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December 10, 2018

The Honorable Ronald D. Kouchi,
President and Members
of the Senate
Thirtieth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

The Honorable Scott K. Saiki,
Speaker and Members of the
House of Representatives
Thirtieth State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear President Kouchi, Speaker Saiki, and Members of the Legislature:

For your information and consideration, I am transmitting a copy of the Special Action Team on Affordable Rental Housing Annual Report, as required by Act 127, Session Laws of Hawaii 2016. In accordance with Section 93-16, Hawaii Revised Statutes, I am also informing you that the reports may be viewed electronically at: <http://dbedt.hawaii.gov/overview/annual-reports-reports-to-the-legislature/>.

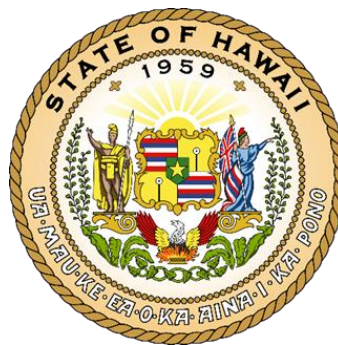
Sincerely,

Mary Alice Evans

Enclosure

c: Legislative Reference Bureau

Special Action Team on Affordable Rental Housing
Report to the Thirtieth Hawaii State Legislature
Regular Session of 2019



Prepared pursuant to Act 127, Session Laws of Hawaii 2016

OFFICE OF PLANNING
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM
STATE OF HAWAII

Honolulu, Hawaii
December 2018

Special Action Team Roster

OFFICE OF PLANNING (Chair)
Leo Asuncion, Director

HAWAII HOUSING FINANCE AND
DEVELOPMENT CORPORATION
Craig K. Hirai, Executive Director

HAWAII PUBLIC HOUSING AUTHORITY
Hakim Ouansafi, Executive Director

HAWAII COMMUNITY DEVELOPMENT
AUTHORITY
Aedward O. Los Banos, Executive Director

HAWAII COUNTY
Neil S. Gyotoku, Administrator
Office of Housing and Community Development

CITY AND COUNTY OF HONOLULU
Marc Alexander, Executive Director
Mayor's Office on Housing

MAUI COUNTY
Carol Reimann, Director
Department of Housing and Human Concerns

KAUAI COUNTY
Gary Mackler, Representative
Kauai County Housing Agency

STATE SENATE
The Honorable Will Espero, Chair Senate
Committee on Housing

STATE HOUSE OF REPRESENTATIVES
The Honorable Mark Hashem Member, House
Committee on Housing

AFFORDABLE HOUSING ADVOCACY
Rev. Bob Nakata
Faith Action for Community Equity

NON-PROFIT DEVELOPERS
Keith Kato, Executive Director
Hawaii Island Community Development
Corporation

FOR PROFIT DEVELOPERS
Stanford Carr, President
Stanford Carr Development, LLC

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I Introduction

This report describes the activities of the Special Action Team on Affordable Rental Housing (Special Action Team) and its accomplishments for calendar year 2018. The Special Action Team was established by Act 127 (Session Laws of Hawaii 2016), to recommend actions to increase the supply of rental housing, particularly affordable to low- and moderate-income families and is comprised of State agencies (the Office of Planning, Hawaii Housing Finance and Development Corporation, Hawaii Public Housing Authority, and Hawaii Community Development Authority), representatives from each of the Counties, the State Senate, State House of Representatives, nonprofit and for-profit housing developers, and affordable housing advocacy groups. This report fulfills the statutory requirement that the Special Action Team report its findings, recommendations, and progress with its ten-year plan identifying suitable lands for development to the Legislature no later than twenty days prior to the convening of the 2019 regular session.

1.1 Act 127, Session Laws of Hawaii (SLH) 2016

On June 29, 2016, Governor David Ige signed Act 127 into law. It established two major elements to address Hawaii’s dearth of affordable rental housing units. The first was a goal to develop or vest 22,500 affordable rental units statewide, for which all entitlements for construction were received on or after January 1, 2017, and the units ready for occupancy by December 31, 2026. The second was the establishment of the Special Action Team to recommend actions to increase the supply of rental housing to meet the 22,500-unit goal.

| Housing Demand by AMI, 2015-2025 | | |
|----------------------------------|---------------|------------------|
| AMI | Units | Percent of Total |
| Less than 80% | 43,828 | 68 |
| 80% to 140% | 13,669 | 21 |
| More than 140% | 7,196 | 11 |
| TOTAL | 64,693 | 100 |

