



**STATE OF HAWAII**

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM  
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION  
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Honolulu, Hawaii 96813  
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IN REPLY REFER TO

Statement of  
**Orlando "Dan" Davidson**  
Hawaii Housing Finance and Development Corporation  
Before the

**SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TAXATION**

February 12, 2008, 9:25 a.m.  
Room 224, State Capitol

In consideration of  
**S.B. 2981, S.D. 1**  
**RELATING TO LOW-INCOME HOUSING TAX CREDITS.**

The HHFDC strongly supports S.B. 2981, S.D. 1, which reduces the period over which state low-income housing tax credits are taken from 10 years to 5 years, and modifies the applicable percentage of the qualified basis of each qualified low-income building that is placed in service beginning on January 1, 2009. We defer to the Department of Taxation regarding the revenue impact of the S.D. 1.

We also note that the following technical amendment is needed: page 1, line 7 should be amended to read "in subsections (h) and (i)." This amendment is needed because both subsections (h) and (i) of section 235-110.8, HRS propose modification of section 42 of the Internal Revenue Code for purposes of the state low-income housing tax credit program.

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. We believe that the proposed amendments to the State LIHTC program could enhance the value of the credits and generate more equity for the development of rental housing. Thank you for the opportunity to testify.



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February 8, 2008

**The Honorable Carol Fukunaga, Chair**  
Senate Committee on Economic Development and Taxation  
State Capitol, Room 224  
Honolulu, Hawaii 96813

**RE: S.B. 2981, S.D. 1, Relating to Low-Income Housing Tax Credits**  
**Hearing Date: February 12, 2008 @ 9:25 a.m., Room 224**

On behalf of our 10,000 members in Hawaii, the Hawaii Association of REALTORS® (HAR) **supports S.B. 2981, S.D.1**, 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".

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

**testimony**

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**From:** Allison M. Nakama [ANakama@wik.com]  
**Sent:** Monday, February 11, 2008 1:39 PM  
**To:** testimony  
**Subject:** TESTIMONY SB 2981 SD1 - Relating to Low-Income Housing Tax Credits hrg. scheduled for 2/12/08 @ 9:25 a.m.  
**Attachments:** SB 2981 SD1 TESTIMONY.pdf

Aloha,

On behalf of Castle & Cooke Homes Hawaii, please find attached testimony in regards to SB 2981 SD1 - Relating to Low-Income Housing Tax Credits scheduled for hearing TOMORROW - Tuesday, February 12 at 9:25 a.m. before the Senate Committee on Economic Development and Taxation (EDT).

Let me know if you have any questions. Thank you.

Allison

Allison Nakama  
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2/11/2008



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February 12, 2008

To: Honorable Senator Carol Fukunaga, Chair  
Committee on Economic Development and Taxation

Fr: Bruce Barrett, Executive Vice President of Residential Operations  
Castle & Cooke Homes Hawaii

Re: **S.B. 2981, SD1 - RELATING TO LOW-INCOME HOUSING TAX  
CREDITS – Support with Comments**

**Senate Committee on Economic Development and Taxation  
February 12, 2008, 9:25 am; CONFERENCE ROOM 224**

On behalf of Castle and Cooke Homes Hawaii, we would like to offer our testimony in support and our comments in regards to SB 2981, SD1.

The lack of housing inventory and supply for a wide range of housing needs plagues the industry. This bill supports the production of low income rental housing which is a vital component for the overall housing supply. The Low-Income Housing Tax Credit program is a critical tool of the State's program to produce low income affordable rental housing. Along with federal tax credits, this credit offers a significant boost in helping to finance the development of lower rent affordable rental projects.

For these reasons we ask you to support the passage of SB 2981, SD1.

Should you have any questions, feel free to contact me at 548-3746 or Carleton Ching, Vice President of Government and Community Relations, at 548-3793

## L E G I S L A T I V E

**TAXBILLSERVICE**

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**SUBJECT:** INCOME, Low-income housing credit

**BILL NUMBER:** SB 2981, SD-1

**INTRODUCED BY:** Senate Committee on Human Services and Public Housing

**BRIEF SUMMARY:** Amends HRS section 235-110.8 to provide that for a low-income housing project placed in service beginning on January 1, 2009: (1) pursuant to IRC section 42(b)(2)(B) the state housing credit shall be 100% of the applicable percentage of the qualified basis of each building located in Hawaii; and (2) pursuant to IRC section 42(f)(1) the credit period for the low-income housing credit shall be 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 increase the state credit to 100% and shorten the time period 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 private activity bonds. Finally, apparently public officials still have not recognized that one of the greatest contributors to the cost of housing in Hawaii is the draconian maze of permitting and regulatory processes in order to bring those homes to market. While those regulatory guidelines are to insure the health and safety of the public, streamlining the process would accelerate the time needed to secure those permits thereby reducing the cost of financing. This savings would go a long way toward reducing the final cost of the house to the consumer. For example for one housing project on Kauai, it took nearly five years to secure the necessary permits to build 14 affordable homes.

Digested 2/11/08