

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. 695

February 3, 2011

RELATING TO LOW INCOME HOUSING

Senate Bill No. 695 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, 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 695 RELATING TO LOW-INCOME HOUSING

TESTIFIER: FREDERICK D. PABLO, INTERIM DIRECTOR OF
 TAXATION (OR DESIGNEE)

COMMITTEE: WLH

DATE: FEBRUARY 3, 2011

TIME: 1:15PM

POSITION: DEFER TO HHFDC

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 3, 2011 at 1:15 p.m.
Room 225, State Capitol

In consideration of
S.B. 695 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. 695, which is similar in content to S.B. 1290, an Administration bill, but defers to the Department of Taxation with respect to the fiscal impact of this bill. **HHFDC also has proposed amendments, which are attached for the Committee's consideration.**

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, 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 not sufficient to fund project development.

The tax credit exchange program proposed in S.B. 695 would allow eligible affordable rental housing developers to trade in both competitive, State volume cap LIHTCs and non-competitive 4 percent credits for a loan, discounted to present day value of the total tax credit amount, and capitalized at the prevailing interest rate on taxable general obligation bonds.

The State LIHTC loan mechanism proposed in this bill mirrors the Section 1602 provisions in the American Recovery and Reinvestment Act of 2009, which are meant to assist projects receiving competitive Federal LIHTCs. As the State of Hawaii's LIHTC issuing agency, HHFDC supports the creation of an analogous 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.

S.B. NO. 695

Proposed S.D. 1

A BILL FOR AN ACT

RELATING TO LOW-INCOME HOUSING.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

- 1 SECTION 1. (a) The legislature finds that:
- 2 (1) The state has a great need for affordable rental
3 housing, as evidenced by the Hawaii housing policy
4 study, 2006 update, which found that approximately
5 17,400 affordable rental housing units are projected
6 to be needed by 2015;
- 7 (2) The state low-income housing tax credit program,
8 established in section 235-110.8, Hawaii Revised
9 Statutes, can be a valuable financing tool to promote
10 the development or substantial rehabilitation of
11 affordable rental housing;
- 12 (3) Under the state low-income housing tax credit program,
13 it is required that the owner of a qualified low-
14 income rental building set aside a minimum of: (a) 20
15 percent of units for tenants earning less than 50
16 percent of the area median income as determined by the
17 United States Department of Housing and Urban
18 Development; or (b) 40 percent of units for tenants

S.B. NO. 695

Proposed S.D. 1

1 earning less than 60 percent of the area median income
2 as determined by the United States Department of
3 Housing and Urban Development. In addition, the
4 minimum set asides described above must remain for at
5 least 30 years;

6 (4) The owner of a qualified low-income building who has
7 been issued applicable low-income housing tax credits
8 typically sells said tax credits to interested
9 investors. Under current market conditions, the value
10 of state low-income housing tax credits is
11 approximately 25 cents on the dollar, if the credits
12 can be sold at all. Said funds from the sale of the
13 low-income housing tax credits are then used to
14 finance the development or substantial rehabilitation
15 of a qualified low-income building;

16 (5) In these circumstances, for every dollar of state tax
17 revenue lost, only 25 cents actually goes towards the
18 development, construction or substantial
19 rehabilitation of affordable rental housing;

20 (6) When economic conditions exist in which there is
21 little demand for the sale of state low-income housing
22 tax credits, the development and rehabilitation of

S.B. NO. 695

Proposed S.D. 1

1 affordable rental housing projects stalls due to lack
2 of project equity. In these circumstances, the state
3 low-income housing tax credit program is not able to
4 create or preserve low-income rental housing as
5 intended.

6 (7) This situation could be remedied by enacting language
7 similar in effect to section 1602 of the American
8 Recovery and Reinvestment Act of 2009, P.L. 111-5,
9 which allows the exchange of Federal low-income
10 housing tax credits allocated to eligible affordable
11 rental housing projects for direct funds, so that
12 projects stalled because of the lack of willing
13 investors can be restarted;

14 (8) In lieu of allocating state low-income housing tax
15 credits to the affordable rental housing developers
16 under the Hawaii housing finance and development
17 corporation's competitive application process, general
18 obligation bonds can be issued to fund loans to the
19 developers;

20 (9) The amount of the proposed loans would be discounted
21 to reflect the present day value of state low-income
22 housing tax credits that are normally taken over a 10

S.B. NO. 695

Proposed S.D. 1

1 year period, capitalized at the rate of interest on
2 the general obligation bonds used to fund such loans,
3 and discount the amount by 70 per cent, which is the
4 utilization rate which the Department of Taxation has
5 determined for the total state low-income housing tax
6 credits that are allocated.

