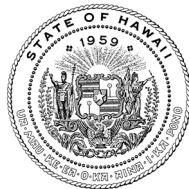


JOSH GREEN, M.D.
GOVERNOR



LUIS P. SALAVERIA
DIRECTOR

SABRINA NASIR
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
Ka 'Oihana Mālama Mo'ohelu a Kālā
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

WRITTEN ONLY

TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEES ON HOUSING, WATER AND LAND
AND GOVERNMENT OPERATIONS
ON
SENATE BILL NO. 865

**February 7, 2023
1:15 p.m.
Room 225 and Videoconference**

RELATING TO HOUSING

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

Senate Bill (S.B.) No. 865: 1) establishes the Affordable, Locally Owned Homes for All (ALOHA) Homes Program within the Hawai'i Public Housing Authority (HPHA); 2) provides for the disposition of lands acquired by HPHA but no longer needed for the ALOHA Homes Program; 3) establishes the ALOHA Homes Revolving Fund (AHRF); 4) provides the AHRF with exemptions from appropriation and allotment; 5) authorizes HPHA to sell leasehold units; 6) exempts the sale of leasehold interest for ALOHA homes units from the General Excise Tax; 7) exempts ALOHA Homes Program developments from School Impact Fees; 8) appropriates an unspecified amount of general funds for FY 24 and FY 25 to be deposited into the AHRF and appropriates an unspecified amount of revolving funds from the AHRF for FY 24 and FY 25 for the purposes of this measure; and 9) appropriates an unspecified amount of general funds for FY 24 and FY 25 for the establishment of the following full-time equivalent (FTE) positions: 1.00 FTE Program Manager; 1.00 FTE Compliance Specialist; and 1.00 FTE

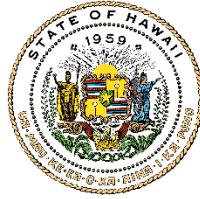
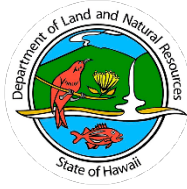
Fiscal Clerk within HPHA for the ALOHA Homes Program. The measure provides further guidelines for the establishment of rules and governing principles of ALOHA homes-related development projects, as well as qualifications for residents for the program.

As a matter of general policy, B&F does not support the creation of any revolving fund which does not meet the requirements of Section 37-52.4, HRS. Revolving funds should: 1) serve a need as demonstrated by the purpose, scope of work and an explanation why the program cannot be implemented successfully under the general fund appropriation process; 2) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries or a clear link between the program and the sources of revenue; 3) provide an appropriate means of financing for the program or activity; and 4) demonstrate the capacity to be financially self-sustaining. Regarding S.B. No. 865, it is difficult to determine whether the proposed revolving fund would be self-sustaining.

Thank you for your consideration of our comments.

JOSH GREEN, M.D.
GOVERNOR | KE KIA'ĀINA

SYLVIA LUKE
LIEUTENANT GOVERNOR | KA HOPE KIA'ĀINA



**STATE OF HAWAII | KA MOKU'ĀINA 'O HAWAI'I
DEPARTMENT OF LAND AND NATURAL RESOURCES
KA 'OIHANA KUMUWAIWAI 'ĀINA**

P.O. BOX 621
HONOLULU, HAWAII 96809

DAWN N.S. CHANG
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE
MANAGEMENT

LAURA H.E. KAAKUA
FIRST DEPUTY

M. KALEO MANUEL
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES
BOATING AND OCEAN RECREATION
BUREAU OF CONVEYANCES
COMMISSION ON WATER RESOURCE
MANAGEMENT
CONSERVATION AND COASTAL LANDS
CONSERVATION AND RESOURCES
ENFORCEMENT
ENGINEERING
FORESTRY AND WILDLIFE
HISTORIC PRESERVATION
KAHOOLAWE ISLAND RESERVE COMMISSION
LAND
STATE PARKS

**Testimony of
DAWN N. S. CHANG
Chairperson**

**Before the Senate Committees on
HOUSING
and
WATER AND LAND
and
GOVERNMENT OPERATIONS**

**Tuesday, February 7, 2023
1:15 PM**

State Capitol, Conference Room 225 & Videoconference

**In consideration of
SENATE BILL 865
RELATING TO HOUSING**

Senate Bill 865 proposes to establish the ALOHA Homes Program to develop low-cost homes on State owned and county owned land in urban redevelopment sites to be sold in leasehold by the Hawaii Public Housing Authority (HPHA) to qualified residents. The measure also proposes to exempt certain land from the definition of "public lands"; provides for the disposition of lands acquired by HPHA but no longer needed for the ALOHA Homes Program; and appropriates funds. **The Department of Land and Natural Resources (Department) offers the following comments to this measure.**

