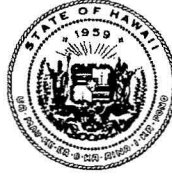


Linda Lingle
GOVERNOR



ORLANDO "DAN" DAVIDSON
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
Orlando "Dan" Davidson
Hawaii Housing Finance and Development Corporation
Before the

HOUSE COMMITTEE ON HUMAN SERVICES AND HOUSING

February 12, 2008, 8:40 a.m.
Room 329, State Capitol

In consideration of

H.B. 3059

RELATING TO LOW-INCOME HOUSING TAX CREDITS

The HHFDC strongly supports H.B. 3059, an Administration bill, which reduces the period over which state low-income housing tax credits are taken from 10 years to 5 years.

The low income housing tax credit (LIHTC) program promotes the development and rehabilitation of low-income rental housing by providing equity to developers of eligible affordable housing projects. The program is a powerful financing tool for affordable rental housing development, especially when leveraged with state rental housing trust funds. From the program's inception through the end of 2007, 54 affordable rental projects totaling 3,713 units statewide have been constructed or preserved using total federal and state LIHTC allocations of \$450,874,160.

The LIHTCs provide a dollar-for-dollar credit against annual income tax liability over a 10 year period. Developers typically sell the tax credits to tax payers/investors to raise equity for the development of a rental housing project. Unfortunately, the sale of State LIHTCs generates less than half of the "equity" than that of the federal LIHTC, or approximately \$0.35 to \$0.50 for every \$1.00 of state credit. By shortening the time period over which the State credits can be taken (i.e., from 10 years to 5 years), the value of the State LIHTC could be enhanced and more equity could be generated for the development of rental housing.

Thank you for the opportunity to testify.



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February 12, 2008

The Honorable Maile S.L. Shimabukuro, Chair
House Committee Human Services & Housing
State Capitol, Room 329
Honolulu, Hawaii 96813

RE: H.B. 3059, Relating to Low-Income Housing Tax Credits
Hearing Date: February 12, 2008 @ 8:40 a.m., Room 329

On behalf of our 10,000 members in Hawaii, the Hawaii Association of REALTORS® (HAR) supports H.B. 3059, which reduces the period over which state low-income housing tax credits are taken from 10 years to 5 years.

We believe Smart Growth is our road map to sustaining and enhancing the quality of life in our communities and we believe that this bill aligns with our core principle of *providing housing opportunities*.

HAR has historically supported mechanisms to help increase the supply of low and moderate income affordable housing such as the Rental Housing Trust Fund Program which can help integrate the use of mixed-income and mixed-use projects, special purpose revenue bonds, low-interest loans, block grants, low-income housing tax credit programs and deferred loan programs to provide rental housing opportunities.

Amending the period over which state low-income housing tax credits are taken from ten years to five years would increase the present value of the credits when sold to investors, and provide a more attractive financing incentive to potential developers of affordable rental housing.

HAR looks forward to working with our state lawmakers in building better communities by supporting quality growth, seeking sustainable economies and housing opportunities, embracing the cultural and environmental qualities we cherish, and protecting the rights of property owners.

Mahalo for the opportunity to testify.

Sincerely,

A handwritten signature in black ink, appearing to read "Craig Hirai", written over a light gray textured background.

Craig Hirai, Member
Subcommittee on Taxation and Finance
HAR Government Affairs Committee

L E G I S L A T I V E

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SUBJECT: INCOME, Low-income housing credit

BILL NUMBER: SB 2981; HB 3059 (Identical)

2/2 Asst

INTRODUCED BY: SB by Hanabusa by request; HB by Say by request

BRIEF SUMMARY: Amends HRS section 235-110.8 to provide that a low-income housing project placed in service beginning on January 1, 2009, pursuant IRC section 42(b)(2)(B) shall be eligible for the low-income housing credit taken over a five-year period instead of the current 10-year period.

EFFECTIVE DATE: January 1, 2009

STAFF COMMENTS: This is an administration measure submitted by the department of business economic development and tourism BED-06(08). The legislature by Act 216, SLH 1988, adopted the federal low-income rental housing credit which was part of the Tax Reform Act of 1986. The credit was enacted to offset the repeal of tax shelters and other incentives to build rental housing under prior law, such as accelerated depreciation, capital gains preference, certain tax-exempt bonds, etc., and to specifically target low-income rentals.

The federal credit is a 70% present value credit for qualified new construction and rehabilitation expenditures which are not federally subsidized, and 30% for those which are federally subsidized. While the existing state credit allows for a credit of 50% of the "applicable percentage of the qualified basis" allowed under federal law taken over a period of 10 years, the proposed measure would shorten it to five years. The justification sheet submitted with this measure states that by shortening the time period over which the low-income housing tax credits are taken would increase the present value of the credits when sold to investors. This would, the justification argues, provide a more attractive alternative financing incentive to potential developers of affordable rental housing.

While this is just one incentive to encourage developers to build affordable housing, consideration should be given to a number of strategies including the debt financing, partnerships with financial institutions who could then turn around and sell the credits, and the use of federal debt financing.

Digested 2/01/08