7 (10) Monetizing the state low-income housing tax credit
8 will be a more efficient financing tool because it may
9 more than double the amount of cash proceeds available
10 for affordable rental housing development under the
11 status quo. Forgiveness of the amount under the loan
12 after thirty years of compliance as an affordable
13 rental housing project would provide a great incentive
14 for the development and substantial rehabilitation of
15 low-income rental housing, thus benefitting the State;

16 (11) Legislation providing for the exchange of state low-
17 income housing tax credits for loan funds is for a
18 public purpose to promote and stimulate the
19 development and rehabilitation of much needed
20 affordable rental housing in Hawaii.

21 (b) It is therefore declared to be necessary and it is the
22 purpose of this bill to create a mechanism to provide

S.B. NO. 695

Proposed S.D. 1

1 alternative financing assistance to affordable rental housing
2 developments that are eligible for the state low-income housing
3 tax credit program.

4 SECTION 2. Chapter 201H, Hawaii Revised Statutes, is
5 amended by adding a new section to be appropriately designated
6 and to read as follows:

7 "§201H- Low-income housing tax credit loan. (a) The
8 corporation may provide a no-interest low-income housing tax
9 credit loan to an owner of a qualified low-income building that
10 has been awarded federal tax credits which are subject to the
11 state housing tax credit ceiling under section 42(h)(3)(C) of
12 the Internal Revenue Code, federal credits which are allocated
13 pursuant to section 42(h)(4) of the Internal Revenue Code, or a
14 subaward under section 1602 of the American Recovery and
15 Reinvestment Act of 2009, Public Law 111-5. The loan shall be
16 in an amount equal to seventy per cent of the cash value of the
17 amount of the low-income housing tax credit that would otherwise
18 have been claimable with respect to the qualified low-income
19 building under section 235-110.8, for each taxable year in the
20 ten-year credit period discounted to present day value and
21 capitalized at the rate of interest on the taxable general
22 obligation bonds used to fund the loan.

S.B. NO. 695

Proposed S.D. 1

1 (b) An owner that is provided a low-income housing tax
2 credit loan under this section shall not be eligible for the
3 state income tax credit under section 235-110.8.

4 (c) The corporation shall impose conditions or
5 restrictions on the low-income housing tax credit loan
6 including:

7 (1) A requirement providing for acceleration and repayment
8 on any no-interest loan under this section so as to
9 assure that the building with respect to which the
10 loan is made remains a qualified low-income building
11 under section 42 of the Internal Revenue Code or
12 section 1602 of the American Recovery and Reinvestment
13 Act of 2009, Public Law 111-5. Any such repayment
14 shall be payable to the housing finance revolving fund
15 and may be enforced by means of liens or such other
16 methods as the corporation deems appropriate;

17 (2) The same limitations on rent and income and use
18 restrictions as under an allocation of a housing
19 credit dollar amount allocated under section 42 of the
20 Internal Revenue Code; and

21 (3) The payment of reasonable fees for the corporation to
22 perform or cause to be performed asset management

S.B. NO. 695

Proposed S.D. 1

1 functions to ensure compliance with section 42 of the
2 Internal Revenue Code and the long-term viability of
3 buildings funded by any no-interest loan under this
4 section.

5 (d) The corporation shall perform asset management
6 functions to ensure compliance with section 42 of the Internal
7 Revenue Code or section 1602 of the American Recovery and
8 Reinvestment Act of 2009, Public Law 111-5, for the purpose of
9 sustaining the long-term viability of buildings funded by a no-
10 interest loan under this section.

11 (e) The corporation may collect reasonable fees from the
12 owner of a qualified low-income building to cover expenses
13 associated with the performance of its duties under this section
14 and may retain an agent or other private contractor to satisfy
15 the requirements of this section.

16 (f) If the owner is not in default, the corporation may
17 forgive the amount remaining under the no-interest loan to the
18 owner of the qualified low-income building after thirty years.

19 (g) For purposes of this section "qualified low-income
20 building" shall have the same meaning as used in section
21 42(c)(2) of the Internal Revenue Code."

