

DAVID Y. IGE
GOVERNOR



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HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY

TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 1829, H.D. 1

February 24, 2022
12:30 P.M.
Via Videoconference

RELATING TO BONDS.

House Bill No. 1829, H.D. 1, which (1) specifies that for six years, the entire allocation of the state bond ceiling shall be allocated to the Hawaii Housing Finance and Development Corporation (HHFDC) to be used entirely for housing related projects; (2) requires HHFDC, in consultation with respective counties, to allocate specified percentage amounts for housing related projects in each county; (3) authorizes HHFDC to accumulate each county's annual allocation before assigning the allocation for housing related projects, pursuant to the discretion of HHFDC's Board of Directors; (4) authorizes HHFDC, with the approval of the governor, to assign and reassign HHFDC's allocation to the counties; (5) removes the authorization for the Department to request return of all or any part of the allocations of any of the counties and to assign and reassign the allocation to other counties or issuers; (6) removes authorization for counties or issuers to request additional allocations of the state bond ceiling; (7) changes the dates for reverted or remaining allocations and require certain reverted or remaining allocations to be used for housing related projects; and (8) specifies that the

Act shall not affect the allocations of the annual state bond ceiling under section 39B-2 Hawaii Revised Statutes, that were authorized, but not issued for any project before July 1, 2022.

The Department supports affordable housing. However, the Department opposes the following provisions of the bill:

1) The bill provides that the Act shall not affect allocations of the annual state bond ceiling under section 39B-2 Hawaii Revised Statutes that were authorized, but not issued for any project before July 1, 2022, however it is not clear as to how that can be accomplished as the bill requires that the entire annual state bond ceiling shall be allocated to HHFDC to be used for housing related projects. As of July 1, 2021, \$1,515,200,000 in non-housing Special Purpose Revenue Bonds (SPRB) were authorized and unissued. An authorization to issue a SPRB does not allocate the state bond ceiling (bond cap). The allocation of the annual state bond ceiling is made at the bond issuance, therefore none of the \$1,515,200,000 authorized and unissued SPRB has received an allocation. If the bill passes, the Department will not have any of the state bond ceiling to allocate for the closing of a SPRB. Furthermore, the bill does not allow for HHFDC to assign any part of the state bond ceiling to the Department and has removed the authorization for an issuer, such as the Department to request additional allocations of the state bond ceiling. The bill allows for HHFDC to assign all or any part of the allocation to any county for housing related projects. It does not allow for the assignment to another issuer such as the Department and specifically requires the state bond ceiling to be used for housing related projects which none of the SPRBs are for.

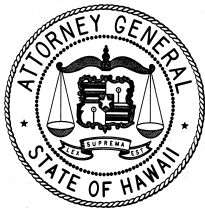
2) The bill takes away the flexibility of the State to utilize the state bond ceiling to issue SPRBs under 26 U.S. Code § 141 which include financing for industrial enterprises, manufacturing enterprises and utilities for the purpose of providing financing benefits for qualified projects of a private user. It is in the best interest of the State to have the option to utilize the state bond ceiling for SPRBs as allowed by the U.S. Code.

3) The bill also takes away the ability for the state bond ceiling to be utilized for the issuance of bonds under the single-family bond program and the exchange of the mortgage credit certificate program. Both programs are for first time homebuyers. The bill specifies that the annual state ceiling shall be used for housing related projects. Section 201H-1, Hawaii Revised States defines "Housing project" or "project" as (1) includes all real property and personal property, buildings and improvements, commercial spaces, lands for farming and gardening, and community facilities acquired or constructed or to be acquired or constructed , and all tangible or intangible assets held or used in connection with the housing project; and (2) may also be applied to the planning of the buildings and improvements, the acquisition of property by purchase, lease, or otherwise, the demolition of existing structures, the construction, reconstruction, alteration, and repair of the improvements, and all other work in connection therewith". The issuance of bonds under the single-family bond program and the exchange of state bond ceiling for the mortgage credit certificate program are not housing related projects.

