

TESTIMONY BY KALBERT K. YOUNG  
INTERIM DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE SENATE COMMITTEE ON WATER, LAND, AND HOUSING  
ON  
SENATE BILL NO. 1240

February 15, 2011

RELATING TO LOW INCOME HOUSING TAX CREDITS

Senate Bill No. 1240 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 general obligation bonds to fund the loans.

The Department has a technical comment on this bill.

As the bond proceeds will be used for private purposes, please be advised that taxable general obligation bonds with interest rates higher than those of tax-exempt general obligation bonds will need to be issued to fund the low-income housing tax credit loans.

Thank you for the opportunity to provide our testimony on this bill.

NEIL ABERCROMBIE  
GOVERNOR

BRIAN SCHATZ  
LT. GOVERNOR



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## SENATE COMMITTEE ON WATER, LAND & HOUSING

### TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING SB 1240 RELATING TO LOW-INCOME HOUSING TAX CREDITS

\*\*\*WRITTEN TESTIMONY ONLY\*\*\*

**TESTIFIER:** FREDERICK D. PABLO, INTERIM DIRECTOR OF  
TAXATION (OR DESIGNEE)  
**COMMITTEE:** WLH  
**DATE:** FEBRUARY 15, 2011  
**TIME:** 1:15PM  
**POSITION:** DEFER TO HHFDC

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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.

This legislation is not projected to impact general fund revenues because the grant program is in lieu of tax credits that would have otherwise been claimed.

NEIL ABERCROMBIE  
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  
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IN REPLY REFER TO:

Statement of  
**Karen Seddon**  
Hawaii Housing Finance and Development Corporation  
Before the

**SENATE COMMITTEE ON WATER, LAND AND HOUSING**

February 15, 2011 at 1:15 p.m.  
Room 225, State Capitol

In consideration of  
**S.B. 1240 RELATING TO LOW-INCOME HOUSING TAX CREDITS.**

The HHFDC **strongly supports** S.B. 1240, which is part of the Administration's legislative package. S.B. 1240 furthers the Administrations' A New Day in Hawaii comprehensive plan by improving the efficiency of a key financing program for development, construction, or substantial rehabilitation of affordable rental housing for Hawaii's workforce earning 60 percent or less of the area median income.

The Low-Income Housing Tax Credit (LIHTC) program is a major financing tool to construct or rehabilitate affordable **rental housing** affordable to families at or below 60 percent of the area median income in public-private partnership with private for-profit and non-profit housing developers. Under the program, HHFDC awards federal and state tax credits that may be used to obtain a dollar-for-dollar offset (tax credit) in income tax liability for 10 years or may be syndicated to generate substantial project equity. There are two types of federal tax credits: 1) 9% competitive tax credits, which are applied against the State of Hawaii's annual LIHTC allocation and 2) 4% non-competitive, which are awarded with tax-exempt bond financing. Approximately \$2.719 million in federal and \$1.359 million in state tax credits may be awarded each year.

Many LIHTC projects have been stalled during the recession due to the lack of available private investors who are willing to purchase these tax credits, or due to the fact that the equity generated by the sale of state tax credits is insufficient to fund project development.

The tax credit exchange program proposed in this bill would allow eligible affordable rental housing developers to trade in competitive, State volume cap LIHTCs for a loan. The loan amount would be equivalent to 70 percent of the State LIHTC award over the ten year period. The exchange of the State LIHTC could provide nearly three times more equity for the development or rehabilitation of affordable rental housing projects compared to the existing credit program.

The State LIHTC loan mechanism proposed in this bill mirrors the Section 1602 provisions in the American Recovery and Reinvestment Act of 2009, which assists projects receiving competitive Federal volume cap LIHTCs. As the State of Hawaii's LIHTC issuing agency, HHFDC supports the creation of a loan option for the State Credit to provide affordable housing developers with sufficient equity to finance construction of much-needed rental projects.

Thank you for the opportunity to testify.



DEPARTMENT OF COMMUNITY SERVICES  
CITY AND COUNTY OF HONOLULU

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PETER B. CARLISLE  
MAYOR

SAMUEL E. H. MOKU  
ACTING DIRECTOR

BRIDGET HOLTHUS  
DEPUTY DIRECTOR

Testimony of the Department of Community Services

**MEASURE:**

**SB 1240,** Relating to LOW-INCOME HOUSING TAX CREDITS.

**COMMITTEE(S):**

SENATE COMMITTEE ON WATER, LAND, AND HOUSING

**HEARING DATE:** Tuesday, February 15, 2011      **TIME:** 1:15 p.m.

**LOCATION:** State Capitol, Room 225      **COMMITTEE REQUESTS 1 COPIES**

**TESTIFIER(S):** Samuel E.H. Moku, Acting Director  
(Written testimony only. For more information, call  
Keith Ishida, Community Based Development Division, at 768-7750.)

