EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

Testimony of Linda L. Smith
Senior Policy Advisor to the Governor

Before the

Senate Committee on Human Services and Public Housing

Saturday, February 2, 2008, 1:15 p.m.
State Capitol, Conference Room 16

SB 2981 Relating to Low-Income Housing Tax Credits

Chair Chun Oakland, Vice Chair Ihara, and Members of the Committee:

The Governor's Office supports SB 2981, the Administration's bill to reduce the period to time during which State low-income housing tax credits are taken from ten years to five years.

The Low-Income Housing Tax Credit Program is a financing tool to promote the development and rehabilitation of affordable rental units through the use of tax credits. Federal and State tax credits are used to obtain a reduction in income tax liability. Tax credits may be sold to investors, allowing developers to borrow less money.

The credit is available for the portion of a project that is set aside for low-income tenants. To quality, 20 percent of the units must be set aside for tenants earning less than 50 percent AMI (area median income), or 40 percent of the units for tenants earning 60 percent AMI or less.

In administering the State Low-Income Housing Tax Credit Program, states may choose to implement a shorter period over which tax credits may be taken. The Hawaii Housing Finance and Development Corporation (HHFDC) has indicated that while federal tax credits generate 95 cents on the dollar, State tax credits currently generate 35 cents on the dollar. The disparity is because federal tax credits may be applied nationwide, while State tax credits apply to tax liability in Hawaii. By reducing the period from ten to five years, it is anticipated that the State tax credits will become more valuable and help accelerate free market investment in affordable housing projects.

Thank you for the opportunity to testify.

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

SENATE COMMITTEE ON HUMAN SERVICES AND PUBLIC HOUSING

February 2, 2008, 1:15 p.m.
Room 016, State Capitol

In consideration of
S.B. 2981
RELATING TO LOW-INCOME HOUSING TAX CREDITS.

The HHFDC strongly supports S.B. 2981, 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.

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR

KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

SENATE COMMITTEE ON HUMAN SERVICES & PUBLIC HOUSING

TESTIMONY REGARDING SB 2981
RELATING TO LOW-INCOME HOUSING CREDITS

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 2, 2008
TIME: 1:15PM
ROOM: 016

This legislation modifies Hawaii's conformity to the federal Low-Income Housing Tax Credit provided by Section 42 of the Internal Revenue Code, by reducing the number of years over which the credit may be claimed.

The Department **strongly supports** this Lingle-Aiona Administration bill and encourages the Committee to pass this measure.

I. THE DEPARTMENT DEFERS TO THE HOUSING AGENCIES ON THE MERITS.

The Department defers to the various executive housing agencies on the merits of this bill in general. Hawaii is currently facing an affordable housing crisis. It will take meaningful initiatives in order to eliminate the shortage of affordable housing suitable for Hawaii residents.

II. THE ISSUE OF AFFORDABLE HOUSING IS IMPORTANT AND MAKING HAWAII'S CREDIT MORE ATTRACTIVE IS CRITICAL.

The Department recognizes that affordable housing is an important issue. To properly eliminate the affordable housing crisis, sufficient incentives must also be available in order to leverage public-private partnerships to construct additional housing Hawaii. Through the use of the Low-Income Housing Tax Credit, partnerships between the state and private developers are leveraged through attractive tax incentives that subsidize investments in projects.

This legislation is a positive solution. This legislation effectively reduces the horizon of years over which the Low-Income Housing Tax Credit must be claimed. Currently, the Hawaii credit must be claimed over a 10-year period. This bill reduces that period to 5 years. The reduction in the claim period makes the credit far more attractive to investors. The reduction also makes the credit more useful to project partnerships because cash from the government is released in a much shorter time.

III. REVENUE ESTIMATE

This legislation will result in the following revenue loss:

- FY2009 (loss): none
- FY2010 (loss): $1.25M
- FY2011 (loss): $2.50M
- FY2012 (loss): $3.13M
- FY2013 (loss): $3.25M

CATHOLIC CHARITIES HAWAI'I

TESTIMONY IN SUPPORT OF SB 2981: RELATING TO LOW INCOME HOUSING TAX CREDITS

TO: Senator Suzanne Chun Oakland, Chair, and Members, Committee on Human Services & Public Housing

FROM: Betty Lou Larson, Housing Programs Director, Catholic Charities Hawai'i

HEARING: Saturday, 2/2/08; 1: 15 pm; Conf. Rm. #016

Chair Chun Oakland and Members, Committee on Human Services & Public Housing

Thank you for the opportunity to provide written testimony on SB 2225. I am Betty Lou Larson, from Catholic Charities Hawai'i. We support SB 2981 which provides a creative way to leverage additional funds for affordable housing projects.

Construction costs are rising which will make the development of new affordable rental housing projects more expensive. Yet, the need for these units is also growing. More elders, more low and moderate income families, more disabled, more of the workforce need housing. We know the housing crisis well at Catholic Charities Hawai'i. We get calls every day from families who are desperately seeking to avoid homelessness and need to find housing. The age wave of seniors is fast approaching Hawai'i as the Baby Boomers age into their 60's and retirement means reduced income. The need for affordable senior housing will explode. Already, the Housing Assistance Program at Catholic Charities Hawai'i finds that about half of the current seniors seeking help are at risk for homelessness.