S.B. NO. 695

Proposed S.D. 1

1 SECTION 3. Section 235-110.8, Hawaii Revised Statutes, is
2 amended to read as follows:

3 "§235-110.8 Low-income housing tax credit. (a) Section
4 42 (with respect to low-income housing credit) of the Internal
5 Revenue Code shall be operative for the purposes of this chapter
6 as provided in this section. A taxpayer owning a qualified low-
7 income building that has been awarded a subaward under section
8 1602 of the American Recovery and Reinvestment Act of 2009,
9 Public Law 111-5, shall also be eligible for the credit provided
10 in this section.

11 (b) Each taxpayer subject to the tax imposed by this
12 chapter, who has filed [+]a[+] net income tax return for a
13 taxable year may claim a low-income housing tax credit against
14 the taxpayer's net income tax liability. The amount of the
15 credit shall be deductible from the taxpayer's net income tax
16 liability, if any, imposed by this chapter for the taxable year
17 in which the credit is properly claimed on a timely basis. A
18 credit under this section may be claimed whether or not the
19 taxpayer claims a federal low-income housing tax credit pursuant
20 to section 42 of the Internal Revenue Code.

21 (c) The amount of the low-income housing tax credit that
22 may be claimed by a taxpayer as provided in subsection (b) shall

S.B. NO. 695

Proposed S.D. 1

1 be fifty per cent of the applicable percentage of the qualified
2 basis of each building located in Hawaii. The applicable
3 percentage shall be calculated as provided in section 42(b) of
4 the Internal Revenue Code.

5 (d) If a subaward under section 1602 of the American
6 Recovery and Reinvestment Act of 2009, Public Law 111-5, has
7 been issued for a qualified low-income building, the amount of
8 the low-income housing tax credit that may be claimed by a
9 taxpayer as provided in subsection (b) shall be equal to fifty
10 per cent of the amount of the federal low-income housing tax
11 credits that would have been allocated to the qualified low-
12 income building pursuant to section 42(b) of the Internal
13 Revenue Code by the Hawaii housing finance and development
14 corporation had a subaward not been awarded with respect to the
15 qualified low-income building.

16 [~~(d)~~] (e) For the purposes of this section, the
17 determination of:

- 18 (1) Qualified basis and qualified low-income building
19 shall be made under section 42(c);
- 20 (2) Eligible basis shall be made under section 42(d);
- 21 (3) Qualified low-income housing project shall be made
22 under section 42(g);

S.B. NO. 695

Proposed S.D. 1

1 (4) Recapture of credit shall be made under section 42(j),
2 except that the tax for the taxable year shall be
3 increased under section 42(j)(1) only with respect to
4 credits that were used to reduce state income taxes;

5 and

6 (5) Application of at-risk rules shall be made under
7 section 42(k);

8 of the Internal Revenue Code.

9 [~~(e)~~] (f) As provided in section 42(e), rehabilitation
10 expenditures shall be treated as a separate new building and
11 their treatment under this section shall be the same as in
12 section 42(e). The definitions and special rules relating to
13 credit period in section 42(f) and the definitions and special
14 rules in section 42(i) shall be operative for the purposes of
15 this section.

16 [~~(f)~~] (g) The state housing credit ceiling under section
17 42(h) shall be zero for the calendar year immediately following
18 the expiration of the federal low-income housing tax credit
19 program and for any calendar year thereafter, except for the
20 carryover of any credit ceiling amount for certain projects in
21 progress which, at the time of the federal expiration, meet the
22 requirements of section 42.

S.B. NO. 695

Proposed S.D. 1

1 [~~g~~] (h) The credit allowed under this section shall be
2 claimed against net income tax liability for the taxable year.
3 For the purpose of deducting this tax credit, net income tax
4 liability means net income tax liability reduced by all other
5 credits allowed the taxpayer under this chapter.

6 A tax credit under this section which exceeds the
7 taxpayer's income tax liability may be used as a credit against
8 the taxpayer's income tax liability in subsequent years until
9 exhausted. All claims for a tax credit under this section must
10 be filed on or before the end of the twelfth month following the
11 close of the taxable year for which the credit may be claimed.
12 Failure to properly and timely claim the credit shall constitute
13 a waiver of the right to claim the credit. A taxpayer may claim
14 a credit under this section only if the building or project is a
15 qualified low-income housing building or a qualified low-income
16 housing project under section 42 of the Internal Revenue Code.

