponding classes of laborers and mechanics employed on public works projects in the State that are prosecuted under contract or agreement with the government of the United States; and

Should concerns be raised about the tax credits in the measure only applying to those projects with signatories to a collective bargaining agreement, DLIR offers the following replacement for the proposed (i) as a potential fix:

(i) When:

(1) The Hawaii housing finance and development corporation has approved and certified for exemption from general excise taxes a qualified person or firm involved with a newly constructed, or moderately or substantially rehabilitated project under section 201H-36(a)(5);

(2) The qualified person or firm has entered into a contract with a general contractor or subcontractors whose workforce either;

(a) is subject to a collective bargaining agreement with a bona fide labor union and for which a special prevailing wage schedule for the laborers and mechanics employed for this construction project has been approved by the director; or

(b) is subject to a project labor agreement with the group whose wages are reflected in the Hawaii prevailing wage schedule for which a special prevailing wage for the laborers and mechanics employed for this construction project has been approved by the director;

(3) The qualified person or firm has received no other direct or indirect financing for this construction project from any other governmental contracting agency including the Hawaii housing finance and development corporation; and the terms of the collective bargaining agreement and associated provisions shall be deemed the prevailing wages and terms serving as the basis of compliance with this chapter for work on the project; provided that the special prevailing wage classification and the associated provisions shall be deemed the prevailing wage and terms serving as the basis of compliance with this chapter for work on this construction project; provided that this subsection does not affect the director's enforcement powers contained in subsection (g).

DLIR would consider a sunset provision as non-disruptive to operations, recognizing that for workforce rental housing financing and development, a substantial period of time would have to be provided, and allowance made for projects deemed to be in the “pipeline” at the time of sunset.

HAWAII RENTAL HOUSING COALITION

March 13, 2017

LATE

The Honorable Tom Brower, Chair
The Honorable Nadine K. Nakamura, Vice Chair
and Members
House Committee on Housing
415 South Beretania Street
Honolulu, Hawai'i 96813

RE: Strong Support for SB1105 SD1 (GET/Wages)

Dear Chair Brower, Vice-Chair Nakamura and Members:

The Hawaii Rental Housing Coalition (HRHC) is a non-profit citizens group comprised of landowners and developers, real estate industry professionals, Union representatives, segments of the non-profit community, and members of the banking industry who are committed to stimulating and supporting the private sector development of rental housing in the State of Hawaii. The HRHC's goal is to make it possible for the private sector to build rental housing for the workforce members of the community who earn less than 140% of the average median income (AMI) for their area.

It has long been recognized that affordable housing, and particularly rental housing in Hawaii, has become economically unfeasible for the private sector to develop. As such only subsidized projects utilizing government funding have been constructed.

A recent study by the Hawaii Housing Finance and Development Corporation (HHFDC) shows that by 2020 approximately 64,000+ rental units will be needed State-wide and more than 31,000 will be needed on Oahu. Government alone cannot address that need.

It is this need that the Hawaii Rental Housing Coalition is seeking to address. In order to do that the fundamental economics of building rental housing in Hawaii must be altered. We seek to do that in a collaborative manner through the contributions of key players in the private sector who have committed to making a meaningful contribution to expand the supply of rental housing, the most important of which is the construction trade which has committed to wage reductions through negotiated contracts as allowed by SB 1105 SD1 in conjunction with GET exemptions applicable to affordable housing projects. It is for this reason that the Hawaii Rental Housing Coalition strongly supports the measures proposed by SB 1105 SD1 without amendment.

Respectfully submitted,

Christine Nakashima-Heise, Project Coordinator
cnheise@gmail.com

Testimony of
Christopher Delaunay
Pacific Resource Partnership



HOUSE OF REPRESENTATIVES
THE TWENTY-NINTH LEGISLATURE
REGULAR SESSION OF 2017

COMMITTEE ON HOUSING
Representative Tom Brower, Chair
Representative Nadine K. Nakamura, Vice Chair

NOTICE OF HEARING

DATE: Tuesday, March 14, 2017
TIME: 10:00am
PLACE: Conference Room 423

Aloha Chair Brower, Vice Chair Nakamura, and Members of the Committee:

PRP **supports** SB 1105, SD2, Relating to Housing, which allows the terms of collective bargaining agreements and associated provisions to be deemed the prevailing wages and terms serving as the basis of compliance with chapter 104, Hawaii Revised Statutes, for the construction of certain rental housing projects. Expands the types of rental housing projects that can be exempt from general excise taxes.

The shortage of affordable rental housing units is at a crisis level negatively affecting families throughout the State, including many of our members whom fall within the 80-140% AMI range.

