



Via E-Mail: EDHTestimony@Capitol.hawaii.gov

February 3, 2010

**Support of SB 2113 Authorizing the Issuance of GO bonds
(Issuance of GO bonds – Rental Housing Trust Fund)**

Honorable Chair Senator Norman Sakamoto, Vice Chair Senator Michelle Kidani and Members Senate Education and Housing Committee

My name is Dave 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 appreciates the opportunity to provide our testimony **in strong support of the SB 2113**, which authorizes the Director of Finance to issue general obligation bonds in an amount to be determined or so much as may be necessary for fiscal year for infrastructure to build affordable housing.

SB 2113: Authorizes the issuance of general obligation bonds and makes an appropriation for infusion into the Rental Housing Trust Fund ("RHTF").

The RHTF is an integral financial resource used to develop affordable housing development throughout the state. Funds from RHTF are leverage with the low-income housing tax credit (Section 42 of the Internal Revenue Code) to develop and construct affordable housing projects throughout the state. These developments target housing households earning up to 60% of the Area Median Income and will serve many residents in our community. **These construction projects are important component to help stimulate the local economy and will create an important housing resource for our community.**

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 2113** supports the legislative recommendations of that task force.

There is an immense need for funding of affordable housing and the issuance of general obligation bonds to create infrastructure for affordable housing is in the public interest and general welfare of the state.

We urge this Committee to favorably consider and approve SB 2113.

Thank you for the opportunity to express our **strong support for SB 2113.**

**Senate Committee on Education and Housing
Testimony Regarding SB 2113**

**Authorizing the Issuance of General Obligation Bonds and Making an Appropriation for
Infusion Into the Rental Housing Trust Fund**

Testimony Submitted by: Joelle Chiu on behalf of Makani Maeva, Director of Pacific Housing
Advisors
Hearing Date: February 3, 2010
Time: 1:15 p.m.
Room: Conference Room 225

Dear Honorable Chair Sakamoto, Vice Chair Kidani & Committee members:

Thank you for this opportunity to submit testimony in support of SB 2113 that provides for the issuance of \$20,000,000 in general obligation bonds and making an appropriation for infusion into the Rental Housing Trust Fund ("RHTF") for fiscal year 2010-2011. My name is Joelle Chiu and I am submitting this testimony on behalf of Makani Maeva, the Director of Pacific Housing Advisors ("PHA"), a private affordable housing developer. Ms. Maeva apologizes for not being able to testify in person this afternoon, as she is off-island.

PHA strongly supports SB 2113 and believes that issuing bonds and appropriating funds for the RHTF will ultimately increase the quality and supply of affordable rental housing in Hawaii.

Affordable housing developers rely upon the RHTF as a source of gap funding to support new affordable rental housing and the acquisition and preservation of existing affordable rental housing. Gap funding is the difference between the amount of debt a project is capable of supporting based on its rental income and the amount of equity or capital we are able to raise by selling low-income housing tax credits plus any grants we are able to secure. Because of the federally regulated low rents, affordable rental projects require many layers of subsidy in order to make them feasible.

PHA is a private affordable housing developer that owns and manages over 4,600 affordable housing rental units nationwide, including 36 units at Kekaha Elderly Plantation on the island of Kauai. We are a few months away from completing construction on Lokahi Apartments, which will add 306 new affordable rental units to the Kailua-Kona area. Lokahi Apartments is being constructed in phases and we already have 85 affordable units completed and occupied. We expect the project to be fully-occupied by the end of summer, 2010. In the

end, all 306 of the units will be rented only to individuals and families that earn 60% or less of the area median income.

Construction of these 306 new units was financed, in part, by the sale of federal and state LIHTCs. In recent years, the ability of developers to sell state LIHTCs has been severely impacted by the decline of our national economy. The value of state and federal LIHTCs has decreased dramatically. To illustrate this point, when we closed on our Kauai project in 2007, the value of the federal LIHTCs was \$1.00 and the value of the state LIHTCs was \$0.50. In contrast, when we closed on the Lokahi Apartments project in November 2008, the price for federal LIHTCs had deteriorated to \$.88 and state LIHTCs to \$0.39 (NOTE: current sizing in the LIHTC market is \$0.70 for federal and \$0.20 for state). What this decrease meant to Lokahi Apartments in November 2008 was that we were left with a \$11.75 million financing gap that we were fortunate enough to fill with funds from the Rental Housing Trust Fund. In other words, without the RHTF loan, 306 families on the Big Island would not have a newly-constructed, affordable place to live.

Developing affordable rental housing should be encouraged because housing development not only provides shelter to needy residents, it is also an economic stimulus. The production and preservation of affordable rental housing creates jobs and generates state tax revenue. According to the Department of Business, Economic Development & Tourism's ("DBET") econometric model, the construction of Lokahi Apartments created 337 direct jobs and 818 indirect jobs. These jobs were not limited to short term construction jobs but also included permanent jobs relating to the ongoing management and operation of the project. According to DBET, Lokahi Apartments generated income of \$39,370,000, which resulted in state income tax revenue of \$7,175,500. Thus, \$11,750,000 of RHTF monies that will be returned to the state over time will have generated \$7,175,500 and provided housing in the first two years since the loan was made. The state will benefit by ensuring that financing options are available so the projects that are in the pipeline now will be able to proceed and new projects will be able to get off the ground.

We thank the Committee for considering this bill and urge you to support SB 2113 in addition to the continued funding of the RHTF via its 30% share of the state conveyance tax. Without the RHTF, many families in Hawaii will not have the affordable rental housing they need.