17 Section 469 (with respect to passive activity losses and
18 credits limited) of the Internal Revenue Code shall be applied
19 in claiming the credit under this section.

20 (i) In lieu of the credit awarded under this section for a
21 qualified low-income building that has been awarded federal
22 credits which are subject to the state housing credit ceiling

S.B. NO. 695

Proposed S.D. 1

1 under section 42(h)(3)(C) of the Internal Revenue Code, federal
2 credits which are allocated pursuant to section 42(h)(4) of the
3 Internal Revenue Code, or a subaward under section 1602 of the
4 American Recovery and Reinvestment Act of 2009, Public Law 111-
5 5, the taxpayer owning the qualified low-income building may
6 make a request to the Hawaii housing finance and development
7 corporation for a loan under section 201H- . If the taxpayer
8 elects to receive the loan pursuant to section 201H- , the
9 taxpayer shall not be eligible for the credit under this
10 section.

11 [~~(h)~~] (j) The director of taxation may adopt any rules
12 under chapter 91 and forms necessary to carry out this section."

13 SECTION 4. The director of finance is authorized to issue
14 general obligation bonds in the sum of \$ or so much
15 thereof as may be necessary and the same sum or so much thereof
16 as may be necessary is appropriated for fiscal year 2011-2012
17 for the purpose of low-income housing tax credit loans made
18 pursuant to section 201H- , Hawaii Revised Statutes.

19 SECTION 5. The sum appropriated shall be expended by the
20 Hawaii housing finance and development corporation for the
21 purposes of this Act.

S.B. NO. 695

Proposed S.D. 1

1 SECTION 6. The appropriation made for the low-income
2 housing tax credit loans authorized by this Act shall not lapse
3 at the end of the fiscal biennium for which the appropriation is
4 made; provided that all moneys from the appropriation
5 unencumbered as of June 30, 2014, shall lapse as of that date.

6 SECTION 7. Statutory material to be repealed is bracketed
7 and stricken. New statutory material is underscored.

8 SECTION 8. This Act shall take effect on July 1, 2011, and
9 shall apply to qualified low-income buildings placed in service
10 after December 31, 2011.



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February 1, 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. 695 Relating to Low-Income Housing

HEARING: Thursday, February 3, 2011 at 1:15 p.m.

Aloha Chair Dela Cruz, Vice Chair Solomon 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 8,500 members in Hawai'i. HAR **supports** S.B. 734, 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. 695 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. 695 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. 695 is or can be made to be budget neutral. S.B. 695 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.

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TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Low-income housing credit loan program

BILL NUMBER: SB 695; HB 960 (Identical)

INTRODUCED BY: SB by Dela Cruz, Shimabukuro, and 5 Democrats; HB by Chang, Chong, Mizuno, Nakashima, Nishimoto, Souki, Tsuji 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 Hawaii Housing finance and development corporation (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 70% 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 2012 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, 2014 shall lapse as of that date.

EFFECTIVE DATE: July 1, 2011; applicable to qualified low-income building placed in service after December 31, 2010

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. While Section 1602 funds must have been spent on project costs by December 31, 2010, it is questionable whether this program will be extended.

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. Apparently, lawmakers believe that they can blunt this impact by providing the loans proposed in this measure. Unfortunately, they are just that, loans which must be repaid at sometime in the future unlike the credits which can be sold to investors in return for hard cash. This contortion is a result of the generous tax incentives handed out for other targeted business activities. Hopefully lawmakers won't make the same mistake in the future.



STANFORD CARR DEVELOPMENT, LLC

February 2, 2011

Senate Water, Land and Housing Committee
State Capitol, Hearing Conference Room 225
415 South Beretania Street
Honolulu, Hawaii 96813

RE: Testimony Supporting SB695: Relating To Low-Income Housing
Hearing date Thursday, February 3, 2011 at 1:15 P.M
via Capitol website: <http://www.capitol.hawaii.gov/emailtestimony/>

Dear Honorable Chair Senator Donovan M. Dela Cruz:

We are writing in **SUPPORT** of SB695 which establishes a program for granting low-income housing tax credit loans in lieu of low-income housing tax credit allocations by the Hawaii Housing Finance and Development Corporation. By exchanging the state tax credit allocation for a deferred payment loan, we are more effectively using our existing resources to create affordable units without placing any additional financial burden on the State of Hawaii. More importantly, this bill would create jobs in the local economy and directly increase overall affordable housing production levels and have a positive economic impact to our community.