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Chair Dela Cruz and Members of the Committee:

The Department of Community Services strongly **supports** Senate Bill 1240.

This bill 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.

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 state of 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 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.

We respectfully ask that this **bill be passed.**

February 14, 2011

**The Honorable Donovan M. Dela Cruz, Chair**  
Senate Committee on Water, Land and Housing  
State Capitol, Room 225  
Honolulu, Hawaii 96813

**RE: S.B. 1240, Relating to Low-Income Housing Tax Credits**

**HEARING: Tuesday, February 15, 2011 at 1:15 p.m.**

Aloha Chair Dela Cruz, Vice Chair Solomon, and Committee Members:

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 8,500 members in Hawai'i. HAR **supports** S.B. 1240, Relating to Low-Income Housing Tax Credits, which establishes a program for granting low-income housing tax credit loans in lieu of low-income housing tax credits to be administered by the Hawaii Housing Finance and Development Corporation.

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. The intent of S.B. 1240 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. 1240 should use taxable general obligation bond proceeds in an amount equal to 70% 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.



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HAR believes that S.B. 1240 is or can be made to be budget neutral. S.B. 1240 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.

Mahalo for the opportunity to testify.

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February 15, 2011

Senator Donovan Dela Cruz, Chair and Senator Malama Solomon, Vice Chair  
Committee on Water Land and Housing

**Support of SB 1240, Relating to the Low-Income Housing Tax Credits  
(Low-income housing tax credit loans in lieu of low income housing tax credits  
administered by HHFDC)**

**Tuesday, February 15, 2011 at 1:15 p.m. in CR 225**

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 **strongly supports SB 1240**, which will establish a program for granting state low-income housing tax credit (LIHTC) loans in lieu of state low-income housing tax credit allocations. This proposed program is an important step that will help our local economy by using existing resources more effectively and allowing many stalled affordable housing projects to commence construction.

**SB 1240.** The purpose and intent of this measure, which applies to qualified low-income buildings placed in service after December 31, 2011, is to establish a program for granting no-interest loans in lieu of certain state low-income housing tax credits to developers of affordable rental housing who qualify for those tax credits; and to authorize the Hawaii Housing Finance and Development Corporation (HHFDC) to issue general obligation bonds to fund the no-interest loans. Providing for the exchange of state low-income housing tax credits for loan funds is for a public purpose to promote and stimulate the development and rehabilitation of much-needed affordable rental housing in Hawaii.

**LURF's Position.** LURF **supports SB 1240** because it provides much needed flexibility to stimulate the development and construction of stalled affordable rental housing projects.

The State has a great need for affordable rental housing, as evidenced by the Hawaii Housing Policy Study, 2006 update, which projected a need of approximately 17,400 affordable rental housing units by 2015.

Over the years, the State Low-income Housing Tax Credit Program, established pursuant to section 235-110.8, Hawaii Revised Statutes, has been a valuable financing tool to promote the development or substantial rehabilitation of affordable rental housing.



Presently, however, there is little demand for state low-income housing tax credits, thereby stalling the development and rehabilitation of affordable rental housing projects due to lack of project equity. Under these current circumstances, the State Low-income Housing Tax Credit Program is not able to create or preserve low-income rental housing as intended.

SB 1240 proposes no-interest loans as a new alternative to the state housing tax credits program. The issuance of general obligation bonds to fund the no-interest loans to developers will provide a more efficient financing tool to develop affordable rental housing. Additionally, forgiveness of the loan after thirty years as an affordable rental housing project will provide a great incentive for the development and substantial rehabilitation of low-income rental housing.

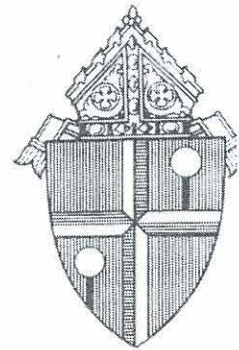
Legislative changes, like SB 1240 are needed to assist with increasing the supply of affordable rental housing. Based on the above, LURF respectfully requests the **SB 1240 be favorably considered and approved by your Committee.**

Thank you for the opportunity to express our strong support for SB 1240.

