

SB2577

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON EDUCATION AND HOUSING
ON
SENATE BILL NO. 2577

February 10, 2010

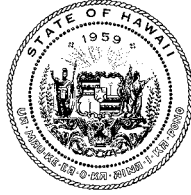
RELATING TO LOW-INCOME HOUSING

Senate Bill No. 2577 establishes a program for providing low-income housing tax credit loans in lieu of State of Hawaii low-income housing credits administered by the Hawaii Housing Finance and Development Corporation, and authorizes the issuance of taxable general obligation bonds to fund the loans.

The Department has a technical comment on this bill. We recommend that Section 4 of the bill be amended to read “The director of finance is authorized to issue taxable general obligation bonds in the sum of.....” to be consistent with the language in Section 2.

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

STANLEY SHIRAKI
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
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**SENATE COMMITTEE ON EDUCATION AND HOUSING
TESTIMONY REGARDING SB 2577
RELATING TO LOW-INCOME HOUSING**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: FEBRUARY 10, 2010

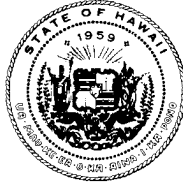
TIME: 1:20 PM

ROOM: 225

This measure establishes a program for granting low-income housing tax credit loans in lieu of low-income housing tax credits administered by the Hawaii Housing Finance and Development Corporation and authorizes the issuance of general obligation bonds to fund the loans.

The Department of Taxation **defers to the Hawaii Housing Finance and Development Corporation** on the merits of this legislation.

Linda Lingle
GOVERNOR



KAREN SEDDON
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
Karen Seddon
Hawaii Housing Finance and Development Corporation
Before the

SENATE COMMITTEE ON EDUCATION AND HOUSING

February 10, 2010, 1:20 p.m.
Room 225, State Capitol

In consideration of
S.B. 2577
RELATING TO LOW-INCOME HOUSING.

The HHFDC opposes S.B. 2577 in its current form. We prefer the language of S.B. 2109, which was previously heard by this Committee.

While we support the establishment of a State Low-Income Housing Tax Credit (LIHTC) exchange program similar to the Federal ARRA Section 1602 Tax Credit Exchange Program, we cannot support this version as proposed. The Section 1602 Program and the exchange program proposed in S.B. 2109 are limited in impact to the 9 percent competitive (Volume Cap) LIHTCs, which are limited to an annual federal per capital allocation amount. S.B. 2577 would allow 4 percent non-competitive LIHTCs, which are not capped, to participate in the exchange program in addition to the 9 percent LIHTCs. The Department of Taxation has advised us that expanding the tax credit exchange program beyond 9 percent LIHTCs would not be budget-neutral.

Thank you for the opportunity to testify.

DEPARTMENT OF COMMUNITY SERVICES
CITY AND COUNTY OF HONOLULU

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MUFI HANNEMANN
MAYOR

DEBORAH KIM MORIKAWA
DIRECTOR

ERNEST Y. MARTIN
DEPUTY DIRECTOR

February 9, 2010

The Honorable Norman Sakamoto, Chair,
and Members of the Committee on Education and Housing
State Capitol
Honolulu, Hawaii 96813

Dear Chair Sakamoto and Members:

Subject: Senate Bill 2577

Senate Bill 2577 establishes a program for granting low-income housing tax credit (LIHTC) loans in lieu of low-income housing tax credits administered by the Hawaii Housing Finance and Development Corporation, and authorizes the issuance of General Obligation bonds to fund the loans. The City Department of Community Services (DCS) strongly supports Senate Bill 2577.

It is an opportune time to establish a program for granting interest-free, low-income housing tax credit loans given present tax credit syndication rates, the affordable housing crisis facing the State, and the current downturn in the economy. Current conditions have severely depressed LIHTC syndication rates, which in turn limits the amount of LIHTC equity generated to support the development of affordable rental housing and, at worst, may stall projects from moving forward due to the lack of adequate financing. The proposed interest-free loans serves as an alternative source of gap financing that provides significantly more equity to developers of affordable housing, thus addressing one of the greatest challenges to developing affordable housing.