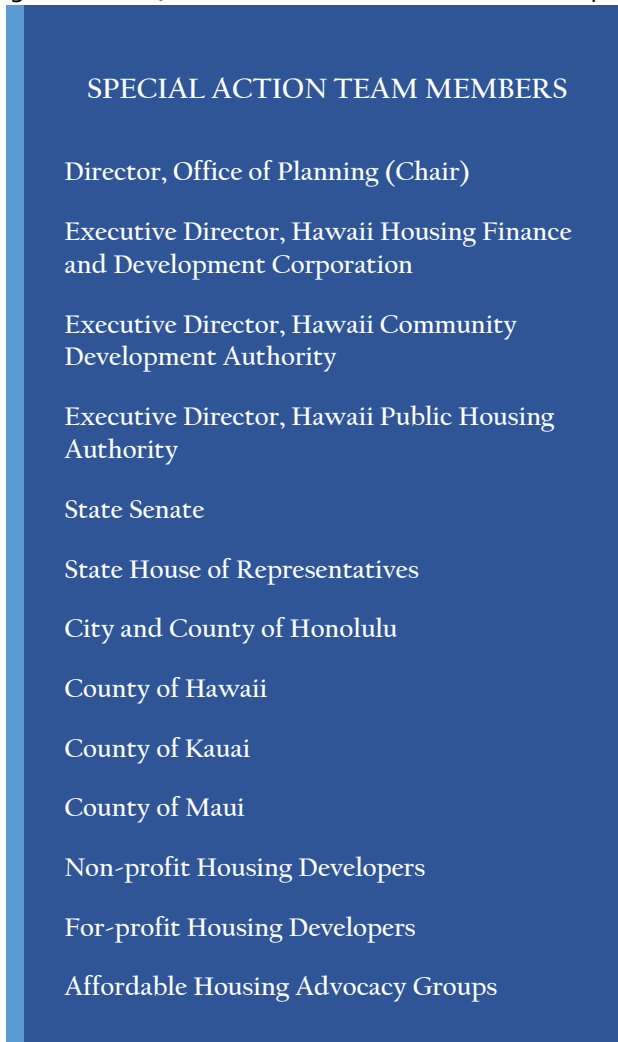
1.2 Purpose of Act 127 and the Special Action Team

Hawaii has had an affordable housing crisis for decades. With the enactment of Act 105 in 1970, the Legislature attempted to address the critical shortage of affordable housing for lower- and middle-income residents. Almost 50 years later, the Department of Business and Economic Development (DBEDT) report, *Measuring Housing Demand in Hawaii: 2015-2025* (DBEDT Housing Demand Report), anticipates that the need for new housing between 2015 and 2025 will approach 65,000 units. Act 127 recognized that the critical shortage of half a century ago is now a crisis, with virtually all the projected units

needed for lower- and middle-income families. In response, it established an affordable rental housing unit goal of 22,500 units affordable for families earning up to 140% of the Area Medium Income (AMI).

1.3 Special Action Team Members

The Special Action Team is comprised of 13 representatives from State and County government, the State Senate and House of Representatives, non-profit and for-profit



SPECIAL ACTION TEAM MEMBERS

- Director, Office of Planning (Chair)
- Executive Director, Hawaii Housing Finance and Development Corporation
- Executive Director, Hawaii Community Development Authority
- Executive Director, Hawaii Public Housing Authority
- State Senate
- State House of Representatives
- City and County of Honolulu
- County of Hawaii
- County of Kauai
- County of Maui
- Non-profit Housing Developers
- For-profit Housing Developers
- Affordable Housing Advocacy Groups

housing developers, and affordable housing advocacy groups. Act 127 designated 11 representatives: the Director of the Office of Planning (OP) to serve as Chair; the Executive Director of the Hawaii Housing Finance and Development Corporation (HHFDC); County representatives, appointed by the Mayor of each County; a representative from the State Senate, appointed by the Senate President; a representative from the State House of Representatives, appointed by the Speaker of the House; and three public members representing non-profit housing developers, for-profit housing developers, and affordable housing advocacy groups, appointed by the Governor. The Executive Directors of the Hawaii Community Development Authority (HCDA) and Hawaii Public Housing Authority

(HPHA) were added to the Special Action Team pursuant to Act 96 (SLH 2017), effective July 1, 2017. A representative from the Governor’s Office offers the perspective of the Governor’s Housing Stakeholders Group and reports on actions being undertaken by the administration that complements the work of the Special Action Team. Pursuant to Act 127, the Special Action Team will terminate on December 31, 2019; however, the Chair and members may represent themselves as the Chair or member after this date when testifying or commenting on actions or recommendations of the Special Action Team.