The draft bill is inclusive of state tax credits allocated in conjunction with the Private Activity Bond program ("*federal credits which are allocated pursuant to Section 42(h)(4) of the Internal Revenue Code*") which may be interpreted as an open ended financing obligation. However, one must recognize that production of affordable units under this provision is practically capped by the amount of available soft subsidy (i.e. Rental Housing Trust Fund, CDBG/HOME, etc.). Without these subsidies, projects are financially unfeasible. Additional language could be incorporated into Section 3 of SB695 to limit the State's liability by placing an annual cap on the amount of general obligation bonds that may be issued to projects award tax credits under Section 42(h)(4) of the IRC.

We have enclosed an excerpt from the Building Industry Association of Hawaii's *The Local Impact of Home Building in Honolulu County, Hawaii* (prepared in conjunction with the National Association of Home Builders). It quantifies the financial and jobs impact that construction projects have on the local economy, a copy of the full report is available upon request.

Thank you for considering our testimony. Please feel free to contact Jesse Wu (808-547-2274) if you have any questions.

Sincerely,

Stanford S. Carr, President

Jesse Wu, Vice President | Special Projects

Impact of Building 146 Multifamily Units in Honolulu County, Hawaii

Summary

Total One-Year Impact: Sum of Phase I and Phase II:

Local Income	Local Business Owners' Income	Local Wages and Salaries	Local Taxes ¹	Local Jobs Supported
\$52,500,400	\$16,024,900	\$36,474,900	\$3,182,100	724

Phase I: Direct and Indirect Impact of Construction Activity:

Local Income	Business Owners' Income	Local Wages and Salaries	Local Taxes ¹	Local Jobs Supported
\$36,106,300	\$10,398,500	\$25,707,500	\$2,125,400	485

Phase II: Induced (Ripple) Effect of Spending the Income and Taxes from Phase I:

Local Income	Business Owners' Income	Local Wages and Salaries	Local Taxes ¹	Local Jobs Supported
\$16,394,100	\$5,626,400	\$10,767,400	\$1,056,700	239

Phase III: Ongoing, Annual Effect that Occurs When New Homes are Occupied:

Local Income	Local Business Owners' Income	Local Wages and Salaries	Local Taxes ¹	Local Jobs Supported
\$6,029,200	\$1,840,300	\$4,189,000	\$776,500	94

¹ The term local taxes is used as a shorthand for local government revenue from all sources: taxes, fees, fines, revenue from government-owned enterprises, etc.

**Impact of Building 146 Multifamily Units in Honolulu County, Hawaii
Phase I—Direct and Indirect Impact of Construction Activity
A. Local Income and Jobs by Industry**

Industry	Local Income	Local Business Owners' Income	Local Wages and Salaries	Wages & Salaries per Full-time Job	Number of Local Jobs Supported
Construction	\$24,397,400	\$6,292,600	\$18,104,800	\$54,000	334
Manufacturing	\$3,600	\$200	\$3,400	\$56,000	0
Transportation	\$53,600	\$7,200	\$46,400	\$47,000	1
Communications	\$367,700	\$112,300	\$255,400	\$82,000	3
Utilities	\$116,000	\$44,900	\$71,000	\$93,000	1
Wholesale and Retail Trade	\$3,581,000	\$655,600	\$2,925,300	\$40,000	73
Finance and Insurance	\$814,400	\$66,700	\$747,700	\$91,000	8
Real Estate	\$2,053,200	\$1,807,500	\$245,700	\$57,000	4
Personal & Repair Services	\$250,100	\$94,400	\$155,700	\$36,000	4
Services to Dwellings / Buildings	\$146,800	\$29,200	\$117,600	\$36,000	3
Business & Professional Services	\$3,474,200	\$1,037,400	\$2,436,700	\$63,000	38
Eating and Drinking Places	\$119,900	\$16,100	\$103,800	\$22,000	5
Automobile Repair & Service	\$118,200	\$36,700	\$81,500	\$36,000	2
Entertainment Services	\$20,700	\$4,200	\$16,400	\$49,000	0
Health, Educ. & Social Services	\$4,600	\$1,200	\$3,400	\$42,000	0
Local Government	\$52,800	\$0	\$52,800	\$59,000	1
Other	\$532,100	\$192,300	\$339,900	\$49,000	7
Total	\$36,106,300	\$10,398,500	\$25,707,500	\$53,000	485