From the perspective of taxpaying residents, the interest-free loans will result in an increase in the amount of State funds going directly into the construction of affordable rental housing, thus providing greater benefit to families and communities as a whole. Furthermore, the interest-free loans may enable more affordable housing projects to move forward, thereby providing direly needed jobs for our construction industry.

The Department of Community Services appreciates the opportunity to provide this testimony and we respectfully request your support of Senate Bill 2577.

Sincerely,

A handwritten signature in blue ink that reads "Deborah Kim Morikawa".

Deborah Kim Morikawa
Director

DKM:dw

February 9, 2010

The Honorable Norman Sakamoto, Chair
Senate Committee on Education and Housing
State Capitol, Room 225
Honolulu, Hawaii 96813

RE: S.B. 2577 Relating Low-Income Housing

HEARING: Wednesday, February 10, 2010 at 1:20 p.m.

Aloha Chair Sakamoto, Vice Chair Kidani and Members of the Committee:

I am Craig Hirai, the chair of the Subcommittee on Affordable Housing, here to testify on behalf of the Hawai'i Association of REALTORS® (“HAR”), the voice of real estate in Hawai'i, and its 8,800 members in Hawai'i. HAR **supports** S.B. 2577, which establishes a program for granting low-income housing tax credit loans in lieu of low-income housing tax credits administered by the Hawaii Housing Finance and Development Corporation (“HHFDC”) and authorizes the issuance of general obligation bonds to fund the loans.

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.

HAR believes that it may be difficult for a qualified low-income building to sell State Low-Income Housing Credits at a reasonable price if it receives a subaward from the HHFDC under Sections 1602 and 1404 of the American Recovery and Reinvestment Tax Act of 2009 and has no Federal Low-Income Housing Tax Credits to sell.

The intent of S.B. 2577 is to give owners of qualified low-income buildings an election to “monetize” the State Low-Income Housing Tax Credits in a manner similar to what the federal government has done with the “exchange program” for subawards under Sections 1602 and 1404 of the American Recovery and Reinvestment Tax Act of 2009. Like the federal election, this election would be in lieu of receiving State Low-Income Housing Tax Credits under HRS §235-110.8.

Because the State cannot afford to fund an up-front award like the federal government, and because the State cannot generally appropriate funds for a period as long as the 10-year credit period for the federal and Hawaii Low-Income Housing Tax Credits, S.B. 2577 uses

taxable general obligation bond proceeds in an amount equal to a blank percent of the present value of the annual State Low-Income Housing Tax Credits a qualified low-income building would currently receive under HRS §235-110.8 discounted at the rate of interest the State pays on the taxable general obligation bonds.

HAR believes that S.B. 2577 can be made to be budget neutral. This measure could therefore help both the State and the property owner by setting a floor for a qualified low-income building's State Low-Income Housing Tax Credits, thus making it unnecessary to sell credits at an unreasonable discount.

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.



Housing Hawaii Inc., 841 Bishop Street, Suite 228 – Honolulu, HI 96813 – 808-523-8826

February 9, 2010

Committee on Education and Housing
Senator Norman Sakamoto, Chair
Senator Michelle Kidani, Vice Chair

Hearing: Wednesday, February 10, 2010 at 1:20 P.M.
Hawaii State Capitol, Room 225

Re: SB2577 – Relating to Low-Income Housing

Testimony in Support

Chair Sakamoto, Vice Chair Kidani and members of the Committee on Education and Housing. On behalf of the Board of Directors of Housing Hawaii Inc., thank you for the opportunity to offer testimony in support of SB2577, which would establish low-income tax credit loans in lieu of low-income tax credits which are currently administered by HHFCD.

Housing Hawaii Inc. is a non-profit 501(c)(3) corporation that advocates for affordable housing which includes both rentals and home sales units throughout the state. SB2109 if enacted would allow rental eligible low-income housing developers to trade their 9% State Low-Income Housing Tax Credits for a loan that would be discounted to reflect the present day tax credit amount.

We believe that this measure will do two things; first, stimulate the creating of construction jobs, and two, further the development of affordable housing in Hawaii.

