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DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
MIKE MCCARTNEY
Director
Department of Business, Economic Development and Tourism
before the
HOUSE COMMITTEE ON FINANCE
Wednesday, April 6, 2022
1:30 PM
State Capitol, Conference Room 308

in consideration of
SB3048, SD2, HD1
RELATING TO STATE FUNDS.

Chair Luke, Vice Chair Yamashita, and Members of the Committee,
The Department of Business, Economic Development and Tourism (DBEDT)
strongly supports S.B. 3048, SD2, HD1. This bill would transfer historical, tax-exempt
GO bond proceeds from the Rental Housing Revolving Fund (RHRF) to the Dwelling
Unit Revolving Fund (DURF), where it can be used to finance public infrastructure.

Additionally, DBEDT supports this measure because it would allow HHFDC
greater flexibility to use RHRF for necessary expenses in administering the
Corporation's housing finance programs, similar to the language for the administrative
expenses of DURF under HRS 201H-191. The need for housing is great and these
investments will be instrumental in helping HHFDC to maximize its limited resources to
increase Hawaii's inventory of affordable housing.

Thank you for the opportunity to testify.

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
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IN REPLY REFER TO:

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

HOUSE COMMITTEE ON FINANCE

April 06, 2022 at 1:30 p.m.
State Capitol, Room 308

In consideration of
S.B. 3048 SD2 HD1
RELATING TO AFFORDABLE HOUSING.

HHFDC **strongly supports** S.B. 3048 SD2 HD1. It will allow us to use our resources more effectively as well as invest in upgrading our IT hardware, software, and technological needs to keep pace with the growing demands of the Corporation.

This measure transfers the tax-exempt general obligation (GO) bond proceeds from the Rental Housing Revolving Funds (RHRF) to the Dwelling Unit Revolving Fund (DURF) so the funds can be deployed for affordable rental housing development. Per US Treasury regulations, tax-exempt funds cannot be used to finance projects that also use low-income housing tax credits (LIHTC). To be used on LIHTC projects, they need to be taxable GO bond proceeds. Once transferred to DURF, the funds can be used to fulfill HHFDC's existing infrastructure obligations in Villages of Kapolei and Waiahole Valley, or other government infrastructure projects.

The current statute allows RHRF to be applied to administrative expenses. This measure clarifies that the funds can be applied to the financing programs of the entire housing finance unit, when deemed necessary, similar to the language for DURF administrative expenses under HRS 201H-191.

The measure also provides additional positions for the Housing Finance branch, which will serve to help the Corporation keep pace with the increasing demand for housing financing.

The appropriations for IT hardware, software, and digitization are necessary to allow HHFDC to migrate from an independent computer network to the State network; modernize its dated computer hardware; facilitate videoconferencing for board meetings; digitize its records; and acquire property inventory and lease management software.

Thank you for the opportunity to testify.

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

GLORIA CHANG
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
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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
SENATE BILL NO. 3048, S.D. 2, H.D. 1

April 6, 2022
1:30 p.m.
Room 308 and Videoconference

RELATING TO STATE FUNDS

The Department of Budget and Finance (B&F) offers comments on this bill.

Senate Bill No. 3048, S.D. 2, H.D. 1, authorizes the transfer of excess moneys from the Rental Housing Revolving Fund (RHRF) to the Dwelling Unit Revolving Fund (DURF); provides that the RHRF may be used for the Hawai'i Housing Finance and Development Corporation's (HHFDC) housing finance programs; establishes 2.00 full-time equivalent Housing Finance Specialist I positions in HHFDC's Housing Finance Branch; and appropriates an unspecified amount of general funds for various computer software and hardware; information technology improvements; videoconferencing improvements; and scanning and digitization equipment, services, and warranties.

First, B&F is concerned with respect to the amendment to Section 201H-202, HRS, that would allow for HHFDC to charge administrative expenses incurred in administering all the agency's housing finance programs rather than just those related to the RHRF. HHFDC's primary tools for supporting the development of affordable housing in Hawai'i is its various financing programs funded via the DURF and RHRF.

B&F notes that although both the DURF and RHRF collect revenues from various sources including, but not limited to, conveyance taxes, loan application fees, repayment of loans and interest, etc., the DURF and RHRF are largely funded from the proceeds of G.O. bond infusions. The RHRF, specifically, is funded by cash infusions of taxable G.O. bond proceeds as noted above.

These G.O. bond infusions are appropriated to HHFDC by the Legislature as capital improvement projects with the intent to finance the development of additional affordable rental housing units throughout the State. B&F is concerned about the proposed expansion of the use of RHRF funds for HHFDC's administrative costs unrelated to the RHRF, as it is inappropriate to use G.O. bonds for operating purposes.

Additionally, B&F is aware that HHFDC recently received approval of several proposed amendments to the agency's governing Hawai'i Administrative Rules to increase existing application fees and adopt new fees to increase revenues. The justification for these increased and new fees was to remedy financial sustainability concerns over program and personnel costs in HHFDC's Housing Finance Unit.

Second, B&F notes that HHFDC's operations are funded primarily by revolving funds and HHFDC usually does not receive general fund appropriations, except for an occasional grant. B&F suggests that rather than providing HHFDC with general funds for the hardware, software, and digitization efforts described in this bill, the Legislature may consider a non-recurring increase to HHFDC's budgeted revolving fund appropriation ceiling to accommodate these additional expenses for FY 23.

Third, B&F also notes that, with respect to the general fund appropriation in this bill, the federal Coronavirus Response and Relief Supplemental Appropriations Act requires that states receiving Elementary and Secondary School Emergency Relief

(ESSER) II funds and Governor's Emergency Education Relief II funds must maintain state support for:

- Elementary and secondary education in FY 22 at least at the proportional level of the state's support for elementary and secondary education relative to the state's overall spending, averaged over FYs 17, 18 and 19; and
- Higher education in FY 22 at least at the proportional level of the state's support for higher education relative to the state's overall spending, averaged over FYs 17, 18 and 19.

Further, the federal American Rescue Plan (ARP) Act requires that states receiving ARP ESSER funds must maintain state support for:

- Elementary and secondary education in FY 22 and FY 23 at least at the proportional level of the state's support for elementary and secondary education relative to the state's overall spending, averaged over FYs 17, 18 and 19; and
- Higher education in FY 22 and FY 23 at least at the proportional level of the state's support for higher education relative to the state's overall spending, averaged over FYs 17, 18 and 19.

The U.S. Department of Education has issued rules governing how these maintenance of effort (MOE) requirements are to be administered. B&F will be working with the money committees of the Legislature to ensure that the State of Hawai'i complies with these ESSER MOE requirements.

Thank you for your consideration of our comments.