



**TESTIMONY OF
THE DEPARTMENT OF THE ATTORNEY GENERAL
KA 'OIHANA O KA LOIO KUHINA
THIRTY-SECOND LEGISLATURE, 2024**

ON THE FOLLOWING MEASURE:

S.B. NO. 1170, S.D. 2, H.D. 1, RELATING TO AFFORDABLE HOUSING CREDITS.

BEFORE THE:

HOUSE COMMITTEE ON FINANCE

DATE: Tuesday, April 2, 2024 **TIME:** 4:00 p.m.

LOCATION: State Capitol, Room 308 and Videoconference

TESTIFIER(S): Anne E. Lopez, Attorney General, or
Chase Suzumoto, Deputy Attorney General

Chair Yamashita and Members of the Committee:

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

This bill proposes to amend section 46-15.1, Hawaii Revised Statutes (HRS), to require the counties to issue affordable housing credits for affordable housing units that are constructed under various programs of the Hawaii Housing Finance and Development Corporation.

Section 46-15.1 has been amended several times since 2009. Parts of that section will be repealed and reenacted on July 1, 2030, under two separate chains of Hawaii session laws. The first chain of session laws includes: section 3 of Act 141, Session Laws of Hawaii (SLH) 2009; section 3 of Act 102, SLH 2015; section 1 of Act 80, SLH 2019; and section 2 of Act 90, SLH 2023. The second chain includes: section 3 of Act 98, SLH 2012; section 4 of Act 102, SLH 2015; section 50 of Act 55, SLH 2016; section 2 of Act 80, SLH 2019; and section 3 of Act 90, SLH 2023.

The amendments to section 46-15.1, HRS, proposed by this bill are intended to survive when that section is repealed and reenacted on July 1, 2030, under the session laws discussed above. Section 4(1) of this bill, however, only addresses the first repeal and reenactment chain and leaves out the second. To make clear that the amendments proposed by this bill survive on July 1, 2030, we recommend deleting section 4(1) on page 13, lines 8-18, of the bill, and replacing it with the following:

SECTION 4. This Act shall take effect on July 1, 3000¹; provided that the amendments made to section 46-15.1, Hawaii Revised Statutes, by section 2 of this Act shall not be repealed and reenacted on July 1, 2030, under:

- (1) Section 3 of Act 141, Session Laws of Hawaii 2009; section 3 of Act 102, Session Laws of Hawaii 2015; section 1 of Act 80, Session Laws of Hawaii 2019; and section 2 of Act 90, Session Laws of Hawaii 2023; and
- (2) Section 3 of Act 98, Session Laws of Hawaii 2012; section 4 of Act 102, Session Laws of Hawaii 2015; section 50 of Act 55, Session Laws of Hawaii 2016; section 2 of Act 80, Session Laws of Hawaii 2019; and section 3 of Act 90, Session Laws of Hawaii 2023.

Further, this bill repeals itself on June 30, 2031, and reenacts section 46-15.1, HRS, without the amendments made by this bill. This creates yet a third repeal and reenactment chain. To avoid further complicating section 46-15.1, HRS, we suggest deleting section 4(2) of the bill (currently page 13, line 19, to page 14, line 5) and replacing it with a new section 5 to read as follows:

SECTION 5. This Act shall be repealed on July 1, 2031, and section 46-15.1, Hawaii Revised Statutes, shall be reenacted pursuant to section 3 of Act 141, Session Laws of Hawaii 2009, and in accordance with section 23 of Act 96, Session Laws of Hawaii 2014, and section 9 of Act 159, Session Laws of Hawaii 2017.

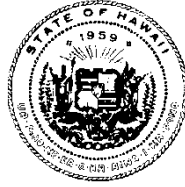
We also recommend that this Committee consult with the Legislative Reference Bureau on any question about the repeals and reenactments referred to in this bill.

Thank you for the opportunity to provide comments.

¹ The defective effective date should also be corrected if the bill advances.

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



DEAN MINAKAMI
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

Statement of
DEAN MINAKAMI

Hawaii Housing Finance and Development Corporation
Before the

HOUSE COMMITTEE ON FINANCE

April 02, 2024 at 4:00 p.m.
State Capitol, Room 308

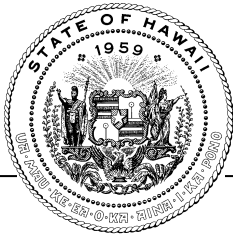
In consideration of
S.B. 1170 SD2 HD1
RELATING TO AFFORDABLE HOUSING CREDITS.

Chair Yamashita, Vice Chair Kitagawa, and members of the Committee.

HHFDC has comments on SB 1170 SD2 HD1, which temporarily requires the counties to issue affordable housing credits for certain affordable housing units that are developed pursuant to the expedited review program under Hawaii Revised Statutes Section 201H-38. The bill sunsets on June 30, 2031.

HHFDC shares the concern that the current high-interest-rate environment is negatively impacting affordable housing production in Hawaii. We defer to the counties as to whether they wish to recognize credits for 201H-38 projects.

Thank you for the opportunity to testify on this bill.