SB 1105, SD2 would expand the existing general excise tax exemptions for allowable construction, development, and financing costs for projects wherein at least 20% of available units are for households whose incomes are at or below 80% AMI, and wherein all remaining units are households whose incomes are at or below 140% AMI. GET reduction along with wage reductions will provide developers with incentives to produce critically needed affordable rental housing projects.

Thank you for allowing us to express our strong support on SB 1105, SD2 and we respectfully request your favorable consideration.



(Continued From Page 1)

About PRP

Pacific Resource Partnership (PRP) is a not-for-profit organization that represents the Hawaii Regional Council of Carpenters, the largest construction union in the state, and more than 240 of Hawaii's top contractors. Through this unique partnership, PRP has become an influential voice for responsible construction and an advocate for creating a stronger, more sustainable Hawaii in a way that promotes a vibrant economy, creates jobs and enhances the quality of life for all residents.

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GCA of Hawaii

GENERAL CONTRACTORS ASSOCIATION OF HAWAII

Quality People. Quality Projects.

Uploaded via Capitol Website

March 14, 2017

LATE

TO: HONORABLE TOM BROWER, CHAIR HONORABLE NADINE NAKAMURA, VICE CHAIR AND MEMBERS OF THE HOUSE COMMITTEE ON HOUSING

SUBJECT: **SUPPORT INTENT AND SUGGESTED AMENDMENTS TO S.B. 1105, SD2, RELATING TO HOUSING.** Allows the terms of collective bargaining agreements and associated provisions to be deemed the prevailing wages and terms serving as the basis of compliance with chapter 104, Hawaii Revised Statutes, for the construction of certain rental housing projects. Expands the types of rental housing projects that can be exempt from general excise taxes. Sunsets on an unspecified date. Takes effect 1/7/2059. (SD2)

Committee Hearing

DATE: March 14, 2017
TIME: 10:00 a.m.
PLACE: Room 423

Dear Chair Brower, Vice Chair Nakamura and Members of the Committee

The General Contractors Association of Hawaii (GCA) is an organization comprised of over five hundred general contractors, subcontractors, and construction related firms. The GCA was established in 1932 and is the largest construction association in the State of Hawaii. GCA's mission is to represent its members in all matters related to the construction industry, while improving the quality of construction and protecting the public interest.

GCA supports the intent of this measure and **has suggested amendments** to ensure that all who are interested in delivering an affordable housing project are able to exercise the proposed tax exemption and not depend upon whether the contractor belongs to a union or not. In order to address this GCA would this committee to consider amendments to S.B. 1105, SD2.

S.B. 1105, SD2 proposes to increase the types of rental housing projects that can be exempted from general excise taxes, while requiring that in order to qualify for such one would have to be subject to the terms of a collective bargaining agreement. We appreciate the intent of this legislation particularly the need to increase the delivery of affordable housing rentals and the proponent's willingness to reduce the wage and benefits to go under the prevailing wage rate which is triggered by Chapter 104 for projects utilizing federal tax credits. GCA understands the need to increase the number of available rental housing units and supports addressing ways in which to address this dire need in our state, however the bill as drafted provides special tax exemptions to some and not to all.

GCA suggests the following amendments to Section 2 of the bill to ensure that all parties interested in producing more affordable homes can benefit from the general tax exemption.

Please consider the following addition to section 104-2 as a new section (i) as follows:

(i) When the housing finance and development corporation has approved and certified for exemption from general excise taxes a qualified person or firm involved with a newly constructed, or moderately or substantially rehabilitated project under sections 201H-36(a)(4) or 201H-36(a)(5), then the prevailing wages when applicable to said project may be set at ___ per cent less than the current prevailing wages set under subsection 104-2(b) herein; provided however, that prevailing wages may not be set below those set by federal law pursuant to subsection 104-2(b)(2) herein.

Except for the special prevailing wages established by section 104-2(h) and (i), [The] the prevailing wages shall be not less than the wages payable under federal law to corresponding classes of laborers and mechanics employed on public works projects in the State that are prosecuted under contract or agreement with the government;

Furthermore, GCA recommends the following amendment to Section 3 of the bill as proposed amendment in Section 201H-36:

(5) Developed [~~under a contract described in section 104-2(i)(2)] by a qualified person or firm to provide affordable rental housing where all available units are for households with incomes at or below one hundred forty per cent of the area median family income as determined by the United States Department of Housing and Urban Development, of which 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; provided that the tax credit established under this paragraph shall be available for taxable years beginning after December 31, 2017."~~

The proposed amendments would allow for a more competitive bidding environment for all interested general contractors and subcontractors who can assist in increasing the stock of affordable housing rentals for Hawaii's citizens in need. Furthermore, it would leave it up to the private parties to negotiate what the wage for the respective trades would be without disqualifying anyone from being eligible for the general tax exemptions. For these reasons, we respectfully request your consideration of the proposed amendments.