This bill before you is a creative way to get "more bang for the buck" with the State Low Income Housing Tax Credits. This change will enable the State credits to generate more money to the affordable housing projects, if granted over a shorter time period. Currently the annual credit award is for over a 10 year period. By changing the timeframe to 5 years, the projects can sell the credits for more money since the purchaser get the same tax credit but over 5 years. Since time is money, this would be more attractive to the buyers.

The State's long term revenue does not change, but the value to the project is greater when sold to get equity for the project. The total amount of state tax credits will remain the same.

With fast rising construction, we have to seek ways to support affordable housing in new ways. This is a creative way to gain more equity for the projects. This is another way to leverage funding. It will translate into more units produced over time than under the current system.

We thank you for your consideration of this bill as one more step to support the development of more affordable rental units across our State.

Hawaii Association of REALTORS®
www.hawaiirealtors.com

The REALTOR® Building
1136 12th Avenue, Suite 220
Honolulu, Hawaii 96816

Phone: (808) 733-7060
Fax: (808) 737-4977
Neighbor Islands: (888) 737-9070
Email: har@hawaiirealtors.com

February 2, 2008

The Honorable Suzanne Chun Oakland, Chair
Senate Committee on Human Services and Public Housing
State Capitol, Room 229
Honolulu, Hawaii 96813

RE: S.B. 2981 Relating to Low-Income Housing Tax Credits
Hearing Date: February 2, 2008 @ 1:15 p.m., Room 016

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

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

PACIFIC HOUSING ASSISTANCE CORPORATION
677 ALA MOANA BOULEVARD• SUITE 712•HONOLULU, HAWAII 96813• (808) 523-5681

TESTIMONY ON S.B. 2981, RELATING TO LOW-INCOME HOUSING TAX CREDITS
Before the Senate Committee on Human Services & Public Housing
February 2, 2008, 1:15 pm; CONFERENCE ROOM 016
Submitted By: Marvin Awaya, Executive Director

We support SB 2981 and urge this committee to approve and refer SB 2981 to the next committee.

The Low Income Housing Tax Credit program is a corner stone of the State's program to produce affordable rental housing. Along with federal tax credits it provides vital investment equity to make up the deficiency in financing the development of lower rent affordable rental projects.

In Pacific Housing's most recent proposed tax credit rental project for households with less than 60% median income, the total development cost of a 72 unit apartment building (2 and 3 bedroom units) is about $26 million or $360,000 per unit ($365/sq. ft.). The construction cost itself is $21.8 million, including contingency and interest or 84% of the total ($306/sf).

Rents support a mortgage of about 14% of the total development cost while the total tax credit investment is 86%. In addition, we are deferring one-third of our fee to be paid over a 10 year period to further reduce the amount of financing needed to retire the construction loans. The State tax credits account for 23% of the total equity investment because the tax credits are sold at a lower rate than Federal credits. Increasing the "value" or price that the credits sold to investors will increase the amount of investment equity.

If the value of the State credits increased, because of the reduction of time that the credits may be taken (from 10 to 5 years) (subsection (h), page 4), from say $.57 per $1.00 of credits to $.65 about $712,000 of additional equity would be realized.

Amendments:

1. We recommend that this committee consider increasing the "cap" that the statute allows (subsection (c), page 2). If the current State credit were increased from 50% to 75% (of the "Eligible Basis"), in the example above, another $356,000 would be gained for a total of $1.07 million of additional equity if both the "value" and the "cap" were increased.

2. We further recommend that the committee consider establish a separate "cap" for the "4%" tax credit program. This program is referenced in the new subsection (h), page 4 as "30% of the qualified basis". This program is utilized when using tax-exempt revenue bonds for rental housing.

   Basically, the "70%" program receives 9% tax credits which are competitive and subject to a cap based on the state's population. The 4% program is "non-competitive" and therefore not subject to a cap. The present capped State tax credits, when applied to the 4% program means that a lesser amount of credits are available for sale. We recommend increasing the tax credit cap for the 4% program (30% of qualified basis) to 100% or equal to the federal tax credits.

TESTIMONY IN SUPPORT OF SENATE BILL 2981 REALTING TO LOW INCOME HOUSING TAX CREDITS
Committee on Human Services and Public Housing
Hearing: February 2, 2008 at 1:15 p.m.

The Hawaii Island Community Development Corporation (HICDC) supports the adoption of Senate Bill 2981. If enacted Senate Bill 2981 will increase the equity paid in to Low Income Housing Tax Credit projects and thereby increase the financial feasibility of those projects.

We have completed five Low Income Housing Tax Credit projects on the Big Island and in every case the LIHTC equity has been a significant part of the financing package.

Since the LIHTC investment comes in as equity it is critical in keeping the project affordable for the low income community. Any enhancement of the LIHTC investment, such as SB2981, will be positive.

Thank you for the opportunity to testify on this proposal.

Castle & Cooke
Hawai'i

100 Kahelu Avenue
Mililani, Hawaii 96789-3997
P.O. Box 898900
Mililani, Hawaii 96789-8900
(808) 548-4811 Fax (808) 548-6670

February 2, 2008

To: Honorable Senator Suzanne Chun Oakland, Chair
Committee on Human Services and Public Housing

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

Re: **S.B. 2981, RELATING TO LOW-INCOME HOUSING TAX CREDITS**
Senate Committee on Human Services & Public Housing
February 2, 2008, 1:15 pm; CONFERENCE ROOM 016

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

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.

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

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Low-income housing credit

BILL NUMBER: SB 2981; HB 3059 (Identical)

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