1.4 Duties of the Special Action Team

The principal responsibility of the Special Action Team was to recommend short- and long-term actions to achieve the goal established in the Act to develop 22,500 new units of rental housing affordable to low- and moderate-income families ready for occupancy by December 31, 2026. To accomplish this, Act 127 mandated that the Special Action Team:

- Develop a ten-year plan that identifies lands that are suitable for affordable housing units.
- Establish performance measures and timelines for the development of affordable rental housing units.

2 2018 Activities and Accomplishments

Other Special Action Team duties delineated in Act 127 and completed during calendar year 2018 are:

- Recommended that HHFDC serve as the agency to monitor and periodically report on the achievement of the performance measures and compliance with the timelines in this report, after the Special Action Team terminates on December 31, 2019.
- Periodically consulted with the Hawai'i Interagency Council on Homelessness (HICH) Team.
- Recommended actions to achieve the goal of 22,500 new statewide affordable rental units by December 31, 2016, as established in Act 127.
- Established performance measures and timelines for the development of affordable rental housing units for the increments of area median incomes listed in Act 127.
- Addressed and made recommendations to reconcile public interests that compete against and restrict development of rental housing.

The Special Action Team's activities during calendar year 2018 included the support of successful legislation to strengthen the financing and development of affordable rental housing, as shown below. Its predominant accomplishment during the year was the completion of its July 2018 *Affordable Rental Housing Report and Ten-Year Plan* (Ten-Year Plan), submitted to the Governor on July 27, 2018. The plan identifies State, County, and private lands suitable for affordable rental housing development; determines barriers to development and recommends actions to overcome those barriers; establishes annual goals for each County; inventories affordable rental units under development or recently completed and occupied in each County; and advances measurable actions for implementation to increase affordable rental housing. It is available at http://files.hawaii.gov/dbedt/op/spb/AffordableRentalHousingReport_10YearPlan.pdf.

2.1 2018 Legislation

The Special Action Team supported the passage of the below legislation, drafted by HHFDC for inclusion in the 2018 DBEDT legislative package, and signed into law by Governor David Ige.

- Act 65 (SLH 2018) makes housekeeping amendments to Act 159 (SLH 2017) to clarify that its provisions related to HHFDC financing or assistance do not apply to obligations extended by HHFDC prior to the effective date of Act 159.
- Act 39 (SLH 2018) increases the limits on development costs eligible for exemption from the general excise tax and clarifies eligibility to qualify for the exemption; prohibits discrimination against tenants based solely on receipt of Section 8 housing assistance; and appropriates \$200 million to the rental housing revolving fund (RHRF) and \$10 million to the dwelling unit revolving fund (DURF) in fiscal year 2017-2018.

- Act 150 (SLH 2018) appropriates \$250,000 of general funds for HHFDC to institute proceedings to condemn the ground lease for the Front Street Apartments affordable housing project, provided that the County of Maui provides matching funds. Further, it appropriates \$30 million RHRF funds to HHFDC for the expedited construction of the Leialii affordable housing project, to be completed by 2021.

The Special Action Team has discussed future legislation to make administrative amendments to include streamlined review by State agencies, including the Disability and Communications Access Board and State Historic Preservation Division; impact and dedication fee exemptions for affordable housing; increasing the amount of acreage triggering State Land Use Commission approval of District Boundary Amendments; expedited County permitting; apposite annual infusions of RHRF and DURF funding; and trial programs to evaluate the effectiveness of alternative funding sources, including community land trusts (CLT), land banks, and master leases. It also anticipates legislation proposing amendments to the Hawaii State Planning Act (Chapter 226, HRS), reflecting the incorporation of the Ten-Year Plan into the SHFP, as required by Act 127.

