JOSH GREEN, M.D.
GOVERNOR

HAKIM OUANSAFI
EXECUTIVE DIRECTOR

BARBARA E. ARASHIRO
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STATE OF HAWAII
HAWAII PUBLIC HOUSING AUTHORITY
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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

Thursday, February 2, 2023
1:00 PM – Room 225, Hawaii State Capitol

In consideration of
SB 858
RELATING TO HOUSING

Honorable Chair Chang and members of the Senate Committee on Housing, thank you for the opportunity to provide testimony concerning Senate Bill (SB) 858, relating to housing.

The Hawaii Public Housing Authority (HPHA) **supports** the enactment of SB 858, which requires the Hawaii Housing Finance and Development Corporation to amend its Qualified Allocation Plan and provide greater priority in the award of Low-Income Housing Tax Credits (LIHTC) to affordable housing projects that convey ownership to the State or to organizations obliged to use any financial surplus generated to construct more housing.

The HPHA's mission is to provide Hawaii's residents with adequate and affordable housing, economic opportunity, and suitable living environments that are free from discrimination through both its public housing and rental assistance programs. The HPHA serves our state's most disadvantaged populations, including families earning less than thirty percent of the Area Median Income, the disabled, and the elderly.

The HPHA has completed a portfolio-wide evaluation to assess the feasibility of redeveloping and modernizing its public housing inventory. Efforts are already underway to develop new affordable rental and/or for-sale housing units at several HPHA properties, including at the

Kuhio Park neighborhood and the HPHA's School Street campus. Most recently, the HPHA issued a Request for Qualifications seeking a Master Developer for its upcoming Ka Lei Momi Project. Through a public-private partnership, the HPHA will oversee the development of 10,000 new, affordable housing units across the state. Each new unit will be incorporated into a mixed-income, mixed-use community that also include a one-for-one replacement of any existing public housing units.

Given that the HPHA will maintain ownership of each of its properties after redevelopment, any profit generated from them will remain with the State and not with a partnering developer. By providing projects that are or will be State-owned with greater priority in the award of LIHTC, the Legislature can help to ensure that local housing development is less profit-motivated and more focused on providing Hawaii's residents with a greater number of affordable housing options.

HPHA redevelopment projects will provide the State with the following benefits:

- Allows the State to rehabilitate functionally obsolete public housing units; eliminate expensive repair and maintenance. Built in the 50's and 60's, the existing housing portfolio has reached the end of its useful life and urgently requires revitalization.
- Supports the Administration's and Legislature's Policy priority of providing access to permanent housing from homelessness and will allow the Agency to make a meaningful impact in support of legislative goals of developing more affordable housing units, thereby expanding the existing supply of affordable and low-income housing in the State to urgently address the affordable housing crisis.
- HPHA redevelopment projects will be integrated into mixed-income, mixed-use communities. Not only does this provide greater housing stability to local families struggling to get by, but it also benefits the overall social fabric of our neighborhoods. By reducing poverty-concentration statewide, low-income households are empowered through easier access to better schools, healthcare, and job opportunities. The United State Department of Housing and Urban Development (HUD) encourages this approach through programs such as Rental Assistance Demonstration (RAD) and Mixed-Finance strategies through public private partnerships. This makes HPHA's potential redevelopment projects much more user-friendly in the private sector, better positioning HPHA properties to access the private capital and financing necessary to revitalize them.
- As the State's only Public Housing Agency with federal public housing, we can access greater federal support and funding to benefit the most disadvantaged populations in our State, using our Moving to Work designation and tools like RAD, Choice Neighborhood Initiative, and Section 18 Demolition/Disposition.
- As the proposed redevelopments will be located on parcels already owned by the HPHA, it excludes the cost of land from the development cost equation, creating an attractive incentivize for private developers to partner with the State in this endeavor.