B. Local Government General Revenue by Type

TAXES:		USER FEES & CHARGES:	
Business Property Taxes	\$90,000	Residential Permit / Impact Fees	\$1,437,700
Residential Property Taxes	\$0	Utilities & Other Govt. Enterprises	\$335,400
General Sales Taxes	\$124,900	Hospital Charges	\$0
Specific Excise Taxes	\$30,000	Transportation Charges	\$3,000
Income Taxes	\$0	Education Charges	\$0
License Taxes	\$70,600	Other Fees and Charges	\$33,900
Other Taxes	\$0	TOTAL FEES & CHARGES	\$1,809,900
TOTAL TAXES	\$315,500	TOTAL GENERAL REVENUE	\$2,125,400

**Impact of Building 146 Multifamily Units in Honolulu County, Hawaii
Phase II—Induced Effect of Spending Income and Tax Revenue from Phase I
A. Local Income and Jobs by Industry**

Industry	Local Income	Local Business Owners' Income	Local Wages and Salaries	Wages & Salaries per Full-time Job	Number of Local Jobs Supported
Construction	\$775,600	\$303,200	\$472,300	\$54,000	9
Manufacturing	\$3,400	\$300	\$3,100	\$56,000	0
Transportation	\$49,800	\$6,800	\$43,000	\$44,000	1
Communications	\$1,002,300	\$343,800	\$658,500	\$81,000	8
Utilities	\$542,000	\$213,600	\$328,400	\$93,000	4
Wholesale and Retail Trade	\$2,860,500	\$538,800	\$2,321,700	\$36,000	65
Finance and Insurance	\$712,800	\$64,400	\$648,400	\$82,000	8
Real Estate	\$3,018,200	\$2,656,900	\$361,200	\$57,000	6
Personal & Repair Services	\$603,100	\$278,100	\$325,000	\$36,000	9
Services to Dwellings / Buildings	\$146,400	\$29,100	\$117,300	\$36,000	3
Business & Professional Services	\$1,482,200	\$444,800	\$1,037,400	\$57,000	18
Eating and Drinking Places	\$838,000	\$112,700	\$725,300	\$22,000	33
Automobile Repair & Service	\$412,900	\$125,800	\$287,100	\$36,000	8
Entertainment Services	\$196,600	\$54,200	\$142,400	\$41,000	4
Health, Educ. & Social Services	\$2,392,900	\$294,300	\$2,098,500	\$53,000	39
Local Government	\$906,600	\$0	\$906,600	\$56,000	16
Other	\$450,800	\$159,600	\$291,200	\$39,000	8
Total	\$16,394,100	\$5,626,400	\$10,767,400	\$45,000	239

B. Local Government General Revenue by Type

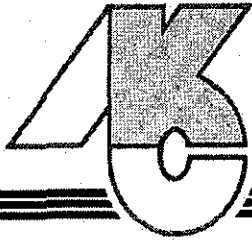
TAXES:		USER FEES & CHARGES:	
Business Property Taxes	\$306,500	Residential Permit / Impact Fees	\$0
Residential Property Taxes	\$0	Utilities & Other Govt. Enterprises	\$551,300
General Sales Taxes	\$0	Hospital Charges	\$0
Specific Excise Taxes	\$102,200	Transportation Charges	\$1,400
Income Taxes	\$0	Education Charges	\$0
License Taxes	\$69,200	Other Fees and Charges	\$26,000
Other Taxes	\$100	TOTAL FEES & CHARGES	\$578,700
TOTAL TAXES	\$478,000	TOTAL GENERAL REVENUE	\$1,056,700

**Impact of Building 146 Multifamily Units in Honolulu County, Hawaii
Phase III—Ongoing, Annual Effect That Occurs Because Units Are Occupied
A. Local Income and Jobs by Industry**

