

NEIL ABERCROMBIE
GOVERNOR



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IN REPLY REFER TO:

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

HOUSE COMMITTEE ON FINANCE

March 30, 2011 at 11:00 a.m.
Room 308, State Capitol

In consideration of
S.B. 903, S.D. 1, H.D. 1 RELATING TO HOUSING.

HHFDC ***opposes S.B. 903, S.D. 1, H.D. 1.*** HHFDC already tracks rental projects that receive U.S. Department of Housing and Urban Development (HUD) and U.S. Department of Agriculture – Rural Development (USDA-RD) assistance.

HHFDC's current practice is to contact owners whose contracts are nearing expiration to make them aware of the financing and development tools that are available to assist in rehabilitating the projects and extending affordability. We also promote our financing and development tools to the housing industry to raise awareness. To date, we have assisted in preserving eleven HUD and USDA-RD rental projects with over 1,900 units as affordable rentals.

HHFDC also points out the following problems with the mechanics of the affordable rental housing development program proposed in Section 2 of this bill:

1. While HHFDC is able to contact and encourage owners of expiring HUD and USDA-RD projects to either extend or transfer their interests in such projects to nonprofit organizations, we cannot require private property owners to negotiate if they are not inclined to do so; and
2. HHFDC also cannot require private property owners to cede their ownership interests to any other person or entity, including nonprofit organizations without additional appropriated funds to cover the full market value of these projects.

Perpetual affordability requirements will hinder private sector participation in the preservation of HUD-assisted projects. Interviews with several local nonprofit housing developers, brought to light several concerns with requiring that assisted units be kept affordable in perpetuity:

1. The useful life of the property is the limiting factor. Requiring a property to remain affordable beyond its useful life is not reasonable;
2. Nonprofits pledge to keep their projects affordable over the long-term (typically 50 to 60 years). Restrictive land use covenants, including the agreed-upon term of affordability, are recorded and run with the land. Government cannot impose regulations that apply beyond the term of government assistance. There is no nexus between the benefit and the government regulation;
3. This requirement will stifle reinvestment in the project and preclude the option for redevelopment of the project site in the future. Even nonprofits in the business of providing affordable housing would like the option to sell a poorly performing project to reinvest in another rental project; and
4. This requirement is a disincentive to public/private partnerships to develop rental housing. Many private landowners prefer to sell land in leasehold rather than in fee simple. These landowners will not sell to affordable housing developers if this requirement were in place, because the affordability restriction permanently lowers their property value. This makes it more difficult to find private lands for affordable housing development.

Thank you for the opportunity to testify.



CATHOLIC CHARITIES HAWAII

TESTIMONY IN SUPPORT OF SB 903, SD1, HD1: Relating to Housing

TO: Representative Marcus Oshiro, Chair; Representative Marilyn Lee, Vice Chair, and Members, Committee on Finance

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

Hearing: Wednesday, 3/30/11; 11:00 a.m.; CR 308

Chair Oshiro, Vice Chair Lee, and Members of the Committee on Finance:

Thank you for the opportunity to provide written testimony on SB 903, which would preserve Housing and Urban Development (HUD) and US Department of Agriculture (USDA) housing projects in Hawaii. I am Betty Lou Larson, Legislative Liaison for housing issues. Catholic Charities Hawaii strongly supports this bill.

This is an important bill to act proactively to ensure that critical housing resources remain affordable. HUD and USDA projects are valuable resources since they offer rents at 30% of the residents' incomes. While these projects were all built with government funding, there is a time limit on how long the owners must keep the rents affordable. When the restrictions expire, the owners, many of whom are for-profit entities, can sell them at a profit or convert them to market rents. The Hawaii Housing Finance and Development Corporation (HHFDC) has already had to provide funds to preserve some of these affordable rental projects.

This bill would require HHFDC to identify the at-risk HUD and USDA projects and attempt to negotiate with the projects' owners to keep these projects affordable. The key to keeping the project affordable in perpetuity is to link the owners to non-profits whose mission is to provide affordable housing. If a non-profit purchases the rentals to preserve them, the State would no longer have to provide funds to buy these projects every 30 years, etc. when the affordability periods expire. Land costs in Hawaii will only increase over time. These valuable projects may be lost in the future if the State lacks the resources to purchase them again at higher costs, as owners make an economic decision to sell the projects or convert them to market rents.

Suggested Amendment for Section 201H- (d). line 6: We suggest extending the timeframe for projects with expiring affordability restrictions to **January 1, 2016.** Project owners need to be approached before they develop their own plans to sell or otherwise change the use of the project. By targeting projects whose affordability expires within 5 years, HHFDC has more lead time to work with owners to urge them to partner with non-profits and HHFDC to preserve these buildings in perpetuity.

Thank you for hearing this bill and for your support to find creative ways to preserve the availability of affordable rental housing.