4) There is a conflict of interest with HHFDC, a housing agency, controlling the entire state bond cap ceiling that can be utilized to issue not only housing bonds, but SPRBs for statewide needs such as industrial enterprises, manufacturing enterprises and utilities. HHFDC does not have the authority to issue these types of SPRBs, but will control the utilization of the state bond cap through the assignments of bond cap to the counties. Furthermore, the bill transfers the oversight and tracking of the use and carryforward of the entire state bond cap ceiling from the Department to HHFDC which further allows the housing agency to control the entire state bond cap ceiling.

In conclusion, this bill takes away the flexibility of the State and its ability to help ensure that state cap is not wasted. The Department notes that 96.8 percent, or \$2.964 billion out of \$3.063 billion, of allocations to issuers made by the State in the past 12 years have gone to HHFDC and have been used for housing related purposes. Additionally, HHFDC currently holds \$361,891,436 in 2020 and 2021 carryforward bond cap and has the ability to request 2022 bond cap if it is needed to issue a housing bond. In the past 12 years, HHFDC requested current year bond cap in 2 years in order to issue bonds for 3 out of 41 bond issuances prior to the carryforward assignment from the Department. The remaining 38 bond issuances were assigned carryforward bond cap from the prior years.

Thank you for the opportunity to submit this testimony.



**TESTIMONY OF
THE DEPARTMENT OF THE ATTORNEY GENERAL
THIRTY-FIRST LEGISLATURE, 2022**

ON THE FOLLOWING MEASURE:

H.B. NO. 1829, H.D. 1, RELATING TO BONDS.

BEFORE THE:

HOUSE COMMITTEE ON FINANCE

DATE: Thursday, February 24, 2022 **TIME:** 12:30 p.m.

LOCATION: State Capitol, Room 308, Via Videoconference

TESTIFIER(S): Holly T. Shikada, Attorney General, or
Randall S. Nishiyama, Deputy Attorney General

Chair Luke and Members of the Committee:

The Department of the Attorney General provides the following comments regarding this bill.

One of the purposes of this bill is to limit, for the period July 1, 2022, to December 31, 2028, the entire amount of the State's allocation of the private activity bond (PAB) cap to the Hawaii Housing Finance Development Corporation (HHFDC) to be used exclusively for housing related projects.

PABs are tax-exempt bonds issued by or on behalf of the State or local government for the purpose of providing financing benefits for qualified projects of a private user. 26 U.S.C. section 141. For example, such PABs may include financing for housing related projects, industrial enterprises, manufacturing enterprises, and utilities.

The PAB cap is "the principal amount of private activity bonds which may be issued in each calendar year by all issuers and counties in the State under the Internal Revenue Code of 1986, as the same may be amended." Section 39B-1, Hawaii Revised Statutes.

While section 5 of the bill, among other things, grandfathers in PABs that were authorized but unissued for any project before July 1, 2022, this provision does not address the statutory framework needed to issue such grandfathered PABs. For example, since this bill allocates the entire allocation of the State's PAB ceiling from July 1, 2022, to December 31, 2028, to HHFDC for housing related purposes, it is not clear how that would be done or who would make the allocation of the State's PAB ceiling

between a housing related project and a non-housing related project. Without the necessary statutory framework, grandfathered PABs that were authorized but unissued before July 1, 2022, cannot be issued.

Thank you for the opportunity to present this testimony.

DAVID Y. IGE
GOVERNOR



DENISE ISERI-MATSUBARA
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
FAX: (808) 587-0600

IN REPLY REFER TO:

Statement of
DENISE ISERI-MATSUBARA
Hawaii Housing Finance and Development Corporation
Before the

HOUSE COMMITTEE ON FINANCE

February 24, 2022 at 12:30 p.m.
State Capitol, Room 308

In consideration of
H.B. 1829 HD1
RELATING TO BONDS.

HHFDC **strongly supports** H.B. 1829 HD1 **with amendment**. This bill specifies that, for a six-year period, the entire allocation of the state's tax-exempt private activity bond ceiling (bond cap) be used for housing related projects. This bill is critical in order to continue financing affordable rental housing projects in the state and to leverage the 4% federal low-income housing tax credits (LIHTC). These would go unused if the bond ceiling were allocated towards non-housing uses.