**STATE OF HAWAII
OFFICE OF PLANNING
& SUSTAINABLE DEVELOPMENT**

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR

MARY ALICE EVANS
DIRECTOR

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Statement of
MARY ALICE EVANS, Director

before the
HOUSE COMMITTEE ON FINANCE

Tuesday, April 2, 2024

4:00 PM

State Capitol, Conference Room 308

in consideration of
**BILL NO SB1170, SD2, HD1
RELATING TO AFFORDABLE HOUSING CREDITS.**

Chair Yamashita, Vice Chair Kitagawa, and Members of the House Committee on Finance:

The Office of Planning and Sustainable Development (OPSD) **has concerns with** SB1170, SD2, HD1, which requires the counties to issue affordable housing credits for affordable housing units that are constructed pursuant to chapter 201H, Hawaii Revised Statutes.

While we agree that the current high-interest-rate environment is negatively impacting affordable housing production in Hawaii, this bill would not solve that issue. SB 1170, SD2, HD1 creates a credit value system that developers could use to fulfill affordable housing obligations imposed by the counties. In order to maintain the counties' ability to require affordable housing production in well-located mixed-income, accessible communities, we respectfully suggest that, if passed, this bill be amended to allow, not require, counties to issue such credits.

Experience with excess credits in Hawai'i County over the last two decades does not show a strong link between completion of affordable units and developers' ability to convert excess credits into more housing, according to a recent third-party analysis of the County of Hawai'i's Affordable Housing Policy (Chapter 11). Developers have generally not been able to leverage excess credits as a source of financing for affordable housing development, the analysis found. In Hawai'i County, most excess credits remain unused, resulting in approximately 1,300 unused credits, according to a February 2023 audit.

In Honolulu, developers were able to accumulate excess affordable housing credits under a moratorium on affordable housing conditions (Ordinance 99-51) during a market downturn. Per a 2007 city audit, the excess credits were difficult to track and administer, and may have conflicted with city policies on diverse communities and fair distribution of low- and moderate-income housing. As the City's testimony on this bill notes, allowing developers to use credits

instead of including actual affordable housing in new transit-oriented neighborhoods will not necessarily meet county and state goals for providing affordable housing in well-located mixed income communities.

Based on the counties' decades of experience, awarding credits to developers of 201H projects will likely not help expand housing supply or help create mixed-income communities. Developers of 201H projects currently already receive a variety of public subsidies from the counties and the State via relaxed development standards and fee and tax waivers and exemptions.

Thank you for the opportunity to testify on this measure.

Mitchell D. Roth

Mayor

Deanna S. Sako

Managing Director

Robert H. Command

Deputy Managing Director



Susan K. Kunz

Housing Administrator

Harry M. Yada

Assistant Housing Administrator

County of Hawai'i
Office of Housing and Community Development

1990 Kino'ole Street, Suite 102 • Hilo, Hawai'i 96720 • (808) 961-8379 • Fax (808) 961-8685
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Kona: (808) 323-4300 • Fax (808) 323-4301

April 1, 2024

TESTIMONY FOR COMMENT
IN **OPPOSITION OF SENATE BILL 1170, SD2, HD1**
A BILL FOR AN ACT RELATING TO AFFORDABLE HOUSING CREDITS
COMMITTEE ON FINANCE

Rep. Kyle T. Yamashita, Chair

Rep. Lisa Kitagawa, Vice Chair

Hearing Date: Tuesday, April 2, 2024, at 4:00 PM

Place of Hearing: Conference Room 308 & Videoconference

Aloha Honorable Chairs Yamashita and Kitagawa, and members of the Committee on Finance,

On behalf of the Office of Housing and Community Development of the County of Hawai'i, I am providing testimony in **opposition** of **Senate Bill 1170, SD2, HD1**, which requires the counties to issue affordable housing credits for affordable housing units that are developed pursuant to Chapter 201H, Hawai'i Revised Statutes.

While the County of Hawai'i supports policies that will increase affordable housing production, the Office of Housing and Community Development does not believe that awarding developers of Chapter 201H projects credits will result in expanding the housing supply.

Awarding credits to produce affordable housing units may seem like a promising approach to expand the housing supply, however, the County of Hawai'i's experience with this system does not reflect this.

History demonstrates that these credits do not correlate with the development of affordable housing units. Rather, developers use these credits to meet affordable housing requirements imposed by the County while few, if any, physical units are produced.

This is evidenced by the fact that most of the credits issued to developers of affordable housing over the past two decades remain unused. As of February 2023, developers held 1,300 unused credits.

The awarding of credits for Chapter 201H projects as proposed in SB1170, SD2, HD1,



would result in even more credits being earned by developers with no guarantee of units being produced.


Additionally, it should be noted that developers of Chapter 201H projects currently receive generous public subsidies from the counties in the way of eased development standards and fee waivers and exemptions. The awarding of credits as proposed in SB1170, SD2, HD1, essentially amounts to "double dipping."

Lastly, the affordable housing credits programs offered by the counties are complex and need to have adequate internal controls to ensure the credits are properly issued, controlled, and accounted for.

For these reasons, the OHCD respectfully opposes SB1170, SD2, HD1, and requests that the bill not move forward.

Thank you for the opportunity to provide testimony on this measure.