Industry	Local Income	Local Business Owners' Income	Local Wages and Salaries	Wages & Salaries per Full-time Job	Number of Local Jobs Supported
Construction	\$341,000	\$132,000	\$209,100	\$54,000	4
Manufacturing	\$1,400	\$100	\$1,300	\$56,000	0
Transportation	\$18,500	\$2,500	\$16,000	\$47,000	0
Communications	\$380,100	\$129,800	\$250,300	\$81,000	3
Utilities	\$238,600	\$93,800	\$144,800	\$93,000	2
Wholesale and Retail Trade	\$1,173,700	\$221,100	\$952,600	\$36,000	27
Finance and Insurance	\$378,200	\$34,300	\$343,800	\$81,000	4
Real Estate	\$691,300	\$608,600	\$82,700	\$57,000	1
Personal & Repair Services	\$190,100	\$88,100	\$101,900	\$36,000	3
Services to Dwellings / Buildings	\$63,200	\$12,600	\$50,600	\$36,000	1
Business & Professional Services	\$560,000	\$171,400	\$388,600	\$57,000	7
Eating and Drinking Places	\$345,500	\$46,500	\$299,100	\$22,000	14
Automobile Repair & Service	\$162,200	\$49,400	\$112,800	\$36,000	3
Entertainment Services	\$101,700	\$27,900	\$73,800	\$38,000	2
Health, Educ. & Social Services	\$881,100	\$112,000	\$769,200	\$52,000	15
Local Government	\$214,400	\$0	\$214,400	\$56,000	4
Other	\$288,200	\$110,200	\$178,000	\$38,000	5
Total	\$6,029,200	\$1,840,300	\$4,189,000	\$44,000	94

B. Local Government General Revenue by Type

TAXES:		USER FEES & CHARGES:	
Business Property Taxes	\$115,000	Residential Permit / Impact Fees	\$0
Residential Property Taxes	\$231,300	Utilities & Other Govt. Enterprises	\$355,900
General Sales Taxes	\$0	Hospital Charges	\$0
Specific Excise Taxes	\$38,300	Transportation Charges	\$500
Income Taxes	\$0	Education Charges	\$0
License Taxes	\$25,800	Other Fees and Charges	\$9,700
Other Taxes	\$0	TOTAL FEES & CHARGES	\$366,000
TOTAL TAXES	\$410,400	TOTAL GENERAL REVENUE	\$776,500



**ALBERT C.
KOBAYASHI, INC.
GENERAL CONTRACTORS**

Gentry Business Park • 94-535 Uke'e Street
Waipahu, Hawaii 96797 • Phone (808) 671-6460 • FAX 676-5832 • Lic. #ABC-07819

February 2, 2011

Honorable Chair Senator Donovan M. Dela Cruz
Senate Water, Land and Housing Committee
State Capitol, Hearing Conference Room 225
415 South Beretania Street
Honolulu, Hawaii 96813

Re: SB695 - Relating To Low-Income Housing
Hearing date Thursday, February 3, 2011 at 1:15 PM (Room 225)

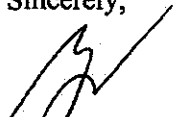
Dear Honorable Chair Senator Dela Cruz,

We are writing in SUPPORT of SB695 which establishes a program for granting low-income housing tax credit loans in lieu of low-income housing tax credit allocations by the Hawaii Housing Finance and Development Corporation. By exchanging the state tax credit allocations for a deferred payment loan, we understand that the program will more effectively use our existing resources to develop more affordable units while creating jobs in the local economy.

We are currently the site contractor at the Franciscan Vistas Ewa (Ewa Village) senior rental housing project. This project was principally financed using the Low Income Housing Tax Credit Program. Franciscan Vistas Ewa has been important to our company and, during the peak construction period, the project sustained approximately one hundred fifty 150 workers (including subcontractors) each day. While the project has supported our company during the recent downturn, projects like Franciscan Vistas Ewa will increase Hawaii's supply of affordable housing which is important to maintaining a balanced community.

Thank you for considering our testimony. Please feel free to contact me if you have any questions.

Sincerely,



Russell Young
President

Leonard K.P. Leong
Vice President

February 2, 2011

Honorable Chair Senator Donovan M. Dela Cruz
Senate Water, Land and Housing Committee
State Capitol, Hearing Conference Room 225
415 South Beretania Street
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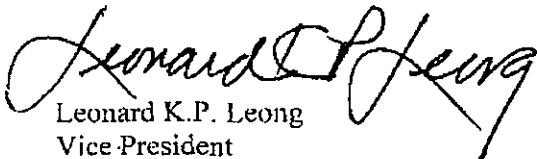
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Thank you for considering our testimony. Please feel free to contact me if you have any questions.

Sincerely,

ROYAL CONTRACTING CO., LTD.


Leonard K.P. Leong
Vice President