The purpose of this bill is to increase the number of affordable residential leasehold units for sale to qualified persons, in the State of Hawaii. The measure proposes that the ALOHA Homes units would be built within one mile of the Honolulu Rail Transit System, in urban redevelopment sites. The Department has four parcels adjacent or in close proximity to the planned Keone'ae rail station in East Kapolei, Oahu which would be impacted by this measure. The Department's long-term objective is to lease the parcels for income generating purposes to support the Department's natural resource management and protection programs. The Department also recognizes the State's obligation to provide affordable housing to residents in need and notes that planned uses for the parcels include affordable rental housing units. Other proposed uses include transit oriented mixed uses including commercial, retail, hotel, and medical. Additionally, the Department intends to include light industrial uses for parcels located further away from

the rail station. Setting aside the land to another agency will result in a loss of revenue for the Department as some of the housing is planned on the mixed-use site next to the rail station. The Department is already planning on working with Hawaii Housing Finance and Development Corporation (HHFDC) for the housing area located on the parcel east of Kualakai Parkway, Oahu. Beyond generating income to support its programs, the Department believes that the proposed project's multiple uses will be a critical economic, employment and residential component of the East Kapolei community.

The revenues collected by the Department's Land Division cover the entire annual operating budget for the Land Division, the Department's Office of Conservation and Coastal Lands, and the Dam Safety and Mineral Resources Programs of the Department. The revenues fund over 80 Department staff positions, including 5 positions within the Commission on Water Resource Management, and provide funding support to the Division of State Parks and various resource protection programs administered by the Division of Forestry and Wildlife such as the protection of threatened and endangered species, removal of invasive species, and wildland firefighting. Revenues collected by other divisions have supported watershed protection, preservation of cultural and historical sites and public recreational resources. Furthermore, the Department has provided lands for affordable housing projects, often at the expense of generating revenue to support its own programs.

The Department understands the need for housing and has historically supported the development of affordable housing through the conveyance or transfer of management of lands to HHFDC for affordable housing or rental projects statewide. In most instances, the lands transferred to HHFDC could have been used for more intensive income producing purposes. Rather, these lands were instead dedicated by the Department to alleviate the significant lack of supply of affordable housing and rental units for the less fortunate citizens of Hawaii. The following affordable housing/rental projects have been supported by the transfer of lands from the Department to HHFDC:

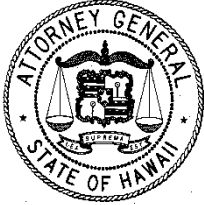
- The Villages of Leiali'i in Lāhaina, Maui, 1,033 acres of land mauka of downtown Lāhaina.
- 690 Pohukaina in Kaka'ako, approximately 2.168 acres in Honolulu's urban core, adjacent to the rail line with access to existing infrastructure.
- Halekauwila Place in Kaka'ako, approximately 1.249 acres adjacent to the 690 Pohukaina project.
- Hale Mōhalu in Pearl City, O'ahu, 4.75 acres of land designated Urban, adjacent to Kamehameha Highway with access to existing infrastructure.
- The Villages of La'i'ōpua, in North Kona, Island of Hawai'i, 802 acres adjacent to Queen Ka'ahumanu Highway between Kona International Airport and Kailua Kona.

The Department further notes that its strategic plan for the development of the four parcels already includes 1,000 affordable and workforce rental housing units that would be located within a one-mile radius of the transit station. This project is in the planning phase, and initial market studies along with agency consultation, indicate that the proposed 1,000 units is the maximum amount that would be feasible for a developer to undertake. Per the Department's East Kapolei Affordable Rental Market Study, "on the supply side, the actual financing and construction cost realities present a high barrier to achieving such a high unit count... These lower Area Medium Income (AMI) units need greater subsidy to offset the costs. And the subsidies currently available do not appear sufficient to fund large-scale production of units serving the lower AMI households." Based on preliminary studies, the areas that are designated for housing units are physically capable of holding a maximum 2,000 units but the East Kapolei Affordable Rental Market Study found that developing that many units is not feasible due to financing. The Department is currently in the process of conducting an Environmental Impact Statement (EIS) for the project. As the EIS budget is limited, the focus will be to study the most

realistic scenario which is 1,000 affordable and workforce rental housing units. The Department is open to further study an alternative for the development of the 2,000 units as part of the EIS but would require additional funding of at least \$1,000,000.00 to do so. Expanding the scope of the EIS would add another 1-2 years to the EIS timeline because it would require that the Department redo its traffic, noise, engineering, and urban design studies.

In addition, the Department has concerns that this measure will result in unrealistic expectations of the volume and density of development around and/or near the rail stations. While in some areas this may be appropriate, such as in the urban core, in others, it may be unsuitable and appear to be disjointed from other nearby developments that were not granted carte blanche on height and housing density requirements. The Department has attended area Neighborhood Board meetings to get community feedback on development of the Department's parcels near the Keone'ae Rail Station, and to observe general community sentiment on density in East Kapolei. If desired by the Legislature, the Department is willing to explore development of 2,000 units with additional funding for the EIS, but cautions that the East Kapolei community and nearby landowners may not support building 2,000 units on the Department's parcels.

