

SB2833

Measure Title:	RELATING TO THE LOW-INCOME HOUSING TAX CREDIT.
Report Title:	Low-Income Housing Tax Credits
Description:	Increases funding for affordable rental housing development by making the State Low-Income Housing Tax Credit more valuable. Reduces State Tax Credit period from ten to five years.
Companion:	HB2304
Package:	Governor
Current Referral:	HOU, WAM
Introducer(s):	KOUCHI (Introduced by request of another party)



EXECUTIVE CHAMBERS
HONOLULU

DAVID Y. IGE
GOVERNOR

February 2, 2016

TO: The Honorable Senator Breene Harimoto, Chair
Senate Committee on Housing

FROM: Scott Morishige, MSW, Governor's Coordinator on Homelessness

SUBJECT: **SB 2833 – RELATING TO THE LOW-INCOME HOUSING TAX CREDIT.**

Hearing: Tuesday, February 2, 2016, 2:45 p.m.
Conference Room 225, State Capitol

POSITION: The Governor's Coordinator on Homelessness supports this measure, which will provide for the development of additional affordable rental housing inventory.

PURPOSE: The purpose of this bill is to increase funding for affordable rental housing development by making the State Low-Income Housing Tax Credit (LIHTC) more valuable. The proposed measure would also reduce the State Tax Credit period from ten to five years.

The development of low-income affordable housing is necessary to address the issues of homelessness, and respond to the critical shortage of housing inventory in our community. Increasing the value of the State LIHTCs would generate more equity to finance the development of affordable rental housing projects.

This measure is also in alignment with Goal 2, Objective 4 of the Hawaii Interagency Council on Homelessness' Strategic Plan to End Homelessness, which is to "Create and preserve affordable housing for people at 50% and below of area median income."

Thank you for the opportunity to testify on this bill.



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: www.hawaii.gov/dbedt

Telephone: (808) 586-2355
Fax: (808) 586-2377

Statement of
LUIS P. SALAVERIA
Director
Department of Business, Economic Development and Tourism
before the

SENATE COMMITTEE ON HOUSING

Tuesday, February 2, 2016
at 2:45 p.m.
State Capitol, Room 225

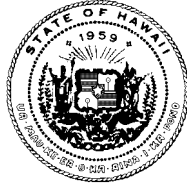
In consideration of
S.B. 2833
RELATING TO THE LOW-INCOME HOUSING TAX CREDIT.

Chair Harimoto, and Members of the Senate Committee on Housing.

DBEDT supports S.B. 2833, an Administration bill. S.B. 2833 would help to increase the supply of affordable rental housing for low-income households by making the State Low-Income Housing Tax Credit more efficient. Accelerating the period over which the credits may be claimed from 10 to 5 years will make them more attractive to investors, and, therefore, raise more equity to finance the development of the affordable rental projects to which the credits are issued.

Thank you for the opportunity to testify.

DAVID Y. IGE
GOVERNOR



RACHAEL WONG, DrPH
DIRECTOR

PANKAJ BHANOT
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
P. O. Box 339
Honolulu, Hawaii 96809-0339

February 2, 2016

TO: The Honorable Senator Breene Harimoto, Chair
Senate Committee on Housing

FROM: Rachael Wong, DrPH, Director

SUBJECT: **SB 2833 – RELATING TO THE LOW-INCOME HOUSING TAX CREDIT**

Hearing: Tuesday, February 2, 2016, 2:45 p.m.
Conference Room 225, State Capitol

DEPARTMENT'S POSITION: The Department of Human Services (DHS) is very supportive of this measure which provides for the development of additional affordable housing units in the State through the mechanism of Low-Income Housing tax credits.

PURPOSE: The purpose of the bill is to increase funding for affordable rental housing development by making the State Low-Income Housing Tax Credit more valuable. The proposed measure would also reduce the State Tax Credit period from ten to five years.

The DHS currently provides services to a wide population of Hawaii residents that need affordable housing in order to both avoid homelessness or to recover from homelessness. Affordable housing is a primary solution to homelessness, and as such, the Department supports the efforts made by the Department of Business Economic Development and Tourism to increase our community's inventory of affordable housing units.

Thank you for the opportunity to testify on this bill.

AN EQUAL OPPORTUNITY AGENCY



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
Craig K. Hirai
Hawaii Housing Finance and Development Corporation
Before the

SENATE COMMITTEE ON HOUSING

February 2, 2016 at 2:45 p.m.
State Capitol, Room 225

In consideration of
S.B. 2833
RELATING TO THE LOW-INCOME HOUSING TAX CREDIT.

The HHFDC supports S.B. 2833, an Administration bill. S.B. 2833 would improve the State Low-Income Housing Tax Credit (LIHTC) as a financing tool for the development and rehabilitation of affordable rental housing for households at or below 60 percent of the area median income as determined by the U.S. Department of Housing and Urban Development.

The State LIHTC is equal to 50 percent of the federal credit. LIHTCs are typically sold to qualified investors/partners to raise equity for the development of affordable rental projects. The credits are taken over a ten-year period. The federal LIHTCs currently generate at least 95 percent of their face value when sold to investors. However, because of the limited market for state credits, owner-developers are getting only approximately 50 cents on the dollar for the State LIHTCs.