The majority of rental housing projects in the state are financed by HHFDC's LIHTC program. HHFDC awards LIHTCs to developers to facilitate the construction and rehabilitation of affordable rentals. Under the Internal Revenue Code, the 4% LIHTCs must be used in conjunction with tax-exempt private activity bonds (PAB).

The PAB bond ceiling is set by the Federal government. This ceiling limited HHFDC's ability to make financing awards during last year's financing cycle. During that cycle, developers requested over half a billion dollars of PAB that would have financed nearly 2,700 units. However, due to the bond cap constraints, we were only able to award \$151 million of PAB for 750 units. The demand for PAB was so great that it exceeded the available bond cap by a ratio of 4 to 1.

Currently, HHFDC is only able to receive an allocation of bond cap after each county and the state determines there is unused bond cap at the end of the year or at the beginning of the following year.

The SD1 designates HHFDC as the recipient of the entire state portion of the bond ceiling, allowing HHFDC to work with the counties to allocate specified percentage amounts for housing related projects.

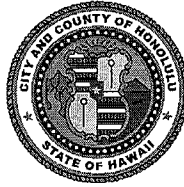
HHFDC suggests an **amendment** to lines 15-16 on page 6 of this bill to specify that unused or unassigned allocation revert to HHFDC to clarify which agency in the state this pertains.

Thank you for the opportunity to testify on this measure.

DEPARTMENT OF PLANNING AND PERMITTING
CITY AND COUNTY OF HONOLULU

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RICK BLANGIARDI
MAYOR



DEAN UCHIDA
DIRECTOR
DAWN TAKEUCHI APUNA
DEPUTY DIRECTOR
EUGENE H. TAKAHASHI
DEPUTY DIRECTOR

February 24, 2022

The Honorable Sylvia Luke, Chair
and Members of the Committee on Finance
Hawaii House of Representatives
Hawaii State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Chair Luke and Committee Members:

**Subject: House Bill No. 1829, HD 1
Relating to Bonds**

The Department of Planning and Permitting **strongly opposes** House Bill No. 1829, HD 1, which would, among other things, do the following:

- Allocate the entire allocation of the state bond ceiling to the Hawaii Housing Finance and Development Corporation (Corporation), rather than to the State, to be used for housing-related projects;
- Require the Corporation, in consultation with the respective counties, to allocate specified percentage amounts for housing-related projects in each county;
- Authorize the Corporation to accumulate each county's annual allocation before assigning the allocation, pursuant to the discretion of the Corporation's Board of Directors;
- Authorize the Corporation, rather than the Department of Budget and Finance, with the approval of the Governor, to assign and reassign the Corporation's allocation to the counties;

We strongly support the need to dedicate the State's bond allocation ceiling to qualified housing projects. However, removing the county's ability to plan for a fixed percentage of the allocation, as is currently allowed in the statutes, runs counter to the Blangiardi administration's effort to encourage developers to provide much-needed affordable housing.

The City's Private Activity Bond Administrative Rules were adopted on January 24, 2022. We are in the process of building capacity within the Department of Planning and

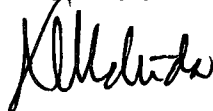
The Honorable Sylvia Luke, Chair
and Members of the Committee on Finance
Hawaii State House of Representatives
February 24, 2022
House Bill No. 1829, HD 1
Page 2

Permitting to analyze and process applications for projects eligible for Private Activity Bond allocation. Because we lack the capacity to process these applications, we allowed the State (HHFDC) to use our allocation for 2021. We anticipate being able to process applications well within the six-year restricted period stated in the HD 1 of this Bill, which, as drafted, would have a negative impact on the City's affordable housing program.

For these reasons, we ask that House Bill No. 1829, HD 1, be held in Committee.

Thank you for this opportunity to testify.

Very truly yours,

A handwritten signature in black ink, appearing to read "Dean Uchida".