2.2 Ten-Year Plan

During the past year, the Special Action Team supplemented its identification in the Ten-Year Plan of the most suitable State, County, and private lands for affordable rental housing development by convening County planning teams to further evaluate the properties. Led by each County's representative on the Special Action Team, the planning teams analyzed factors including infrastructure availability and capacity, physical and environmental constraints, necessary entitlements, and proximity to public services. The Special Action Team's tables of each County's Tier 1 Public Lands are attached as Appendix D to the Ten-Year Plan. The County's Priority Projects are included within the Ten-Year Plan.

2.2.1 Tables of Tier 1 Public Lands

The Special Action Team collaborated with the Statewide GIS Program and individual County Housing and Planning Departments to develop maps identifying State, County, and private parcels sorted into three tiers of development suitability and readiness based on criteria including State Land Use District (SLUD), County zoning permitting residential development, proximity to infrastructure (e.g., water and sewer connections and system capacity, power, and roads) and potential environmental concerns—factors directly related to the cost and time of development. The map tiers were used to create tables ranking parcels based on development suitability. Exhibit B of the Ten-Year Plan, Tier Criteria and Scoring, details the scoring and ranking criteria used for each County. For purposes of the plan, only the tables of Tier 1 Public Lands, those most suitable for near-term development, are included in Appendix B of Ten-Year Plan.

2.2.2 County Priority Projects

The development of the tables of Tier 1 Public Lands was followed by a parcel analysis and assessment by County Planning Teams to develop short lists of parcels with the most potential to produce the greatest number of affordable rental units in the shortest amount of time. The teams found that, depending on the County and the methodology employed, limiting the assessments to Tier 1 properties did not necessarily result in identifying parcels with the greatest potential. Led by each County's representative on the Special Action Team, the planning teams looked at factors including infrastructure availability and capacity, physical and environmental constraints, necessary entitlements, and proximity to public services. This research allowed them to eliminate parcels listed on the Tier 1 tables that are not suitable for development, such as those encumbered with long-term leases or land cover (e.g., permanent buildings and bodies of water) making them unsuitable for development. Each planning team then developed its own criteria and methodology based on its familiarity with the topography, priorities, and potential development status of properties within their respective Counties. The efforts of the planning teams resulted in short lists of Priority Projects for each County with the most potential for developing the greatest amount of affordable rental units ready for occupancy by December 31, 2026.

The data represents the best possible outcome without regard to development obstacles that might occur during the planning and construction phases of a project.

2.2.3 Affordable Rental Housing Inventories

The County Priority Projects are included in the Affordable Rental Housing Inventories, attached as Appendix E of the Ten-Year Plan, that were initially populated by the affordable rental units listed in the Governor's August 2016 *State of Hawaii Housing Plan*, and then supplemented by Special Action Team members and research by OP. The Inventories capture proposed projects and the status of ongoing projects in each County, broken down by the AMI categories designated in the Act, to measure progress toward meeting the goal of 22,500 new affordable rental units by December 31, 2026. The Inventories are updated periodically based on information from Special Action Team members and sources researched regularly by OP, which maintains the Inventories. The County Priority Projects identified between 12,649 and 14,450 affordable rental units in their efforts towards meeting the Statewide production goal of 22,500 affordable rental units.

2.2.4 Baseline of Affordable Rental Units Under Development

As discussed in the Ten-Year Plan, approximately 185 affordable rental units are in the pipeline, based on information compiled on projects known to have been issued building permits after January 1, 2017 through the date of this report. Units that are ready for occupancy by December 31, 2026 will be counted toward Act 127's goal of 22,500 units.

3 Special Action Team Recommendations and Implementing Actions to Increase Affordable Rental Housing

The Special Action Team identified barriers to the development of affordable rental housing in five areas and made recommendations to address them in the Ten-Year Plan. Recommendations that are representative of the Special Action Team’s consensus follow.

3.1 Use of Public Lands

- Develop affordable rental rehabilitation projects, new construction, and high-density infill projects on public lands in proximity to transit-oriented development areas.
- Conduct trial programs using packaged RFPs to develop affordable housing on public lands and monitor their effectiveness in producing more units in a shorter amount of time than standard single-parcel, single-agency RFPs
- Explore the use of development and holding mechanisms, such as CLTs, land banks, and master leases, to preserve public lands under long-term leases or in perpetuity for affordable rental housing.

3.2 Infrastructure

- Monitor sea level rise modeling to determine when it will pose an infrastructure challenge related to groundwater.
- Coordinate with the TOD Council in the assessment of infrastructure requirements for State TOD projects.
- Leverage private, federal, state, and county funds for infrastructure capacity building in the urban core areas and areas identified for future growth, including improvement district (ID), community facility district (CFD) bonds.