We strongly encourage the committee to pass SB2577, for further consideration by the Committee on Ways and Means.

Respectfully,
George Massengale, J.D.
Member, Board of Directors

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SUBJECT: INCOME, Low-income housing credit loan program

BILL NUMBER: SB 2577

INTRODUCED BY: Sakamoto and 1 Democrat

BRIEF SUMMARY: Amends HRS section 235-110.8 to provide that a qualified low-income building that has been awarded a subaward under section 1602 of the American Recovery and Reinvestment Act (ARRA) of 2009, (Public Law 111-5), shall also be eligible for the low-income housing credit in the amount of 50% of the amount of the federal low-income housing tax credit that would have been allocated to the qualified low-income building pursuant to IRC section 42(b).

In lieu of the low-income housing tax credit, the owner of a qualified low-income building that has been awarded federal credits under IRC section 42(h)(3)(C) or a subaward under section 1602 of the ARRA, may request a loan under HRS section 201H, and shall not be eligible for the low-income housing tax credit.

Adds a new section to HRS chapter 201H to allow the HHFDC to provide a no-interest, low-income housing tax credit loan to an owner of a qualified low-income building that has been awarded federal tax credits that are subject to the state housing tax credit ceiling under IRC section 42(h)(3)(C) or a subaward under section 1602 of the ARRA. The loan shall be equal to ___% of the cash value of the amount of the low-income housing tax credit for each taxable year in the 10-year credit period discounted to present day value and capitalized at the rate of interest on the taxable general obligation bonds used to fund the loan. Allows the HHFDC to impose conditions or restrictions on the low-housing tax credit loans.

Authorizes the director of finance to issue general obligation bonds in the sum of \$_____ for fiscal 2011 for the purpose of low-income housing tax credit loans. The appropriation made for the low-income housing tax credit loans shall not lapse at the end of the fiscal year for which the appropriation is made; provided that all moneys from the appropriation unencumbered as of June 30, 2012 shall lapse as of that date.

EFFECTIVE DATE: July 1, 1010

STAFF COMMENTS: Under section 1602 of the American Recovery and Reinvestment Tax Act of 2009 (ARRA)(P.L. 111-5), state housing credit agencies are eligible to receive section 1602 grants for low-income housing projects in lieu of low-income housing credits under IRC section 42 for 2009. Under Section 1602, state housing finance agencies may apply to the U. S. Treasury for an exchange of returned or unused FY 2007 and 2008 tax credits, as well as 40% of each state's housing finance agency's 2009 tax credit ceiling and these funds may be subawarded by a housing finance agency to properties eligible for a tax credit but that have been unsuccessful in finding investors. Section 1602 funds must be spent on project costs by December 31, 2010.

While the federal low-income housing tax credit was monetized, that is cash grants are being given out for the volume capped 9% credits, this measure proposes to provide a low-interest loan equal to an unspecified percentage of the cash value of the state credit. The move at the federal level to monetize this credit was spurred by the freeze of the credit markets and the lack of investors interested in buying the low-income housing tax credit. At the state level, interest in the state counterpart of the low-income housing tax credit waned when other more generous credits, like the high technology investment credits, became available. Thus, this measure attempts to provide a state subsidy in the form of a loan program equal to an unspecified amount of the cash value of the credits.

Unfortunately, based on the proposal to renovate the state's largest housing project, Kuhio Park Terrace, most of the state's volume capped low-income housing tax credits will be utilized by that project for the next eight to ten years. Thus, many of the smaller developers of low-income housing in the state who relied on those credits to make the numbers pencil out for their projects will basically be out of business for the next ten years. Thus, the loans proposed by this measure will go toward the renovation of Kuhio Park Terrace rather than developing privately held affordable housing.

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

Finally, it should be noted that while it has been difficult to sell the state tax credits because of the freeze in the credit markets, the state low-income housing tax credits are also being by-passed because they must now compete with more generous credits such as the credit for investment in qualified high technology businesses. Thus, the incentive for affordable housing is being thwarted by those other generous credits.

Digested 2/9/10