Mahalo for the opportunity to comment on this measure.



**TESTIMONY OF
THE DEPARTMENT OF THE ATTORNEY GENERAL
KA 'OIHANA O KA LOIO KUHINA
THIRTY-SECOND LEGISLATURE, 2023**

ON THE FOLLOWING MEASURE:
S.B. NO. 865, RELATING TO HOUSING.

BEFORE THE:
SENATE COMMITTEES ON HOUSING AND ON WATER AND LAND AND ON
GOVERNMENT OPERATIONS

DATE: Tuesday, February 7, 2023 **TIME:** 1:15 p.m.

LOCATION: State Capitol, Room 225

TESTIFIER(S): Anne E. Lopez, Attorney General, or
Klemen Urbanc, Deputy Attorney General

Chairs Chang, Inouye, and McKelvey and Members of the Committees:

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

This bill (1) establishes a new program within the Hawaii Public Housing Authority (HPHA) called the ALOHA Homes Program (Program), (2) establishes urban redevelopment sites within a one mile radius of certain public transit stations, (3) requires HPHA to establish rules pursuant chapter 91, Hawaii Revised Statutes (HRS), to implement the Program, (4) authorizes HPHA, among other things, to (A) construct residential developments on the urban redevelopment sites, (B) sell 99-year leases for units within such developments to Hawai'i residents subject to certain requirements, (C) acquire private property by eminent domain proceedings for the Program, (D) lease the real or personal property constituting a commercial project under the Program to any person for a term not exceeding sixty-five years, and (E) sell non-ALOHA Homes Program leasehold condominiums organized pursuant to chapter 514B, HRS, and developed under the new part added to chapter 356D in the bill, for 99-year terms, (5) establishes the ALOHA Homes Revolving Fund to be administered by HPHA, (6) exempts expenditures from the ALOHA Homes Revolving Fund from appropriation or allotment of the Legislature, (7) authorizes county and state agencies to render services for the purposes of the Program, (8) exempts from general excise tax amounts received

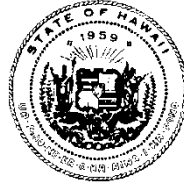
from the sale of a leasehold interest in an ALOHA home, (9) exempts any form of development by HPHA pursuant to the ALOHA Homes Program from the land component impact fee and construction cost component impact fee requirements of the Department of Education, (10) appropriates money into and out of the ALOHA Homes Revolving Fund for the implementation of the Program, and (11) establishes positions within HPHA for the Program.

The bill on page 8, lines 5-6, defines “[s]mall and medium vendor” yet this term is not used elsewhere in the bill. We suggest deleting this definition.

The bill on page 21, lines 3-15, exempts the ALOHA Homes Revolving Fund from legislative appropriation and allotment. Article VII, section 5, of the Hawai‘i State Constitution, however, prohibits such exemptions and provides that “[n]o public money shall be expended except pursuant to appropriations made by law.” We suggest amending the bill to remove this provision.

Thank you for the opportunity to provide these comments.

JOSH GREEN, M.D.
GOVERNOR



HAKIM OUANSAFI
EXECUTIVE DIRECTOR

BARBARA E. ARASHIRO
EXECUTIVE ASSISTANT

STATE OF HAWAII
HAWAII PUBLIC HOUSING AUTHORITY
1002 NORTH SCHOOL STREET
POST OFFICE BOX 17907
HONOLULU, HAWAII 96817

IN REPLY, PLEASE REFER TO:

Statement of
Hakim Ouansafi, Executive Director
Hawaii Public Housing Authority

Before the
SENATE COMMITTEE ON HOUSING
&
SENATE COMMITTEE ON WATER AND LAND
&
SENATE COMMITTEE ON GOVERNMENT OPERATIONS

Tuesday, February 7, 2023
1:15 PM – Room 225, Hawaii State Capitol

In consideration of
SB 865
RELATING TO HOUSING

Honorable Chair Chang, Honorable Chair Inouye and Honorable Chair McKelvey, and Members of the Senate Committee on Housing, Senate Committee on Water and Land and Senate Committee on Government Operations, thank you for the opportunity to provide testimony concerning Senate Bill (SB) 865, relating to housing.

The Hawaii Public Housing Authority (HPHA) **supports, with amendments** the enactment of SB 865, which establishes the ALOHA Homes Program to develop low-cost homes on state-owned and county-owned land in urban redevelopment sites to be sold in leasehold by the Hawaii Public Housing Authority to qualified residents. Exempts certain land from the definition of public lands. Provides for the disposition of lands acquired by the Hawaii Public Housing Authority but no longer needed for the ALOHA Homes Program. Appropriates funds.