Mahalo,



Susan K. Kunz
Housing Administrator

DEPARTMENT OF PLANNING AND PERMITTING
KA 'OIHANA HO'OLĀLĀ A ME NĀ PALAPALA 'AE
CITY AND COUNTY OF HONOLULU

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RICK BLANGIARDI
MAYOR
MEIA



DAWN TAKEUCHI APUNA
DIRECTOR
PO'O

JIRO A. SUMADA
DEPUTY DIRECTOR
HOPE PO'O

April 2, 2024

The Honorable Kyle T. Yamashita, Chair
and Members of the Committee on Finance
Hawai'i House of Representatives
Hawai'i State Capitol
415 South Beretania Street
Honolulu, Hawai'i 96813

Subject: Senate Bill 1170, SD 2, HD 1
Relating to Affordable Housing Credits

Dear Chair Yamashita and Committee Members:

The Department of Planning and Permitting (DPP) **opposes** Senate Bill No. 1170, SD 2, HD 1, which would require the counties to issue affordable housing credits for affordable housing units that are constructed under the various programs of the Hawaii Housing Finance and Development Corporation (HHFDC).

While the City supports policies that will stimulate housing production, particularly the inventory of affordable housing units, we do not believe that awarding credits to developers who have received financial incentives through HHFDC's various programs will result in expanding the housing supply or furthering the goal of creating desirable mixed-income communities. It also ignores the fact that many of these projects are also processed as Hawai'i Revised Statutes (HRS) 201H projects by HHFDC, and thus receive generous public subsidies from the counties in the way of relaxed development standards and fee waivers and exemptions.

We appreciate that regional differences were considered by adding language relating to counties having the ability to impose a geographic constraint on the transfer of affordable housing credits, but we continue to oppose this Bill because it creates credit value that developers can sell or use themselves to fulfill affordable housing requirements imposed by the counties. Thus, it undermines the ability of the counties to provide new affordable housing to all residents within county-defined income need groups and on a time schedule commensurate with private sector construction.

The Honorable Kyle T. Yamashita, Chair
and Members of the Committee on Finance
Hawai'i House of Representatives
Senate Bill No. 1170, SD 2, HD 1
April 2, 2024
Page 2

As you may know, the City is focusing on encouraging affordable housing in the rail corridor via transit-oriented development (TOD) by promoting denser, "infill," multi-family projects. In addition, master planned communities continue to fulfill affordable housing requirements mandated by unilateral agreements. The proposed affordable housing credit program appears to be a disincentive to TOD and the creation of mixed-income projects and neighborhoods. Furthermore, the City's Affordable Housing Requirement, as described in 2021 Revised Ordinances of Honolulu, Chapter 29, would be detrimentally impacted as developers could simply use credits instead of developing housing for our residents most in need.

In summary, we believe the amended Bill benefits the developers at the cost of the counties' programs and policies. For 201H projects processed by HHFDC, it would amount to "double dipping" as developers receive fee waivers and exemptions, as well as the monetary value of credits. The goal should not be to create a complicated monetized system of credits, but to support the development of affordable housing through direct, project-specific funding opportunities, amendments to regulations, and an evaluation of additional incentives. To this end, we respectfully oppose Senate Bill No. 1170, SD 2, HD 1, and request that it not move forward.

Thank you for the opportunity to testify.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Dawn Takeuchi Apuna', with a long horizontal line extending to the right.

Dawn Takeuchi Apuna
Director

OFFICE OF HOUSING
KE KE'ENA HO'OLĀLĀ KŪKULA HALE
CITY AND COUNTY OF HONOLULU

530 SOUTH KING STREET, ROOM 306 • HONOLULU, HAWAII 96813
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RICK BLANGIARDI
MAYOR
MEIA



DENISE ISERI-MATSUBARA
EXECUTIVE DIRECTOR
PO'O HO'OKO

KEVIN AUGER
DEPUTY DIRECTOR
HOPE PO'O

April 2, 2024

2024-HOU-023

The Honorable Kyle Yamashita, Chair
The Honorable Lisa Kitagawa, Vice Chair
and Members of the House Committee on Finance
Hawai'i State Capitol
415 South Beretania Street
Honolulu, Hawai'i 96813

Dear Chair Yamashita, Vice Chair Kitagawa, and Committee Members:

SUBJECT: Testimony in Opposition to SB1170, SD2, HD1 – Relating to Affordable Housing Credits
Hearing: Tues., April 2, 2024, 4:00 p.m. at the State Capitol, Rm. 308

The Office of Housing respectfully **opposes SB1170, SD2, HD1**, which would require counties to issue affordable housing credits for affordable housing units constructed pursuant to §201H, Hawai'i Revised Statutes. The City and County of Honolulu appreciates the intent of this measure, however, we do not believe that this program has actually produced affordable housing in quantities of any significance.

It is our understanding that the Department of Hawaiian Homelands and the County of Maui have mature housing credit programs, but there are no public records available related to the outcomes to evince the production of affordable housing. Furthermore, we have concerns about the lack of guardrails in the bill to ensure that the affordable units are actually constructed.

In an effort to learn more about a potential credit program, my office met with representatives of NAIOP and looked at available data. Based on that meeting, the Office of Housing continues to have concerns.

The city supports the enhancement of policy and financing tools to increase housing development, but existing affordable housing credit programs do not have public records of increasing the affordable housing inventory, therefore, it would be beneficial for the counties to focus their limited resources on more viable programs.

The Honorable Kyle Yamashita, Chair
The Honorable Lisa Kitagawa, Vice Chair
and Members of the House Committee on Finance
April 2, 2024
Page 2

Thank you for the opportunity to testify.