3.3 Funding

- Increase developer interest in affordable rental projects by assuring a consistent source of funding. Encourage the Legislature to commit to an appropriation of \$100 million for the RHRF and \$10 million for the DURF, every year for the next ten years, beginning with FY 2018-2019.
- Participate in innovative financing mechanisms, including CLTs, Improvement Districts, Community Facilities Districts, federal grant programs, private grants and donations, and public land equity programs.
- Encourage the Counties to consider combining GET and real property tax exemptions for moderately- or substantially-rehabilitated privately-owned rental properties that are rented to low-income households.

3.4 Regulation and Permitting

- Encourage collaboration among HHFDC, housing stakeholders, and other state and county agencies to update RHRF program policies and procedures.
- Encourage all departments to consider the effect on the cost of construction of affordable housing when considering the amendment or implementation of new policies, such as building codes, impact and dedication fees, and other exactions.
- Analyze County housing policies, infrastructure availability, affordable housing requirements on new developments, and potentially burdensome regulatory and permitting requirements.

3.5 Preservation of Existing Housing Stock

- Support the coordination of HPHA's internal tracking system of federal funding contracts, compliance, and expiration with a statewide housing information system.
- Examine the impact of existing State statutes and County ordinances controlling the conversion of rental units into condominiums.
- Explore the cost effectiveness of acquisition and rehabilitation in comparison with new construction.

4 Goals for Affordable Rental Housing Unit Production by December 31, 2026

The SAT established the following housing unit production goals for each of the AMI target groups statewide.

| Targeted Area Median Group | Units |
|---------------------------------------|---------------|
| 30% or less AMI | 5,400 |
| More than 30% but less than 50% AMI | 4,350 |
| More than 30% but less than 50% AMI | 2,209 |
| More than 60% but less than 80% AMI | 3,289 |
| More than 80% but less than 100% AMI | 2,884 |
| More than 100% but less than 120% AMI | 1,870 |
| More than 120% but less than 140% AMI | 250 |
| TOTAL | 20,252 |

The total number of units to meet each County's goal are:

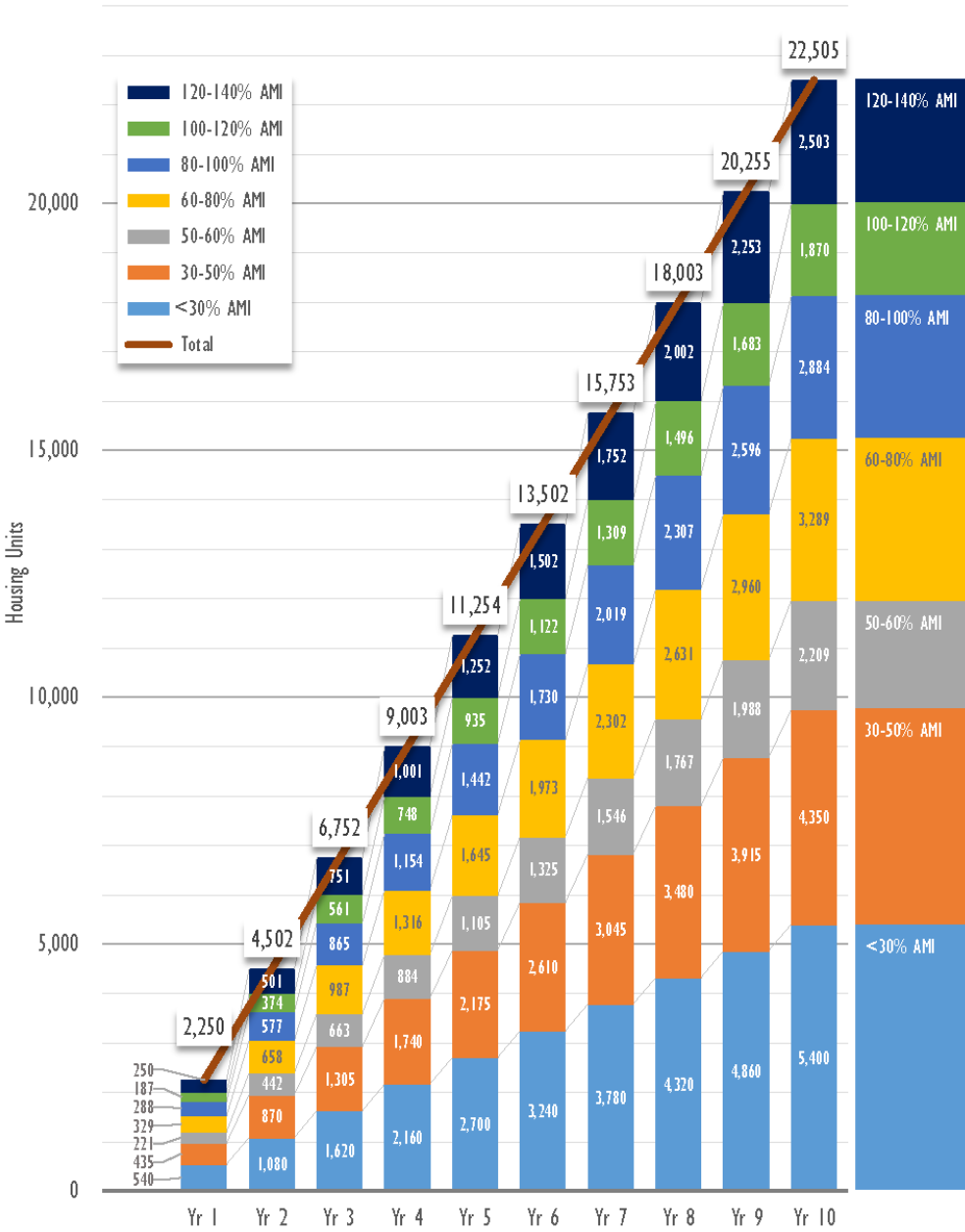
- 6,752 for Hawai'i County
- 9,002 units for the City and County of Honolulu
- 1,800 for Kaua'i County
- 4,951 for Maui County