The HPHA views this measure as part of the overall solution to assist the State in developing the housing needed to get out of the affordable housing crisis. Over 18 years ago, Act 196 of 2005,

as amended by Act 180 of 2006, the Housing and Community Development Corporation of Hawaii (HCDCH) was bifurcated into two separate agencies – HPHA and Hawaii Housing Finance and Development Corporation (HHFDC). At that time the primary purpose of the HPHA was to manage a variety of forms of housing assistance, including public housing, housing assistance payments, rental supplement, and homeless programs. However, the HPHA continued to pursue the redevelopment of its existing public housing stock as demonstrated through the submission of applications to Federal grant programs such as the HOPE VI Revitalization Grant and the Choice Neighborhoods Initiative.

In 2005, the Hawaii State Legislature and the U.S. Department of Housing and Urban Development (HUD) had the foresight to support the HPHA’s efforts to engage in public private partnerships to develop a variety of housing, including public housing, affordable housing, commercial and industrial. These efforts were reinforced with the passage of Act 251, SLH 2022, to ensure that the HPHA continues to be part of the solution for the State’s affordable housing crisis.

Earlier this month, the HPHA published a Request for Qualifications (RFQ), seeking a Master Developer for its upcoming Ka Lei Momi Project. This ambitious public-private partnership (PPP) aims to construct 10,000 new affordable units over the next decade. With access to federal tools and programs like Rental Assistance Demonstration (RAD), Choice Neighborhood Initiative (CNI), Section 18 Demolition/Disposition, and Moving to Work (MTW), the HPHA is well-positioned to utilize mixed-finance strategies through a PPP where these new affordable units are so desperately needed. Additionally, this RFQ calls for up to 1,000 leasehold units with the first 300-unit tower at the Mayor Wright Homes public housing property thanks to the appropriation and legislative intent in the 2022 CIP budget.

Today, as the HPHA continues to look towards the future, it continues to align itself with the current national trends in the redevelopment of its public housing inventory. As the affordable housing crisis has worsened across the nation, and has been magnified here in Hawaii, the Federal government continues to develop new tools and make funding available for PHAs to take advantage of redevelopment programs that were not available over a decade and a half ago. These new programs, such as Mixed-Finance Redevelopment, emphasize the conversion of public housing and promotes the de-concentration of poverty. Through the redevelopment process, a mixture of public housing, affordable housing, market rate and commercial uses will be created to benefit the community.

The HPHA would like to humbly request the amendments and seek clarification on legislative intent at the following sections of the proposed measure:

1. Page 17, line 20: Does the deceased’s heir also have to meet the eligibility requirements to accept transfer of the home?

2. Page 25, line 10: The HPHA humbly requests additional staff needed to evaluate all of the potential sites, negotiate with public entities, and implement a homeownership program:
 - a. 3 Program Administrators; and
 - b. 1 Development Specialist.

Please know that a Compliance Specialist will not be needed for a few years until the units are ready for sale. That being said, setting up the program will require significant legal documentation so the HPHA will need a dedicated Deputy Attorney General or an appropriation for legal fees.

3. Is there a desire to have occupancy restrictions by unit size (number of household members allowed in a 1BR, 2BR, 3BR, etc.) similar to those used by HUD for Public Housing Authorities?

HPHA's desire is not to remain a static agency, sitting on the sidelines while our community continues to suffer during the housing crisis. Our mission and fiduciary responsibility are to constantly look to the future and to challenge ourselves to make the most of the land, financial and human resources we have to contribute to resolving the housing crisis.

The HPHA appreciates the opportunity to provide the Committees with the HPHA's testimony. We thank you very much for your dedicated support.



**SENATE COMMITTEES ON HOUSING, WATER & LAND, AND
GOVERNMENT OPERATIONS
Hawaii State Capitol
1:15 PM**

February 7, 2023

RE: SB 865, RELATING TO HOUSING

Chairs Chang, Inouye, & McKelvey, Vice Chairs Kanuha, Elefante, & Gabbard; and members of the committees:

My name is Max Lindsey, Government Relations Committee Chair of the Building Industry Association of Hawaii (BIA-Hawaii). Chartered in 1955, the Building Industry Association of Hawaii is a professional trade organization affiliated with the National Association of Home Builders, representing the building industry and its associates. BIA-Hawaii takes a leadership role in unifying and promoting the interests of the industry to enhance the quality of life for the people of Hawaii.

BIA Hawaii supports the intent of SB 865, which establishes the ALOHA Homes Program to develop low-cost homes on state-owned and county-owned land in urban redevelopment sites to be sold in leasehold by the Hawai'i Public Housing Authority to qualified residents, exempts certain land from the definition of public lands, provides for the disposition of lands, and appropriates funds.

SB 865 consolidates many of the ideas and initiatives of which we have been strong proponents over the last few years. This type of consolidated and focused effort is required in order to build our way out of our housing crisis by increasing the supply of housing at all price points. We strongly support and encourage more dialogue on the bill especially on some of the specific action items. We support the purpose of focusing on low-cost, high-density leasehold houses on government lands located along the transit corridor. We do suggest that to avoid "gentrification," a mix of incomes and price points be provided.

We appreciate the opportunity to provide our comments on this matter.