Sincerely,



Denise Iseri-Matsubara
Executive Director
Office of Housing

APPROVED:



Michael D. Formby
Managing Director



 808-733-7060
 808-737-4977

 1259 A'ala Street, Suite 300
Honolulu, HI 96817

April 2, 2024

The Honorable Kyle T. Yamashita, Chair

House Committee on Finance

State Capitol, Conference Room 308 & Videoconference

RE: Senate Bill 1170 SD2, HD1, Relating to Affordable Housing Credits

HEARING: Tuesday, April 2, 2024, at 4:00 p.m.

Aloha Chair Yamashita, Vice Chair Kitagawa, and Members of the Committee:

My name is Lyndsey Garcia, Director of Advocacy, testifying on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawaii and its over 11,000 members. HAR **supports** Senate Bill 1170 SD2, HD1, which requires the counties to issue affordable housing credits for affordable housing units that are constructed under the various programs of the Hawai'i Housing Finance and Development Corporation. Sunsets 6/30/2031. Effective 7/1/3000.

According to the Department of Business Economic Development and Tourism's 2019 report on Housing Demand in Hawaii, the state needs up to 45,497, housing units to meet demand in Hawai'i by 2030.¹ Ultimately, we have a housing supply problem, and creative approaches are needed to meet our state's housing challenges. With current high-interest rates and rising construction costs, it has made it challenging to develop affordable housing. As such, this measure can help with the development of affordable housing through the counties issuing affordable housing credits for affordable housing units under the 201H program.

Mahalo for the opportunity to testify on this measure.

¹ Department of Business, Economic Development & Tourism. (2019). *Hawaii Housing Demand 2020-2030*. <https://files.hawaii.gov/dbedt/economic/reports/housing-demand-2019.pdf>

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Hawai'i YIMBY
Honolulu, HI 96814
hawaiiyimby.com
admin@hawaiiyimby.com

Tuesday April 2, 2024

House Committee on Finance
Hawai'i State Capitol
Honolulu, HI 96813

RE: SUPPORT for SB 1170 SD2 HD1 - RELATING TO AFFORDABLE HOUSING CREDITS

Aloha Chair Yamashita, Vice Chair Kitagawa, and Members of the Committee,

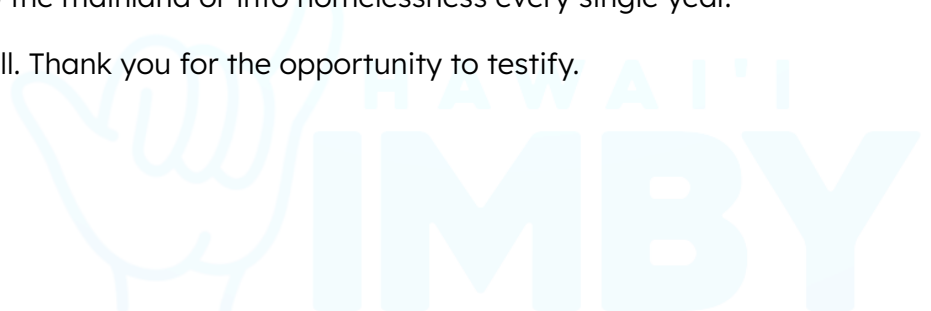
On behalf of Hawai'i YIMBY, I'm writing to support SB 1170 SD2 HD1, which could help maintain the production of affordable housing units despite the current difficult economic environment. The need for housing is so great that any additional slowing or stopping to our already hampered housing production pipeline has an outsized effect. We should continue to push for innovative ways to continue forward in housing production, not stagnating or going backwards.

We believe in fixing incentives. The existing 201H program is far from broken, however, under the current economic environment, its effectiveness could be forced to a minimum. Interim proposals such as those outlined in SB 1170 SD2 HD1, could help bridge a potential gap in housing production brought on by high interest rates.

Hawai'i YIMBY (*Yes In My Backyard*) is a volunteer-led grassroots advocacy organization dedicated to supporting bold and effective solutions for Hawai'i's devastating housing crisis. Our members are deeply concerned about Hawai'i's chronic and worsening housing shortage, which has caused home prices to rise much faster than incomes and pushes thousands of kama'aina out to the mainland or into homelessness every single year.

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

Sincerely,
Damien Waikoloa
Co-Lead, Hawai'i YIMBY





‘IKENĀKEA

April 1, 2024

Representative Kyle Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair
Members of the Committee on Finance

Re: **SB 1170 SD2 DH1 – Relating to Affordable Housing Credits**
Hearing Date – April 2, 2024 at 4:00 p.m.

Aloha Chair Yamashita, Vice Chair Kitagawa and Members of the Committee,

Thank you for allowing ‘Ikenākea Development LLC to submit testimony in **STRONG SUPPORT FOR SB 1170 SD2 DH1 – RELATING TO AFFORDABLE HOUSING CREDITS**. ‘Ikenākea Development is a local family owned and operated affordable housing development company headquartered in Honolulu that builds affordable residential projects of all types across the state. Our residential communities serve individuals, families, and kupuna with income levels ranging from 30% area median income (AMI) and up to 120% AMI. The extremely low- to the very-low income (30-60% AMI) housing units are built using a combination of Low-Income Housing Tax Credits, Rental Housing Revolving Funds, and the use of Hula Mae Multi-family bonds issued through the Hawaii Housing Finance and Development Corporation (HHFDC).

