

SR65

Measure Title: URGING THE HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION TO WORK WITH HOUSING STAKEHOLDERS AND OTHER STATE AND COUNTY AGENCIES TO EVALUATE AND UPDATE THE RENTAL HOUSING REVOLVING FUND PROGRAM'S POLICIES AND PROCEDURES AND REINSTATE THE PREDEVELOPMENT LOAN PROGRAM.

Report Title: Hawaii Housing Finance and Development Corporation; Rental Housing Revolving Fund; Policies; Update

Description:

Companion:

Package: None

Current Referral: HOU, WAM

Introducer(s): ESPERO, Baker, S. Chang, Galuteria, Harimoto, Kim, Nishihara, Riviere, Shimabukuro, Wakai



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

SENATE COMMITTEE ON HOUSING

March 28, 2017 at 2:55 p.m.
State Capitol, Room 225

In consideration of

**S.C.R. 143/S.R. 65 URGING THE HAWAII HOUSING FINANCE AND
DEVELOPMENT CORPORATION TO WORK WITH HOUSING STAKEHOLDERS
AND OTHER STATE AND COUNTY AGENCIES TO EVALUATE AND UPDATE THE
RENTAL HOUSING REVOLVING FUND PROGRAM'S POLICIES AND
PROCEDURES AND REINSTATE THE PREDEVELOPMENT LOAN PROGRAM.**

HHFDC appreciates and *supports the intent* of SCR 143, and the opportunity to apprise the Committees of the steps which have been taken to improve the effectiveness of the Rental Housing Revolving Fund (RHRF).

The Office of the Governor collaborated with housing stakeholders to develop a housing strategy to address the overall major housing needs. The HHFDC Board consequently established a Loan Subcommittee to investigate and recommend policies and parameters for making loans from the RHRF. The Loan Subcommittee reviewed various factors, including the intent of the RHRF, program requirements, terms and status of existing loans, funding rounds, and anticipated funding gaps. Findings and recommendations, and additional information, are summarized below.

1. The RHRF is an effective financing tool for the development/preservation of affordable rental housing.
 - As of December 31, 2016, loans for 73 projects totaling approximately \$365 million were made to support 5,880 rental units.
 - As of February 28, 2017, the available RHRF cash balance is approximately \$2.6 million. With expected revenues from the conveyance tax and legislative appropriations for FY2016 and 2017, approximately \$125.5 million is projected to be available to make loans.

- Projected loan requests total approximately \$334 million. This includes approximately \$181.5 million in pending FY 2017 applications.
2. Financing awards must be expedited and balanced with the responsible stewardship of the RHRF.
 - Given the substantial need for affordable rental housing and faced with rising construction costs, RHRF funds should be deployed expeditiously to increase the rental housing supply.
 - The RHRF is classified as a Revolving Fund and must meet the statutory criteria for revolving funds which are set forth in §37-52.4, Hawaii Revised Statutes (HRS); such as, demonstrates the capacity to be financially self-sustaining. Moreover, HHFDC has a statutory obligation to underwrite loans to protect the RHRF from inordinate risk pursuant to §201H-202(h), HRS.
 - To safeguard the RHRF, HHFDC staff shall continue to (1) monitor loans for compliance and (2) underwrite loan requests that evidence repayment of principal and interest. However, understanding that the purpose of the RHRF is to provide equity gap financing for the development of affordable rental housing, the RHRF loan should continue to be a loan of last resort with favorable terms.
 3. Consider an abbreviated application for projects that were previously awarded RHRF but may require additional funding due to downward pricing of LIHTC or increases in interest rates.
 4. Increase annual funding rounds from 2 to 3, if funds are available.

The Consolidated Application was revised to make it easier to complete, reduce errors, and minimize the need for staff to go back-and-forth with developers to clarify proposals. By shaving time off the review and award process, an additional funding round could be held, subject to the availability of funds.

HHFDC will continue to evaluate and update, as necessary, its RHRF financing policies and procedures. We will continue to work with housing stakeholders including the Act 127, Special Action Team, non-profit and for-profit developers, and federal, state and county agencies.

Thank you for the opportunity to testify.