

LATE TESTIMONY



Via Capitol Website

February 9, 2009

**Senate Committee on Education and Housing
Hearing Date: Monday, February 9, 2009, 1:15 p.m. in CR 225**

Testimony in Support of SB 184 – Relating to Tax Credits
(Reduces period over which low-income tax credits are taken from 10 to 5 years.)

The Honorable Chair Sakamoto, Vice-Chair Kidani & EDH Members:

My name is David Arakawa, and I am the Executive Director of the Land Use Research Foundation of Hawaii (LURF), a private, non-profit research and trade association whose members include major Hawaii landowners, developers and a utility company. One of LURF's missions is to advocate for reasonable, rational and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources and public health and safety.

LURF is writing **in support** of **SB 184**, which reduce the period over which the state low-income housing tax credits are taken from 10 years to 5 years.

Background. The lack of affordable housing remains a significant problem affecting Hawaii. Finding ways to provide sufficient affordable housing and market housing for Hawaii's residents has been a major objective for our elected officials, and state and county agencies, and members of the housing industry and business community. For the past two years, LURF has participated in a statewide task force comprised of representatives from all four counties, business, labor, developers, architects, nonprofit providers of services, the State, and the legislature, whose purpose was to identify, address and propose regulatory reform and solutions to remove the barriers to the production of affordable housing.

SB 184. The purpose of this Bill is to reduces the period over which the state low-income housing tax credits are taken from 10 years to 5 years.

SB 184 proposes to amend HRS §235-110.8, to include technical changes with references to low income housing tax credit and adds a new section that provides

(h) In the case of any qualified low-income housing project placed in service beginning on January 1, 2010, section 42(b)(2)(B) (with respect to method of describing percentages of the low-income housing credit) of the Internal Revenue Code shall be modified as follows: the percentages prescribed by the Secretary for any month shall be percentages which will yield over a five-year period amounts of credit under subsection (a) that have present value equal to:

(1) Seventy per cent of the qualified basis of a building described in section 42(c)(1)(A); and

(2) Thirty per cent of the qualified basis of a building described in section 42(c)(1)(B).

For the purposes of this subsection the state housing credit shall be one hundred per cent of the applicable percentage of the qualified basis of each building located in Hawaii; provided that the applicable percentage shall be calculated as provided in section 42(b) (with respect to applicable percentage of the low-income housing credit) of the Internal Revenue Code.

(i) In the case of any qualified low-income housing project placed in service beginning on January 1, 2010, section 42(f)(1) (with respect to credit period defined for the low-income housing credit) of the Internal Revenue Code shall be modified as follows: the term "credit period" means, with respect to any building, the period of five taxable years beginning with:

(1) The taxable year in which the building is placed in service; or

(2) At the election of the taxpayer, the succeeding taxable year;

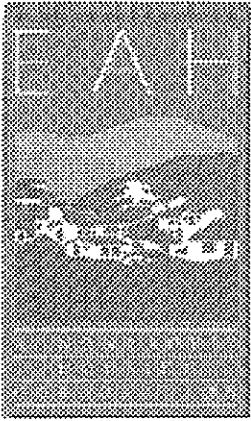
provided that the building is a qualified low-income building as of the close of the first year of such period. The election under paragraph (2), once made, shall be irrevocable.

According to the Hawaii Housing Finance and Development Corporation (HHFDC), the low-income housing tax credit (LIHTC) program promotes the development and rehabilitation of low-income rental housing through the use of federal and state LIHTCs. The program continues to be a needed financing tool for affordable rental housing development, especially when awarded in conjunction with state rental housing trust funds. Right now, the LIHTCs are taken over a ten-year period by the project owner. However, because of the limited market for state credits and the current economic situation, owner-developers find it hard to sell their state LIHTCs. Shortening the period over which state LIHTCs are taken from ten years to five years would increase the present value of the credits when sold to investors and provide more attractive financing incentives to potential developers.

LURF's Position. The housing crisis in Hawaii has affected many families who are now forced to live with extended families because of high costs. Access to affordable housing is critical to our communities.

Any further delay of any affordable housing type projects will cause an even bigger crisis in the near future. LURF supports incentives, such as SB 184, that could allow affordable housing projects to be developed on a timely basis.

Thank you for the opportunity to submit testimony in **support** of SB 184.



February 11, 2009

Senator Norman Sakamoto, Chair
Senate Committee on Education and Housing
State Capitol, Room 230
Honolulu, Hawaii 96813

Subject: S.B. No's. 1161, 1118, 184 and 278; Hearing February 9, 2009; **Late Testimony in Support**

Dear Senator Sakamoto and Members of the Senate Committee on Education and Housing:

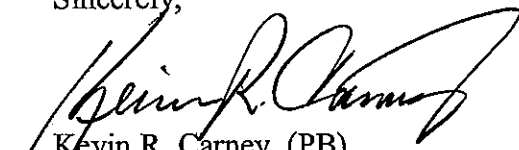
This is written testimony to follow-up with the verbal testimony I provided on Monday, February 9th. EAH Housing thanks the legislature and this committee for entertaining measures that would increase the value of low income housing tax credits and make them more competitive. We depend on the low income housing tax credit (LIHTC) as a primary source of equity financing for new developments and for acquisition and preservation of existing affordable rental housing.

HHFDC pointed out in their testimony that SB1161 would decrease the value of LIHTCs and that the language in SB861 would be more appropriate because it retains the value while reducing the take down period from 10 years to 5 years. **We support this position.**

Hawaii still has a housing crisis. As you can imagine, what was recognized as a housing crisis by the State legislature in 2006 as a shortfall in available affordable rental housing is now impacted by an increase in foreclosures. This has increased demand for more affordable rental housing. With a tax credit marketplace as small as Hawaii's it is critical that the LIHTC program be as competitive as possible in order to attract potential investors. As it stands today, the high technology business investment tax credit is much more attractive to potential investors. In general these bills make the LIHTC more competitive and we support these initiatives.

Thank you for this opportunity to submit our thoughts.

Sincerely,



Kevin R. Carney, (PB)
Vice President, Hawaii