# ROMAN CATHOLIC CHURCH IN THE STATE OF HAWAII

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St. Stephen's Diocesan Center of the Roman Catholic Diocese of Honolulu  
6301 Pali Highway, Kaneohe, HI 96744 • Phone: (808) 203-6718



Testimony of Kent Anderson  
February 15, 2011, 1:15pm; Conference Room 225  
Support for SB 1240

Good Afternoon Committee Chair Donovan M. Dela Cruz, Vice-Chair Malama Solomon and members of Committee on Water, Land, and Housing. Thank you for the opportunity to testify on behalf of **SB 1240.**

My name is Kent Anderson, and I am here on behalf of the Diocese of Honolulu. I serve as the newly appointed Housing Development Director for the Office of Affordable Housing for the Diocese. We are your partners and among your strongest supporters in providing supportive services and permanent housing opportunities for those at the lowest levels of income who are either homeless or dangerously close to becoming homeless. We have and will continue to be your partners because we know that the government cannot and should not be the sole caretaker for our whole community.

Homelessness will impact over 15,000 of our neighbors this year statewide. Many of the victims will be keiki and kupuna. Many working families are unable to make ends meet since we experience the highest housing costs in the country. According to HUD statistics, fair market rent for a two-bedroom apartment is \$1,610. In order to afford this level of rent without paying more than 30% of income on housing, an employee must earn \$30.96/hr. Unfortunately, the average renter only earns \$12.89/hr in Hawaii. At this wage, two full time jobs are not sufficient to sustainably support a family. For minimum wage earners, the outlook is heartbreaking. A minimum wage earner would need to work 171 hours/week to support a family of four without any time off for sickness or vacation. An individual who could achieve this workload would be miraculous, especially since there are only 168 hours in a week.

We understand that times are tough right now; therefore, we must step forward to assist those most in need. Affordable housing is a basic need for our entire Ohana. It helps provide the basis of a healthy workforce, healthy children, healthy kupuna, and healthy economy. We ask that you prioritize your legislation to ensure that homeless services and affordable housing are priorities during this legislative session. We appreciate and highly applaud your past efforts and look forward to partnering with you to provide a home for each member of our Ohana.

SB1240 would help create desperately needed affordable housing. The uncertainty of tax credit syndication greatly damages our affordable housing goals. Often, a project is unable to proceed if yields become unexpectedly low due to limited investor interest. By establishing a tax credit loan system, funding uncertainty will be reduced, thereby helping to facilitate the efficient development of affordable housing on each of our islands. Please help us create a stronger community. We urge your support for this essential bill.

Thank you again for this opportunity to testify. Please contact me at [kentanderson@rcchawaii.org](mailto:kentanderson@rcchawaii.org) or by phone at 808-203-6718 if we may be of assistance.





CATHOLIC CHARITIES HAWAII

**TESTIMONY IN SUPPORT OF SB 1240: Relating to Low- Income Housing Tax Credits**

TO: Senator Donovan M. Dela Cruz, Chair, Senator Malama Solomon, Vice Chair, and Members, Committee on Water, Land, and Housing

FROM: Betty Lou Larson, Legislative Liaison, Catholic Charities Hawaii

**Hearing: Tuesday, 2/15/11; 1:15 p.m.; CR 225**

Chair Dela Cruz, Vice Chair Solomon, and Members of the Committee on Water, Land, and Housing:

Thank you for the opportunity to testify on **SB 1240**. I am Betty Lou Larson, Legislative Liaison for housing and homelessness issues at Catholic Charities Hawaii. Catholic Charities Hawaii supports this bill.

This bill would provide for the exchange of the state tax credits for loan funds. Monetizing these tax credits may result in **more than double the amount of cash available for these housing projects when compared to the current system**. Catholic Charities Hawaii likes these “odds”—double the money to create housing in these tough economic times. We support this bill as it creates more flexibility in the use of these credits, yet is neutral as far as the state budget. Because the amounts available for the proposed loan program would be discounted, it does not have a budgetary impact to the State.

This bill would provide a creative way to utilize state low-income housing tax credits. This state program could be a very valuable tool to assist with financing the development or rehabilitation of affordable rental housing units. However, these tax credits compete with all other tax credits offered by the State. Even more important, with the current economic downturn, there has been little demand for the sale of these credits. Thus this valuable resource that projects had used to gain equity to make their projects pencil out, is not working. Projects have become stalled when they could not sell these state tax credits.

With our growing crisis in homelessness and the dire need for affordable rentals for many in our community, this bill creates another tool in the toolbox to create housing. We need every incentive possible to continue financing projects so that they are sustainable.

We urge you to **pass this bill**, as it will stimulate the development or rehabilitation of much needed affordable rental housing. Thank you for supporting this creative idea to gain additional funding for housing, without impacting on the State’s budget.