Monday, February 6, 2023

Aloha Chairs, Vice Chairs, and Members of the Committees,

I'm writing to express Hawai'i YIMBY's support of SB 865, which would establish the ALOHA Homes program, a groundbreaking and innovative proposal to adapt the best features of the most successful social housing programs around the world to meet the urgent and professed needs of cost-burdened Hawai'i residents.

The introduction of ALOHA Homes in 2021 helped spark a nationwide movement to build social housing. State and local governments are racing to enact social housing programs to address their housing needs, including:

- **Montgomery County, Maryland**, which established a Housing Production Fund in December 2021 that will begin building mixed-income affordable housing this year,
- **Colorado**, which passed a law in early June creating an agency to oversee the construction of publicly owned middle-income workforce housing,
- **Rhode Island**, which allocated \$10 million in late June for mixed-income social housing,
- **San Francisco**, which allocated funding in August to begin building social housing,
- **Seattle**, which will vote on a ballot initiative next Tuesday to create a social housing program modeled after Vienna's,
- and **Maine** and **California**, which each have social housing bills advancing in their state legislatures.

Last year, the legislature cleared some of the last legal hurdles standing in the way of successful implementation of this program by making it more broadly legal for the state to build mixed-income housing with 99-year leases. A 2021 report commissioned by the state found it "striking how many people when presented with the prices and requirements" of the ALOHA Homes program "responded by saying they felt hopeful. They wanted to be kept informed of program progress and wanted to know where and when the housing would be built".

After two years of revision and laying the groundwork, it's high time we pass this bill and provide them with an answer. Hawai'i residents struggling under the enormous burden of our high housing costs can't wait any longer.

We urge your support for this bill. Thank you for the opportunity to testify.

Mahalo,
Matt Popovich

Hawai'i YIMBY
hawaiiyimby.com | matt@hawaiiyimby.com



The Institute for Human Services, Inc.
Ending the Cycle of Homelessness

TO: Honorable Sen. Stanley Chang
Chair, Senate Committee on Housing

Honorable Sen. Lorraine R. Inouye
Chair, Senate Committee on Water and Land

Honorable Sen. Angus L.K. McKelvey
Chair, Senate Committee on Government Operations

FROM: Connie Mitchell, Executive Director
IHS, Institute for Human Services, Inc.

RE: SB865 – RELATING TO HOUSING

HEARING: Tuesday, February 7, 2023 at 1:15 PM

POSITION: IHS supports the passing of SB 865

Hawaii is ranked as the second highest rate of homelessness per capita with a higher cost of living than any other state. Even when people are ready for housing, there is not always a unit ready for them. Increasing the number of affordable units for sale, makes more rental units available for the population we, the Institute for Human Services, serves.

We need housing for every socio-economic strata of our residents.

The ALOHA Homes program is unique in that it offers incentive for developers to build more affordable units as they can earn back their financial investment more upfront via lump-sum rather than in monthly rent, regulated by the U.S. Department of Housing and Urban Development which often does not cover the cost of development, leading to diminishing interest in affordable rental development. By putting money back into funding pools sooner and at higher rates, affordable housing projects can be developed at greater frequency. Moreover, the use of state lands ensures the long term viability of the ALOHA Homes program while creating stability for Hawaii's working families.

Hawaii's population has been decreasing for consecutive years now, and will continue to lose young, talented, skilled people to the continent because housing is simply too expensive. The ALOHA Homes program innovatively combats this trend for all AMI levels – homeless, ALICE, 'middle-income', and higher. We all agree we need affordable housing, ALOHA Homes would address the longstanding challenges of making it a reality and offers immediate hope for resolution of our housing crisis.



**Church
of the
Crossroads**
United Church of Christ



LATE

TESTIMONY IN SUPPORT OF BILL SB 865

Senate Committees on Housing, Water Land, Government Operations
February 7, 2023 at 1:15 p.m.
Conference Room 225 & Video

Church of the Crossroads, Hawaii's first deliberately interracial congregation now in its 100th year, remains committed to celebrating diversity by challenging the structures that perpetuate economic injustice. SB 865 tackles our cost of living — so high that its two-thirds above the rest of the nation — driven by our housing crisis.

Crossroads strongly supports SB 865. It would create the ALOHA Homes program utilizing State land to develop homes for all Hawaii residents at prices they can afford.

The Aloha United Way commissioned a report entitled, "ALICE: A Study of Financial Hardship in Hawaii." ALICE, an acronym for Asset Limited, Income Constrained, Employed. The ALICE population is comprised of people who have jobs, yet do not earn enough to afford the basic necessities because of Hawaii's high cost of living. They are a paycheck or two away from homelessness.