A breakdown of the cumulative production goals by county and AMI through December 31, 2026 is shown in the below table.

| AMI | < 30% | 30% – 50% | 50% - 60% | 60% - 80% | 80% - 100% | 100% - 120% | 120% - 140% | Total |
|---------------------|-------|-----------|-----------|-----------|------------|-------------|-------------|--------|
| TOTAL UNITS | 5,400 | 4,350 | 2,210 | 3,290 | 2,884 | 1,870 | 2,503 | 22,505 |
| 40% Honolulu | 2,160 | 1,740 | 884 | 1,316 | 1,154 | 748 | 1,001 | 9,002 |
| 22% Maui | 1,188 | 957 | 486 | 724 | 634 | 411 | 551 | 4,951 |
| 30% Hawai'i | 1,620 | 1,305 | 663 | 987 | 865 | 561 | 751 | 6,752 |
| 8% Kaua'i | 432 | 348 | 177 | 263 | 231 | 150 | 200 | 1,800 |

The chart that follows illustrates the cumulative number of housing units over time that would be necessary to meet the affordable rental housing goal for each AMI target group established in Act 127. The chart distributes production evenly within each county over the 10-year period; thus, the numbers are not intended to be hard annual production targets.

Affordable Rental Housing Goals by Area Median Income
(Cumulative total units over 10 years)



The Ten-Year Plan includes descriptions of each County’s Priority Projects and provides a snapshot of progress made toward producing the affordable rental goal established in Act 127. The below table summarizes the progress by County to meet the statewide production goal of 22,500 affordable rental units.

| County | Acres | Priority Projects | |
|---------------|-------|-------------------|-----------|
| | | Min Units | Max Units |
| Honolulu | 117 | 242 | 247 |
| Maui | 409 | 10,414 | 12,937 |
| Hawai'i | 51 | 301 | 323 |
| Kaua'i | 339 | 1,692 | 943 |
| TOTALS | 916 | 12,649 | 14,450 |

5 Coordination with the Counties

The 2017 Legislature did not appropriate funding for the Special Action Team for FY2017-2018, so no Special Action Team meetings have been held since December 2017. In lieu of meetings during the year, OP used email and telephone conferences with members to finalize the Ten-Year Plan for submission to the Governor in July 2018. Since then, OP has continued monthly coordination with the Counties to supplement the Affordable Rental Housing Inventories based on each respective County’s approval process and parties involved, to discuss legislation being considered for introduction by the Counties in the 2019 session, and what the State can do to help the Counties to develop their Priority Projects.