Dean Uchida
Director

HIGHRIDGE COSTA DEVELOPMENT COMPANY

February 22, 2022

House of Representatives
The Thirty-First Legislature
Regular Session of 2022

Bill: House Bill 1829 HD1
Committee: Committee on Finance
Date of Hearing: February 24, 2022

Dear Chair Luke:

I am writing to **SUPPORT HB 1829.**

My name is Moe Mohanna and I am President of Highridge Costa Development Company ("HCDC"). HCDC is a national affordable housing developer and for the past decade we have been establishing roots in Hawaii. In Hawaii, we have just under 1,300 affordable rental units either in development, under construction or in operation in various communities on Oahu and Maui, including downtown Honolulu, Kapolei, Waipahu and Kihei. Over my career, I have worked closely with various state and local agencies in utilizing financing programs (tax credits, bonds, grants, etc.) and land use exemption programs that are needed to bring low- and moderate-income housing to communities.

HCDC supports HB 1829 because we believe it will significantly increase the amount of low- and moderate-income housing rental units that can be delivered to Hawaii's working families and seniors. Re-prioritizing the entire allocation of the state bond ceiling to HHFDC will mean that affordable housing projects will be ranked higher than other non-housing projects; housing will come first, instead of being treated as the leftovers.

Another important aspect to keep in mind is that when tax-exempt bond dollars are used on affordable housing projects, they often come with low-income housing tax credit allocations and Rental Housing Revolving Fund awards. This means that for every "bond dollar" that is spent, there is a 140-160% value on the dollar being delivered. No other type of private activity tax-exempt bond dollars can deliver this type of value. In a tight-budget economy, stretching the dollar is one of the smartest things this legislature can do.

Thank you for your time.

Sincerely,

Moe Mohanna

Moe Mohanna
President
Highridge Costa Development Company

HIGHRIDGE COSTA DEVELOPMENT COMPANY



CATHOLIC CHARITIES HAWAII

TESTIMONY IN SUPPORT OF HB 1829 HD1: RELATING TO BONDS

TO: Representative Sylvia Luke, Chair, Representative Kyle Yamashita, Vice Chair; and Members, Committee on Finance

FROM: Rob Van Tassell, President and CEO, Catholic Charities Hawaii

Hearing: **Thursday, 2/24/22; 12:30 PM; via videoconference**

Thank you for the opportunity to provide testimony in **Strong Support of HB 1829 HD1**, which specifies that the entire allocation of the state bond ceiling would go to the State be used for housing related projects. I am Rob Van Tassell, with Catholic Charities Hawaii.

Catholic Charities Hawaii (CCH) is a tax exempt, non-profit agency that has been providing social services in Hawaii for 75 years. CCH has programs serving elders, children, families, homeless, and immigrants. Our mission is to provide services and advocacy for the most vulnerable in Hawaii. Catholic Charities Hawaii has a long history of working in the areas of affordable housing and homelessness.

Catholic Charities Hawaii has built six affordable housing projects to serve low income people on Oahu (300 units) and Maui (165 units). We serve many homeless, elderly and families that are in desperate need of an affordable rental unit. We must partner with the State on our new projects for Low Income Housing Tax Credits, which also require use of Private Activity Bonds (PAB). The State needs to use any tool available to promote the construction of new units. We are in **strong support** of this bill since it will provide more predictability and more reliable and stable bond financing for housing.

The Hawaii Housing Finance and Development Corporation (HHFDC) receives a high number of applications to build new affordable housing. However, there has not been enough money to allocate funding for many projects. Now, for the first time last year, bond financing is experiencing a similar problem. HHFDC testified to the legislature that the demand for bond financing is so great, last year it exceeded the available bond cap by a ratio of 4 to 1. Allowing the state portion of the bond ceiling to focus entirely on affordable rental housing and making it easier for the counties to assign their allocation back to the state would be a huge step forward.

We urge your support for this bill to give HHFDC an additional tool to address our State's crisis in affordable housing.

Please contact our Legislative Liaison, Betty Lou Larson at alohabettylou@hotmail.com or (808) 373-0356 if you have any questions.