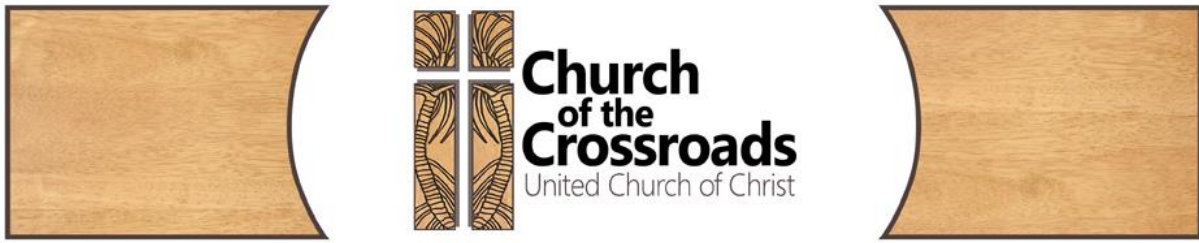
Prior to the Covid 19 pandemic, 37% of the households were ALICE, earning between \$30,000 and \$75,000 a year, below the median household income. Another 11% of the population lived below the poverty level. In total, 48% of Hawaii households were ALICE and below. Since then, that proportion has risen to 59%.

Governor Green says we need 36,000 housing units. The National Low Income Housing Coalition estimates that Hawaii faces a shortage of more than 40,000 homes for families earning incomes of 50% or below of the area median income. A Department of Business, Economic Development and Tourism report put the need at 72,000 through this decade.

Traditional State and county housing programs rely heavily on government subsidies because land costs and development costs are so high. Since the subsidies are limited, only a fraction of our needed housing has been built.

ALOHA Homes' SB 865 is structured revenue neutral. It does not depend on subsidies. It represents an approach to affordable housing that has worked in Singapore, in Vienna, and in Helsinki, now reinvented to fit Hawaii's circumstances.

Singapore has developed nearly a million residential units that today house 80% of its population. In **Vienna**, the successful government program — the City has multiple times been named the "most livable" — puts 60% of its population in government homes. **Helsinki's** livable public housing shelters less than 20%, sufficient to end homelessness in that city. In these three cities, agencies plan, develop, and construct housing units integrated with commercial, recreational, and social urban amenities. Their attractive, dense, mixed-use walkable developments are environmentally efficient and minimize the need for personal vehicles.



For Honolulu, the rail transit system would further reduce the need for personal vehicles. The State is the largest landowner along the rail line, owning about 2,000 acres, land we should dedicate to ALOHA Homes for the people of Hawaii. Mahalo.

Feb. 7, 2023

11:15 p.m.

Conference Room 225 & Videoconference

To: Senate Committee on Housing

Senator Stanley Chang, Chair

Senator Dru Mamo Kanuha, Vice Chair

Senate Committee on Water and Land

Senator Lorraine R. Inouye, Chair

Senator Brandon J.C. Elefante, Vice Chair

Senate Committee on Government Operations

Senator Angus L.K. McKelvey, Chair

Senator Mike Gabbard, Vice Chair

From: Grassroot Institute of Hawaii

Ted Kefalas, Director of Strategic Campaigns

RE: SB865 — RELATING TO HOUSING

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on [SB865](#), which would establish the ALOHA homes program to facilitate the development and lease of low-cost homes for Hawaii residents.

The proposal before the committee accurately identifies many of the causes of the state's housing crisis and makes a laudable attempt to eliminate some of the barriers to affordable housing.

In particular, this bill would create thousands of leasehold housing units,¹ which would help ease the demand for housing in Hawaii.

However, we have concerns about the possible unintended consequences of this bill. Among them are:

>> Public sector projects cost more

The bill optimistically posits that the ALOHA Homes program would not end up costing Hawaii's taxpayers, but there is no guarantee that the plan would be economically sustainable without substantial infusions of taxpayer funding, as its supporters intend.

Our experience with the Honolulu rail project is sufficient to demonstrate that projected costs on public works projects do not necessarily reflect actual costs. In any government project, costs are likely to exceed original estimates.

For example, housing constructed pursuant to SB865 would be subject to HRS 104, which requires the use of prevailing wages,² which would raise costs higher than projects built in the private sector.

Additionally, Hawaii "encourages" the use of project labor agreements on projects worth at least \$25 million,³ and this has been demonstrated to raise the cost of government contracts by 12% or more.⁴

So what happens if the construction and maintenance costs of the ALOHA homes outstrip projections? Either the prices of the home leases will go up, undermining the intent of providing low-income residents with low-cost homes, or Hawaii taxpayers will end up footing the bill.

Given that construction costs alone in Honolulu are generally 38% higher than on the mainland,⁵ the only responsible option is to plan for higher-than-expected costs for this project.

Both of these factors would add to construction costs, making it harder for ALOHA homes projects to pencil out.

¹ Stanley Chang, "[ALOHA Homes: An Innovative Solution to Hawaii's Housing Shortage](#)," Presentation at the Hawaii State Capitol, Nov. 16, 2018, video at 30:06.

² [SB1_SD1](#) of 2021, p. 13 which states, "Development shall be subject to chapter 104."

³ "[Council approves PLAs despite many concerns](#)," Grassroot Institute of Hawaii, Oct. 9, 2019.

