



**Hawaii Housing Finance and Development Corporation**

# **THE LOW INCOME HOUSING TAX CREDIT PROGRAM**





## **Background/Purposes**

LIHTC = indirect federal subsidy used to finance low-income housing

- Congress created as incentive for private developers and investors to provide more affordable rental housing.
- Eligible taxpayers receive a subsidy by claiming a tax credit on their federal income tax returns.
- Dollar for dollar credit (not deduction) claimed pro-rata over 10 years
- Both newly constructed and renovated residential rental buildings



# **How does the LIHTC work?**



## Project Owner

- Proposes project to the state housing agency (
- Applies for and is awarded an allocation of tax credits
- Completes the project
- Certifies development costs
- Rents project to low-income tenants



## Equity capital for development costs

- LIHTC provides equity funding for the development cost of low-income housing
- By allowing an investor (i.e, partners of a partnership, or members of a manager-based LLC, that owns the project) to take a federal tax credit
- Project Owner raises equity capital by "syndicating" the credit to an investor (or group of investors)



## Compliance Period

- Initial - 15 years after project placed in service
- Extended – additional 15 years
- QAP – maximum points for 61 years
- Compliance monitoring – annual certifications
- Land Use Restrictive Agreement – Regulatory Agreement
- Tax recapture of all past and future LIHTC

If the project fails to comply with the requirements of Section 42, including the Set-Asides and Rent Restrictions any time during the initial 15-year Compliance Period



## **How much in LIHTC does Hawaii receive?**



**9% LIHTC (competitive/volume cap) are allocated to each state based on population.**

**For 2024, Hawaii is allocated the following:**

**\$3,360,000\***

*\*Source: IRS Rev Proc 2023-34, Section 3.09*





**4% LIHTC (non-competitive/non-volume cap) are allocated based on the use of private activity tax-exempt bonds. The State does have a bond cap of approximately \$378 million\*.**

**4% LIHTC projects must utilize private activity tax-exempt bonds equal to 50% of the project's eligible basis.**

*\*Source: IRS Rev Proc 2023-34, Section 3.20*



# **How are LIHTC awarded?**



**The LIHTC are awarded using what is known as the “Qualified Allocation Plan” or QAP.**

**The QAP is a point-based scoring system which takes into account mandated requirements of the IRS and priorities of the State. It also conveys to applicants other program requirements.**



**Developers apply for LIHTC through HHFDC's Consolidated Application. The Consolidated Application allows applicants to apply for various other financing programs with one application.**



**Applications are reviewed and scored by  
HHFDC's Finance and Development staff  
utilizing the QAP.**

**Recommendations for awarding LIHTC and  
other financing resources are presented to the  
HHFDC Board for approval.**



## Income and Rent Restrictions 1-Bedroom Unit / 2-Person Household

|        |        | AMI      |          |           |
|--------|--------|----------|----------|-----------|
|        |        | 60%      | 80%      | 100%      |
| INCOME | Oahu   | \$62,880 | \$83,840 | \$104,800 |
|        | Hawaii | \$48,420 | \$64,560 | \$80,700  |
|        | Kauai  | \$57,960 | \$77,280 | \$96,600  |
|        | Maui   | \$55,620 | \$74,160 | \$92,700  |
| RENT   | Oahu   | \$1,473  | \$1,965  | \$2,456   |
|        | Hawaii | \$1,134  | \$1,513  | \$1,891   |
|        | Kauai  | \$1,358  | \$1,811  | \$2,263   |
|        | Maui   | \$1,303  | \$1,738  | \$2,172   |

Monthly rent includes the cost of water, sewer, electricity and gas



## Number of Units with Expiring Affordability Commitments

|                                 | <b>Total<br/>Projects</b> | <b>Total<br/>Units</b> |
|---------------------------------|---------------------------|------------------------|
| <b>2023</b>                     | 3                         | 102                    |
| <b>2024</b>                     | 4                         | 165                    |
| <b>Ends within 5<br/>Years</b>  | 5                         | 630                    |
| <b>Ends within 10<br/>Years</b> | 5                         | 303                    |
| <b>Ends within 15<br/>Years</b> | 4                         | 296                    |
| <b>Ends within 20<br/>Years</b> | 3                         | 586                    |
|                                 | <b>24</b>                 | <b>2,082</b>           |



## Developer Requirements Prior to Rent Increases

- Rules for rent increases are governed by the Residential Landlord-Tenant Code HRS § 521-21
- LIHTC owners are able raise rents provided they never exceed the limit based on the unit's assigned set-aside vs. HUD's annual corresponding AMI figure.





## Future Possible Initiatives for LIHTC Projects

- Require owners to provide notifications to tenants of expiring extended use periods.
  - Minimum 12 months notice
- Limit one rent increase per certification period, per household
- Minimum notification of rent increases
  - Minimum 60 days' notice of any rent increase
  - Minimum 90 days' notice of any rent increase in excess of five percent of existing rents with option to terminate lease without penalty.
- Explore incentives to achieve extended affordability with needed project rehabilitation.



## Five Year Unit Projection

| <b>FISCAL YEAR</b> | <b>RENTAL</b> | <b>FOR SALE</b> | <b>TBD</b> | <b>TOTAL</b> |
|--------------------|---------------|-----------------|------------|--------------|
| 2024               | 1,466         | 331             | 0          | 1,797        |
| 2025               | 2,345         | 39              | 0          | 2,384        |
| 2026               | 1,237         | 1,092           | 0          | 2,329        |
| 2027               | 668           | 937             | 390        | 1,995        |
| 2028               | 781           | 275             | 97         | 1,153        |
| <b>TOTAL</b>       | <b>6,497</b>  | <b>2,674</b>    | <b>487</b> | <b>9,658</b> |



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