Through our experience in developing affordable housing for the State of Hawaii, we understand the scarcity of financial resources and mechanisms to be a major challenge. However, the issuance of affordable housing credits for 201H projects provides an opportunity to help alleviate some of the strain on the current availability of resources to finance these projects. We have extensive experience in utilizing the 201H program in the City and County of Honolulu for several of our projects. For example, our most recent 201H project named Hale Makana O Mo‘ili‘ili, was completed in May and is providing 104 units of affordable rental housing for kupuna at or below 60% AMI. Our company has over 1,000 units of workforce and affordable rental and for-sale housing in the pipeline and the creation of an affordable housing credit program for these 201H projects will tremendously facilitate and expedite the completion of these affordable units.

The affordable housing credits created by SB 1170 SD2 DH1 will be a tool for homes to be built and provides a means for market developers to fulfill their affordable housing requirements with less risk. The incentive created with these credits will help to encourage the production of more affordable units. For example, on Maui, the affordable housing credit program has been found to be an excellent tool to front load the immediate production of affordable housing units. ‘Ikenākea recently utilized this affordable housing credit program on Maui to begin construction on 223 units of 100% truly affordable rental housing in Kihei. These units would have never been built without the credits, and the County of Maui needs housing units now more than ever.

Furthermore, the financial resources available to build affordable rental housing is competitive and oversubscribed. In addition, with rising interest rates and construction costs, affordable for-sale housing is becoming infeasible in most developments in desirable locations. Not only is the production of affordable housing units being impacted, but the production of much needed market rate housing is diminishing. Utilizing the affordable housing credits would be a difference maker in making both affordable rentals and for-sale units financially feasible at many other project locations. These credits could be used to leverage other funding and would serve as much needed gap financing. This impact is consistent with our goal as a State to build housing units as fast as possible. We shouldn’t wait for the economic cycles to correct themselves, rather, we need to get creative now to find potential solutions to keep the pipeline of housing full.

Accordingly, 'Ikenākea Development strongly supports SB 1170 SD2 DH1 which will ensure the continued production of homes for our residents. Thank you for the opportunity to testify on this measure. Mahalo for your consideration.

Sincerely,
'Ikenākea Development

Christopher Flaherty

Christopher Flaherty, Managing General Partner
'Ikenākea Development LLC

April 1, 2024

Senator Donovan Del Cruz, Chair
Senator Sharon Moriwaki, Vice Chair
Members of the Committee on Ways and Means

RE: **SB 1170 – Affordable Housing Credits**

Aloha Chair Dela Cruz, Vice Chair Moriwaki and members of the committee,

Mahalo for the opportunity to submit testimony in **support** of SB 1170. American Savings Bank is a kamaaina institution with roots dating back to 1925. It is the third largest bank in Hawaii with over \$9 billion in assets and 36 banking centers across the state. We are deeply committed to Hawaii.

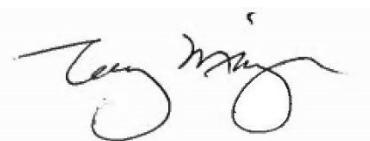
Interest rate spikes during the past year combined with record high construction costs have impaired HHFDC's 201H program, rendering it unusable by the homebuilder community to produce workforce housing for families in the 80% – 140% AMI range, during this critical time in need. The elevated interest rates have decreased the formulaic restricted sale price for 201H units, resulting in 201H projects being infeasible.

American Savings Bank supports HB 678, which creates an affordable housing credit program for 201H projects by requiring the counties to issue affordable housing credits to eligible developers for income- specified housing units. The credits are market based, issued on a one-to-one basis, and may be applied within the same county in which the credits were issued to satisfy county and HCDA affordable housing obligations.

American Savings Bank believes HB 678 would provide a valuable enhancement to the capitalization for a project, and revitalize the production of workforce homes under the 201H program

Respectfully,

AMERICAN SAVINGS BANK



Tony Mizuno
Executive Vice President
Commercial Markets



MAUI

CHAMBER OF COMMERCE

VOICE OF BUSINESS

**HEARING BEFORE THE HOUSE COMMITTEE ON FINANCE
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 308
Tuesday, April 2, 2024 AT 4:00 P.M.**

To The Honorable Representative Kyle T. Yamashita, Chair
The Honorable Representative Lisa Kitagawa, Vice Chair
Members of the Committee on Finance

SUPPORT SB1170 SD2 HD1 RELATING TO AFFORDABLE HOUSING CREDITS

The Maui Chamber of Commerce **SUPPORTS SB1170 SD2 HD1** which requires the counties to issue affordable housing credits for affordable housing units that are constructed pursuant to chapter 201H, Hawaii Revised Statutes.

The Chamber notes that we are in a housing crisis and need as much support as possible to build units as expeditiously as possible. We want to be consistent with practices done at the state level for 201H projects. It is urgent to expedite housing and provide incentives to home builders before prices continue to increase.

We note that this is another tool in the affordable housing tool box. As many tools as we can get can only help increase the supply of affordable housing.

For these reasons, we **support SB1170 SD2 HD1**.

Sincerely,

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.