⁴ "[Honolulu City Council's PLA proposal is pilau](#)," Keli'i Akina, Grassroot Institute of Hawaii, Oct. 20, 2019; Paul Bachman and David G. Tuerck, "[Project Labor Agreements and the Cost of School Construction in Ohio](#)," The Beacon Hill Institute, May 2017, p.1; and Vince Vasquez, Dr. Dale Glaser and W. Erik Bruvold, "[Measuring the Cost of Project Labor Agreements on School Construction in California](#)," National University System Institute for Policy Research, 2011, p. 10.

⁵ "ENR Square Foot Costbook 2019 Edition," Engineering News-Record, 2018, p. 174.

However, if legislators choose to move forward with this proposal, we suggest taking out the Chapter 104 requirement to use prevailing wages, since it would allow more flexibility to potentially use less expensive labor, which could translate into lower lease prices.

>> 99-year leases

One of our greatest concerns is the 99-year leases that are at the heart of the ALOHA homes program.

Buying a 99-year lease means that one day the leaseholders will no longer have the right to occupy their units. In essence, the leases trade temporary stability for long-term headaches concerning transfer and value. This makes leasehold properties less valuable and less desirable than comparable properties that could be purchased fee simple.

Another strike against leasehold units is that in some instances they cannot be borrowed against for a loan, which takes away the ability of their occupants to borrow against the properties to start a business, invest or otherwise contribute to the local economy.

One of the reasons that home ownership is considered a path to upward mobility is because it creates equity. But the ALOHA homes program is not providing people with the advantage of home ownership. It is simply providing them with shelter and robbing them of the opportunities and financial security that flow from home ownership.

The example of the Hawaiian Home Lands program with its 99-year leases should be enough to demonstrate that leaseholds create administrative headaches for both the government and the lessees. What they don't create is intergenerational wealth, though we acknowledge that this proposal would nonetheless add to Hawaii's housing stock.

>> Traps the tenant

Another concern is that under the ALOHA Homes plan, the leaseholders face strict limits on their ability to sell their leases.

This bill says the state would be entitled to 75% of any profits from the sale of the leases to other parties. In addition, if the leaseholders did want to sell, the state would get the right of first refusal. Moreover, the price at which a leaseholder could sell, either to the state or another buyer, would be fixed according to a formula determined by the state.

There also would be limits on the ownership of other real property while one is the leaseholder of an ALOHA home.

This all means that anyone who leases an ALOHA home would be trapped in the property, unable to sell it without taking a loss.

If enacted into law, the bill would incentivize holding on to the leasehold for as long as possible over purchasing another property — even when the “need” for an ALOHA home has passed.

Thus, the ability of the program to address perpetual shortages in affordable housing would be limited to the state’s ability to build new homes.

For this reason, we recommend removing the requirement that the state is entitled 75% of the profits when lessees sell their leases to other parties. This would allow the leaseholders the flexibility to leave their units while building equity with which to move up the housing ladder, start a business or invest in our economy.

>> No incentive to improve the property

Property improvements generally are made by owners who hope to profit from the increased value they create. However, because the ALOHA homes program would not allow the lessees to profit from the sale of their properties, there would be no incentive to improve the units.

When improving and caring for a property is disincentivized, repairs and maintenance often fall by the wayside. Therefore, ALOHA homes units could eventually fall into disrepair.

The effect would be similar to that of rent-controlled apartment buildings in New York and San Francisco, where the lack of financial incentive to spend on upkeep has resulted in neglected, deteriorating buildings — with their physical state matching their reduced and restricted market prices.

To address this potential problem, the bill includes a requirement that each development establish an operating and maintenance program, along with the funding to cover that cost.

This requirement would further increase the price of each project, and it is not clear if this would even help much, since tenants still would not have any incentive to upkeep their units, which they do not own, over the long term.

To put it bluntly, the ALOHA homes program risks becoming another government housing project in the worst sense of the term.

Allowing the homes to be sold one day fee simple would at least create an incentive to invest in the maintenance of the property.

>> Does not provide rentals

The ALOHA homes program would have a limited effect on the amount of housing available and would not lower the cost of rent, since no new rentals would be added to the housing stock. Thus, while the intent of SB865 is to address Hawaii’s lack of affordable housing, the bill

overlooks a significant factor in the housing market — rentals — especially for those who cannot make use of the program.

>> Suggestions

Hawaii has the most restrictive barriers in the nation to the creation of housing,⁶ so we urge lawmakers to reduce those regulations regardless of the outcome of this bill.

We also recommend creating some mechanism by which the properties could be sold fee simple, perhaps at the end of the leasehold period. We also recommend changing references to “owners” in the bill to “leaseholders,” which is more technically correct.

Additionally, the section should be deleted that allows the state for the purpose of building ALOHA Homes to take private property through eminent domain. This would otherwise present a grave worry to private landowners across the state.

