

TESTIMONY BY KALBERT K. YOUNG
INTERIM DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEES ON HUMAN SERVICES AND
WATER, LAND, AND HOUSING
ON
SENATE BILL NO. 768

February 8, 2011

RELATING TO LOW INCOME HOUSING

Senate Bill No. 768 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



KAREN SEDDON
EXECUTIVE DIRECTOR

STATE OF HAWAII

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
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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
SENATE COMMITTEE ON HUMAN SERVICES

February 8, 2011 at 2:30 p.m.
Room 016, State Capitol

In consideration of

S.B. 768
RELATING TO LOW-INCOME HOUSING.

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

The HHFDC **supports** S.B. 768, which is similar in content to S.B. 1290, an Administration bill, and S.B. 695, which was previously heard by the Committee on Water, Land, and Housing. We defer to the Department of Taxation with respect to the fiscal impact of this bill.

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 volume cap allocation and 2) 4% non-competitive tax credits, which are awarded outside of the federal tax credit volume cap with tax-exempt bond financing, limited only by the bond cap allocated to housing. Approximately \$2.719 million in federal and \$1.359 million in 9 % state volume credit tax credits may be awarded each year.

Many LIHTC projects have been stalled during the recession due to the lack of available private investors with a need to purchase these tax credits, or due to the fact that the equity generated by the sale of state tax credits is not sufficient to fund project development.

The tax credit exchange program proposed in S.B. 768 would allow eligible affordable rental housing developers to trade in both the 9% competitive, State volume cap LIHTCs and 4% non-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 is similar to 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.



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February 7, 2011

The Honorable Suzanne Chun Oakland, Chair
Senate Committee on Human Services

The Honorable Donovan M. Dela Cruz, Chair
Senate Committee on Water, Land and Housing
State Capitol, Room 016
Honolulu, Hawaii 96813

RE: S.B. 768 Relating to Low-Income Housing

HEARING: Tuesday, February 8, 2011 at 2:30 p.m.

Aloha Chair Chun Oakland, Chair Dela Cruz 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. 768, Relating to Low-Income Housing, 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. 768 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. 768 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





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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. 768 is or can be made to be budget neutral. S.B. 768 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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