April 2, 2024

Representative Kyle Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair
Members of the Committee on Finance

RE: **SB 1170 SD2 HD1– RELATING TO AFFORDABLE HOUSING CREDITS**
Hearing date – April 2, 2024 at 4:00 PM

Aloha Chair Yamashita, Vice Chair Kitagawa, and Members of the Committee,

Thank you for allowing NAIOP Hawaii to submit testimony in **STRONG SUPPORT OF SB 1170 SD2 HD1 – RELATING TO AFFORDABLE HOUSING CREDITS**. NAIOP Hawaii is the Hawaii chapter of the nation’s leading organization for office, industrial, retail, residential and mixed-use real estate. NAIOP Hawaii has over 200 members in the State including local developers, owners, investors, asset managers, lenders, and other professionals.

SB 1170 SD2 HD1 creates an affordable housing credit program for 201H projects by requiring the counties to issue affordable housing credits for income-specified housing units. Specifically, SB 1170 SD2 HD1 seeks to resolve the potential concern that non-LIHTC 201H projects are no longer feasible by allowing for the issuance of affordable housing credits to eligible developers for residences required to be sold or rented to individuals within a specified income range. The credits are market based, issued on a one-to-one basis, and may be applied within the same county in which the credits were issued to satisfy county affordable housing obligations. Further, the measure allows HHFDC to enter into memorandums of agreements with certain counties to establish, modify, or clarify the condition for the issuance, transfer, and redemption of the affordable housing credits.

NAIOP strongly supports SB 1170 SD2 HD1 which ensures the continued production of affordable and workforce housing units under HRS 201H. Currently, Hawaii is in a housing crisis. In 2019, a study commissioned by DBEDT found that Hawaii will need an additional 50,156 homes by 2025. In order to meet this projection housing units will need to be developed in mass quantities. The affordable housing credit program seeks to assist in accomplishing this goal.

Furthermore, interest rates for 30 years fixed residential mortgages have significantly risen from 3.07% to 6.95% within the past 2 years representing a near 150% increase (See Exhibit 1). This has led to a dramatic increase in monthly costs of owning a home in Hawaii. Moreover, the recent increases in interest rates have decreased the sales prices of income specified units built under HRS 201H due to the AMI pegged sales price limitations. In conjunction, the Secured Overnight Financing Rate (SOFR), a rate most construction loans are based upon, has increased from .05% to 5.32% representing a 105x increase, which dramatically increases the costs of building residential units.

The rising construction costs combined with the dramatic drop in sales prices due to AMI limitations have prevented projects from being feasible and rendered 201H nearly unusable by the home building community. This does not include Low-Income Housing Tax Credit projects for which these credits do not apply. Accordingly, NAIOP Hawaii is concerned that development of 201H projects has come to a halt and will remain so if policies are not implemented which further incentivize development and offset rising costs.

Non-Low Income Housing Tax Credit 201H projects are typically 51-60% affordable/workforce and 40-49% market rate homes with ground floor retail, meaning these projects are inherently mixed-use and mixed-income.

Example 201H Projects (Non-LIHTC)				
Year	Project	Affordable / Market	Commercial SF	TOD District
2023	Kuilei Place	603 (60%) / 402 (40%)	7,211	na
2019	Iilani	165 (50%) / 163 (50%)	6,297	Kaka'ako
2018	The Central	310 (60%) / 203 (40%)	10,522	Ala Moana
2015	Kapiolani Residence	292 (60%) / 193 (40%)	3,172	Ala Moana
Total Units & Comm. SF		1,370 (59%) / 961 (41%)	27,202	

NAIOP Hawaii is appreciative of the amendments made by the previous committee which:

1. Clarifies that no housing credits shall be issued until a certificate of occupancy has been issued; and
2. Authorizes the counties to impose a geographic constraint on the transfer of affordable housing credits with a minimum radius of five miles by public road.

To increase the efficacy of the credit program, NAIOP recommends expanding the radius to 15 miles to be consistent with Hawaii Island (15-mile radius) and Honolulu. For example, Kahala to Pearl City is within the same Development Plan, the Primary Urban Center, which is the requirement the offsite affordable housing requirements.

Additionally, processing and implementation of the credits is key to the success of the credit program. In turn, we have attached an example flowchart in Exhibit 2 to assist with administration of the credits. The flowchart is consistent with the amendment made by the previous committee to only issue credits upon the issuance of a certificate of occupancy to prevent any fraudulent activity.

Ultimately, Hawaii residents need housing units to be produced to allow our local families to continue to thrive here. NAIOP Hawaii is supportive of policies which encourage the production of much needed housing stock for our local residents. For instance, we similarly supported making the DHHL affordable housing credit program permanent in the 2024 legislative session as it would lead to the production of more affordable housing units.

Accordingly, NAIOP Hawaii strongly supports SB 1170 SD2 HD1 which will ensure the continued production of homes for our residents. Thank you for the opportunity to testify on this measure.

Mahalo for your consideration,

A handwritten signature in black ink, appearing to read 'Reyn Tanaka', with a long horizontal flourish extending to the right.

Reyn Tanaka, President
NAIOP Hawaii

Exhibit 1- Impact of High Interest Rate on Affordable Housing Sales Price

201H Affordable Housing Credit (SB 1170)

BILL SUMMARY – CREATE A PRIVATELY FUNDED SUBSIDY TO BREATHE LIFE BACK INTO THE 201H-38 PROGRAM. BASED ON DHHL’S AFFORDABLE HOUSING PROGRAM, HRS 46-15.1(b).