We also applaud the bill’s exemption from the general excise tax in Section 3, and impact fees in Section 4, since these exemptions would at least help lower the price of the units.

Finally, we are open to further discussions about options that could improve on the ALOHA Homes model.

Thank you for the opportunity to submit our comments.

Sincerely,

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

⁶ Carl Bonham, Justin Tyndall and Rachel Inafuku, “[Measuring the Burden of Housing Regulation in Hawaii](#),” The Economic Research Organization at the University of Hawaii, April 14, 2022.

SB-865

Submitted on: 2/3/2023 2:40:21 PM

Testimony for HOU on 2/7/2023 1:15:00 PM

Submitted By	Organization	Testifier Position	Testify
Andrew Crossland	Individual	Oppose	Written Testimony Only

Comments:

I oppose this Bill.

SB-865

Submitted on: 2/5/2023 1:03:44 PM

Testimony for HOU on 2/7/2023 1:15:00 PM

Submitted By	Organization	Testifier Position	Testify
Will Caron	Individual	Support	Written Testimony Only

Comments:

I support the intent and some of the provisions of the ALOHA Homes proposal. I think that, in some places along the rail line for example, the model could work. I think advancing the bill to continue the discussion on how some form of ALOHA Homes can fit into the continuum of solutions to our housing shortage is worthwhile and the committees should pass the bill forward.

TESTIMONY OF ELLEN GODBEY CARSON IN SUPPORT OF SB865

I strongly support SB865, the ALOHA Homes bill. While I write as an individual, I have served as President and director of Institute for Human Services, an advocate for Faith Action for Community Equity, and member of the Church of the Crossroads Peace and Justice Mission Team, spending hundreds of volunteer hours helping Hawaii find better systemic ways to address its dual crises of homelessness and lack of affordable housing.

I believe the ALOHA Homes bill is the game changer we need. We need a way to create affordable housing that will be sustainable, with non-profit approaches to building tens of thousands of affordable units quickly. SB865 is designed to do just that. It also offers much needed community planning for our transit-oriented areas in ways that will enhance the sense of community for those of us living in urban Honolulu.

The ALOHA Homes model is the only proposal I've seen in my 30+ years of living in Hawaii that have any hope of making a major change in the supply of new affordable housing units, in a way that is sustainable, using market forces and creative intelligence instead of massive taxpayer subsidies.

I was one of a few dozen people who paid our own way on Senator Chang's affordable housing study tour to Singapore and Hong Kong several years ago. I marveled at Singapore's system that allows approximately 90% of their population to own their own home, at affordable prices, on an island that shares many of the same daunting challenges we have in Hawaii. Our current methods for creating affordable housing in this state have been severely inadequate, and unbelievably slow. We have failed to create the critical mass of new affordable housing we need.

In my opinion, these bills deserve our strongest support. Let's give them a chance to work in Hawaii. These bills need all of us working together toward this goal, to help Hawaii create a new model for sustainable affordable housing in the United States.

Respectfully submitted,

Ellen Godbey Carson
Honolulu, Hawaii

SB-865

Submitted on: 2/6/2023 12:59:55 PM

Testimony for HOU on 2/7/2023 1:15:00 PM

Submitted By	Organization	Testifier Position	Testify
Manahel Al-hozail	Individual	Oppose	Written Testimony Only

Comments:

I oppose this bill.

LATE

SB-865

Submitted on: 2/6/2023 10:37:08 PM

Testimony for HOU on 2/7/2023 1:15:00 PM

Submitted By	Organization	Testifier Position	Testify
james pirtle	Individual	Oppose	Written Testimony Only

Comments:

I oppose this housing bill.

LATE

SB-865

Submitted on: 2/7/2023 1:19:02 AM

Testimony for HOU on 2/7/2023 1:15:00 PM

Submitted By	Organization	Testifier Position	Testify
jaerick medeiros-garcia	Individual	Oppose	Written Testimony Only

Comments:

I'm in opposition to SB865 not for hawaii.

LATE

SB-865

Submitted on: 2/7/2023 2:33:01 AM

Testimony for HOU on 2/7/2023 1:15:00 PM

Submitted By	Organization	Testifier Position	Testify
Terry Murakami	Individual	Oppose	Written Testimony Only

Comments:

I oppose SB865. This will only create a bigger burden for taxpayers.

LATE

SB-865

Submitted on: 2/7/2023 3:45:20 AM

Testimony for HOU on 2/7/2023 1:15:00 PM

Submitted By	Organization	Testifier Position	Testify
Luis Ma	Individual	Oppose	Written Testimony Only

Comments:

Oppose

LATE

SB-865

Submitted on: 2/7/2023 7:38:12 AM

Testimony for HOU on 2/7/2023 1:15:00 PM

Submitted By	Organization	Testifier Position	Testify
Jr Tupai	Individual	Oppose	Written Testimony Only

Comments:

Mahalo Chairman Chang, Vice Chair Kanuha and members of the Senate Committee on Housing for the opportunity to testify in opposition to SB865.