Shortening the period over which State LIHTCs are taken from ten years to five years should make them more competitive and, therefore, would increase the present value of the credits when sold to investors. Increasing the value of the State LIHTCs would generate more equity to finance the development of affordable rental housing projects.

For these reasons, HHFDC respectfully requests that the Committee support this bill. Thank you for the opportunity to testify.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

JOSEPH K. KIM
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

To: The Honorable Breene Harimoto, Chair
and Members of the Senate Committee on Housing

Date: Tuesday, February 2, 2016

Time: 2:45 P.M.

Place: Conference Room 225, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 2833, Relating to the Low Income Housing Credit.

The Department of Taxation (Department) supports the intent of S.B. 2833, an Administration measure, and defers to the Hawaii Housing Finance and Development Corporation (HHFDC) on the merits of this bill.

S.B. 2833 increases funding for affordable rental housing development by making the State Low-Income Housing Tax Credit more valuable to investors by reducing the period over which the credit must be claimed by investors from ten to five years. The measure is effective on January 1, 2017 and applies to qualified low-income buildings awarded credits after December 31, 2016.

As currently drafted, this measure will not have a substantial administrative impact on the Department; the Department will be able to implement the changes by the effective date.

Thank you for the opportunity to provide comments.



February 1, 2016

From: George S. Massengale
To: Senator Committee on Housing
Subject: Hearing, Tuesday February 2, 2016, 2:45 PM
Conference Room 225, SB2833.

Testimony in Strong Support

Chair Harimoto, Vice Chair Galuteria and members of the Committee on Housing. I am here today on behalf of all seven of Habitat for Humanity affiliates in Hawaii, to testify in strong support for this measure. SB2833, if enacted would accelerate the development of affordable rental housing in throughout Hawaii.

Reducing the tax credit period makes the sale of the tax credits to a syndicator much more attractive for investors. In turn this increases the number of units that will be constructed by nonprofit developer.

On the other side to the equation, more affordable rental housing for families, will better position them to save money for emergency expenses, education, and of course the down payment for a home of their own.

Needless to say SB2833 is a very good bill that is a win-win for all. Investors win because that can recoup their investment sooner. The State wins, because they have taken a big step to increase affordable rental housing throughout Hawaii. Our workers win, as each new housing development will create jobs. And most important of all our families win. As they will not need pay market rental prices or live in substandard housing.

I would urge the Committee to vote to pass this measure onto Ways and Means.

Respectfully,

A handwritten signature in black ink, appearing to read "G. Massengale".

George S. Massengale
Community Outreach Manager

February 2, 2016

The Honorable Breene Harimoto, Chair

Senate Committee on Housing
State Capitol, Room 225
Honolulu, Hawaii 96813

RE: S.B. 2833, Relating to the Low-Income Housing Tax Credit

HEARING: Tuesday, February 2, 2016 at 2:45 p.m.

Aloha Chair Harimoto, Vice Chair Galuteria, and Members of the Committee:

I am Myoung Oh, Government Affairs Director, 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. HAR **supports** S.B. 2833 which increases funding for affordable rental housing development by making the State Low-Income Housing Tax Credit more valuable and reduces State Tax Credit period from ten to five years.

The State Low Income Housing Tax Credit (LIHTC) has been a valuable financing mechanism to generate the development or substantial rehabilitation of affordable rental housing. HAR believe this is one of the key incentives in encouraging developers to build affordable housing and rentals.

Under the program, HHFDC awards federal and state tax credits that may be used to obtain an offset in income tax liability for 10 years or may be syndicated to generate substantial project equity.

HAR believes S.B. 2833 will allow for a shorter recapture period for tax credits and to incentivize the development of affordable rental housing statewide.

Mahalo for the opportunity to testify.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Low-Income Housing Credit

BILL NUMBER: SB 2833; HB 2304 (Identical)

INTRODUCED BY: SB by Kouchi by request; HB by Souki by request

EXECUTIVE SUMMARY: Seeks to make the State low-income housing credit more valuable by reducing the payout period from ten to five years.

BRIEF SUMMARY: This measure is sponsored by DBEDT, and is designated BED-23 (16). It amends HRS section 235-110.8 to provide that for each low-income housing project placed in service beginning on January 1, 2017, pursuant to IRC section 42(b), the state housing credit shall be recovered over 5 years instead of 10.

EFFECTIVE DATE: January 1, 2017, and shall apply to qualified low-income buildings awarded credits after December 31, 2016.

STAFF COMMENTS: Act 216, SLH 1988, adopted for Hawaii purposes the federal low-income rental housing credit that was part of the Tax Reform Act of 1986. The credit was enacted to offset the repeal of tax shelters and other incentives to build rental housing under prior law, such as accelerated depreciation, capital gains preference, certain tax-exempt bonds, and to specifically target low-income rentals.

The federal credit is a 70% present value credit for qualified new construction and rehabilitation expenditures which are not federally subsidized, and 30% for those which are federally subsidized. The existing state credit allows for a credit of 50% of the “applicable percentage of the qualified basis” allowed under federal law taken over a period of 10 years, and the proposed measure would shorten the 10-year period to 5 years.

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