HOW IS THE MAXIMUM UNIT SALE PRICE CALCULATED?

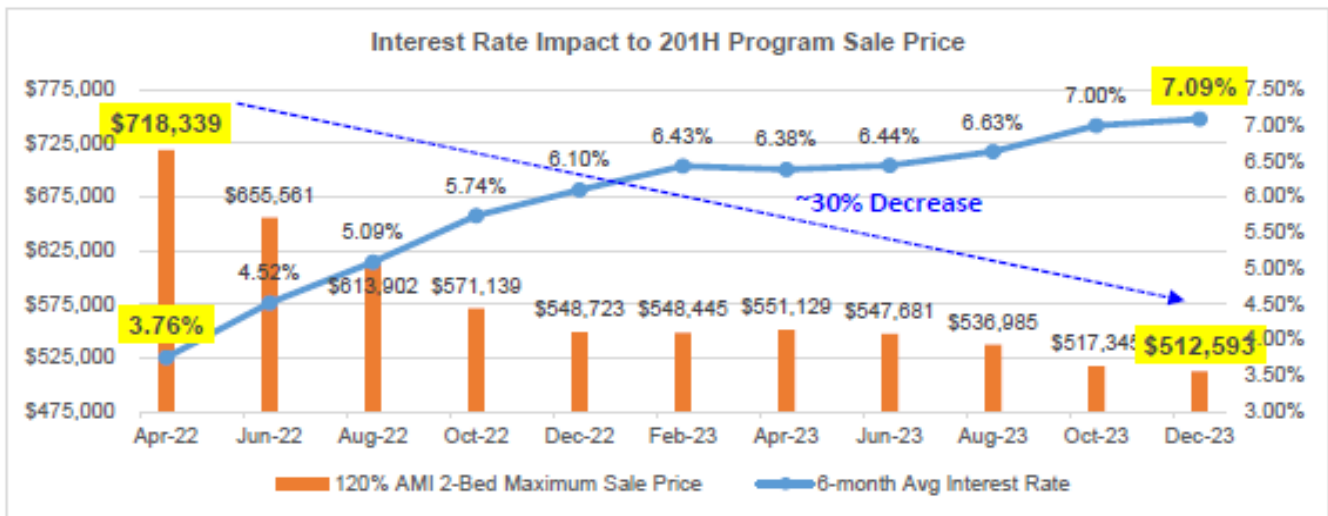
The 201H Program’s maximum unit sale price is based on a household spending 33% of its income on Housing Expenses within a specified AMI range

Housing Expenses: Mortgage Interest & Principal Payments, Mortgage Insurance, Maintenance Fees, Real Property Tax and Homeowner’s Insurance. Mortgage based on 6-month average interest rate.

Household Size - Honolulu County	1 Person	2 Person	3 Person	4 Person	5 Person
120% AMI Household Income	\$110,040	\$125,760	\$141,480	\$157,200	\$169,800
33% of Household Income - Monthly	\$3,026	\$3,458	\$3,891	\$4,323	\$4,670

*AMI – Area Median Income; 120% AMI Household Income is based on HHFDC published AMI Household Income by Family Size for 2023

201H HAS BEEN RENDERED UNUSABLE DUE TO THE SIGNIFICANT INCREASE IN HOME MORTGAGE RATES CAUSING HOUSING PROJECTS TO NOT BE FEASIBLE



OVER 5,600 AFFORDABLE HOMES WERE APPROVED USING 201H IN THE PAST 7 YEARS (2015-2022)

201H PROJECTS - PAST 7 YEARS	60-140% AMI	Market	Total
TOTAL 2015-2022*	4,642	1,015	5,657

*Provided by HHFDC

NOTE: ALL PREVIOUSLY APPROVED 201H PROJECTS HAVE SET UNIT PRICING AND ARE NOT AS IMPACTED BY THE RECENT MORTGAGE RATE INCREASES. UPDATED 2023 INFORMATION FROM HHFDC REQUESTED.

Exhibit 2- Example Flowchart for Administration of Credit Program

201H AFFORDABLE HOUSING CREDIT ("AHC") EXAMPLE FLOWCHART (SB 1170)

EXAMPLE: 150-UNIT FOR-SALE 201H PROJECT; 100 INCOME-RESTRICTED UNITS (67%)

DEVELOPER "A"

201H PROJECT

201H-38
Approval
Process

201H Project
Approval

City Council
Approval

Developer "A" sends
letter to County for
confirmation that the
201H Project is entitled to
receive 100 AHCs

County sends confirmation
letter to Developer "A" and
HHFDC acknowledging that the
project is entitled to 100 AHCs

HHFDC's approval letter includes 1) the number of AHCs project is entitled to receive and 2) the number of AHCs Developer "A" accepts

If HHFDC approval is prior to the sunset date of HB 2214, Developer A is entitled to receive 201H AHCs upon issuance of project certificate of occupancy

County's letter to include Interim Tag Numbers for each AHC in the acknowledgement letter for tracking purposes (i.e. I-00001, I-00002, etc.)

Letter is required to provide certainty for 1) project lender and 2) purchaser of AHCs.

Launch
Condo Sales

Launch
AHC Sale

Permitting

Close
Construction
Loan

Start
Construction

Developer "A" executes
an Affordable Housing
Agreement with the City

Construction
Completion

Certificate of
Occupancy

Owner Move-ins

Developer "A" enters into a Purchase & Sale Agreement ("PSA") to sell 100 AHCs to Developer "B" for an agreed upon price per credit and collects a 20% down payment.

Developer "A" provides the PSA to its construction lender as collateral to increase financing proceeds for the 201H Project

Developer "A" is issued 100 AHCs by the City via an amendment to the Affordable Housing Agreement with updated Tag Numbers. (i.e. TN-00001, TN-00002, etc.)

Developer "A" sells 100 AHCs to Developer "B" per the Purchase and Sale Agreement previously executed. The sale of AHCs is recorded as an amendment to the Affordable Housing Agreement to track origin, ownership and utilization of the AHCs.

DEVELOPER "B"

EXAMPLE: 400-UNIT FOR-SALE MARKET RATE PROJECT; UTILIZE 100 AHCs (20% AH Requirement. $400 + 100 = 500$ total units $\times 20\% = 100$ AH units required)

MARKET RATE
PROJECT

County
Approval
Process

County
Approval

Developer "B" utilizes the 100 AHCs purchased from Developer "A" to meet its county-level affordable housing requirement (20%)

FORMPARTNERS

900 FORT STREET MALL, STE. 1140
HONOLULU, HAWAI'I, 96813
(808) 940-0997

April 2, 2024

Representative Kyle Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair
Members of the Committee on Finance

RE: **SB 1170 SD2 DH1– RELATING TO AFFORDABLE HOUSING CREDITS**
Hearing date – April 2, 2024 at 4:00 PM

Aloha Chair Yamashita, Vice Chair Kitagawa, and Members of the Committee,

Thank you for allowing Form Partners to submit testimony in **SUPPORT FOR SB 1170 SD2 HD1 – RELATING TO AFFORDABLE HOUSING CREDITS**. This Bill would allow the continued production of affordable and workforce housing units under HRS 201H, which is desperately needed given the severity of the housing crisis in Hawai'i.

The affordable housing credits generated by SB 1170 SD2 HD1 will allow for the continued expansion of affordable housing options for Hawai'i residents. Due to significantly higher interest rates for fixed 30-year residential mortgages, the purchasing power of affordable home buyers has greatly diminished and has consequently driven the pricing of new housing units well below the cost of developing them. At the same time, construction financing costs have also significantly increased, further increasing the costs of producing housing. The rising construction costs combined with the dramatic drop in sales prices have prevented developers from developing projects under 201H due to infeasibility, and these stagnant conditions will continue if policies are not created to help offset these challenges. We believe that creation of the proposed affordable housing credits is a big step in the right direction.

In conclusion, Form Partners supports SB 1170 SD2 HD1 which will promote the continued production of new homes for Hawai'i residents. Thank you for the opportunity to testify on this measure.

Mahalo for your consideration,

Chris Deuchar

Christopher W. Deuchar, Managing Partner
Form Partners, LLC

SB-1170-HD-1

Submitted on: 4/1/2024 8:59:15 AM

Testimony for FIN on 4/2/2024 4:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Glen Kagamida	Individual	Support	Written Testimony Only

Comments:

MAKES SENSE TO BE CONSISTENT.

MAHALO!



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Matthew D. Mckeever (S)
Associate
Capital Markets | Institutional
Group
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April 2, 2024

Representative Kyle Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair
Members of the Committee on Finance

RE: SB 1170 SD2 HD1– RELATING TO AFFORDABLE HOUSING CREDITS
Hearing date – April 2, 2024 at 4:00 PM

Aloha Chair Yamashita, Vice Chair Kitagawa, and Members of the Committee,

I strongly support SB 1170 SD2 HD1 which ensures the continued production of affordable and workforce housing units under HRS 201H. Currently, Hawaii is in a housing crisis. In 2019, a study commissioned by DBEDT found that Hawaii will need an additional 50,156 homes by 2025. In order to meet this projection housing units will need to be developed in mass quantities. The affordable housing credit program will assist in accomplishing the development of more affordable housing for Hawaii residents such as myself.

SB 1170 SD2 HD1 creates an affordable housing credit program for 201H projects by requiring the counties to issue affordable housing credits for income-specified housing units. Specifically, SB 1170 SD2 HD1 seeks to resolve the potential concern that non-LIHTC 201H projects are no longer feasible by allowing for the issuance of affordable housing credits to eligible developers for residences required to be sold or rented to individuals within a specified income range. The continued production of these units is vital to keeping our working residents here in Hawaii.

Furthermore, I'm concerned with the impact of the current interest rates for 30 years fixed residential mortgages that have significantly risen from 3.07% to 6.95% within the past 2 years representing a near 150% increase. This has led to a dramatic increase in monthly costs of owning a home in Hawaii and impacted the ability to develop these income restricted projects. The recent increases in interest rates have decreased the sales prices of income specified units built under HRS 201H due to the AMI pegged sales price limitations. We are concerned with the rising construction costs combined with the dramatic drop in sales prices due to AMI limitations has

prevented projects from being feasible and rendered 201H nearly unusable by the home building community.

Accordingly, NAIOP Hawaii is concerned that development of 201H projects has come to a halt and will remain so if policies are not implemented which further incentivize development and offset rising costs. Hawaii residents need housing units to be produced to allow our local families to continue to thrive here.

Sincerely,

Matthew D. McKeever