- Allows the State to ensure that every new housing unit that's built will remain affordable in perpetuity.
- The scale of this proposal makes it possible to establish contract(s) directly with key suppliers nationally, or access government pricing, resulting in significant cost savings for Hawaii taxpayers.
- HPHA's development projects serve the largest demographic of housing needed of 20% AMI and below that private developers can't accommodate.
- Leveraging capital resources through public/private partnerships, Transit Oriented Development (TOD) incentives and underutilized State assets in prime PUC areas and TOD areas creates an exceptional opportunity to deliver desperately need affordable housing to the state and to create more livable, vibrant, and integrated communities for health and well-being of our residents and taxpayers that can be enjoyed for generations to come.
- Encourage developers to enter into public/private partnerships to lower costs.

The HPHA appreciates the opportunity to provide the Committee with its testimony regarding SB 858. We thank you very much for your dedicated and continued support.

JOSH GREEN, M.D.
GOVERNOR

DENISE ISERI-MATSUBARA
EXECUTIVE DIRECTOR

LATE

STATE OF HAWAII

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
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IN REPLY PLEASE REFER TO:

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

SENATE COMMITTEE ON HOUSING
February 02, 2023 at 1:00 p.m.
State Capitol, Room 225

In consideration of
S.B. 858
RELATING TO HOUSING.

HHFDC offers comments on S.B. 858, which requires HHFDC to amend its Qualified Allocation Plan (QAP) used to award Low-Income Housing Tax Credits (LIHTCs) to:

1) Allow up to 20% of the maximum 120 QAP points to be allocated to projects offering to convey ownership of the completed project to the State or an organization obliged to use all financial surpluses generated by the project to construct more housing; and

2) Prioritize applicants based on favorable repayment of any Rental Housing Revolving Fund (RHRF) loan.

LIHTC allocating agencies such as HHFDC are responsible for allocating tax credits to qualifying projects that meet the QAP's criteria. Under IRS rules, an allocating agency is to provide no more credit than deemed necessary to ensure a project's financial feasibility throughout the 15-year compliance period. In order for HHFDC to fulfill this responsibility, it needs to award its limited resources, which includes tax-exempt private activity bonds and rental housing revolving funds, to projects that utilize them in the most efficient manner.

Awarding such a high number of points (50 out of the possible 250 points) to a project because it conveys ownership to the State draws serious concerns that this will disincentivize private sector participation in not only generating affordable rentals, but also in operating them.

Because of the long delays and added costs attributed to procurement, rental projects financed by the LIHTC program tend to be more efficiently owned and operated by the private sector.

In addition to eliminating privately held affordable rental projects from competing for HHFDC resources, this change also does not ensure that the state's financing resources are used in the most efficient manner as evinced by several applications involving state-owned parcels of land.

As a matter of policy, HHFDC has concerns with prioritizing applicants outside of what is provided for in the relevant administrative rules. In any event, HHFDC is unclear as to the intent of the language set forth in Section 2, paragraph 2 of the measure regarding "timing" and "loan amount repaid."

Thank you for the opportunity to provide testimony.

LATE

BUILDING INDUSTRY ASSOCIATION Hawaii

SENATE COMMITTEE ON HOUSING
State Capitol, Room 225
415 South Beretania Street
1:00 PM

January 31, 2023

RE: SB 858 - RELATING TO HOUSING

Chair Chang, Vice Chair Kanuha, and members of the committee:

My name is Max Lindsey, 2023 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. Our members build the communities we all call home.

BIA Hawaii offers the following comments regarding SB 858, Relating to Housing. This bill would require Hawai'i Housing Finance and Development Corporation (HHFDC) to amend the Low-Income Housing Tax Credit Program and Qualified Allocation Plan to allow up to twenty per cent of the maximum one hundred-twenty points on the criteria point system to be allocated to projects offering to convey ownership of the completed project to the State or an organization obliged to use all financial surpluses generated by the project to construct more housing and prioritize applicants based on the timeliness and loan amount repaid to the Rental Housing Revolving Fund.

While we understand the intent of this bill, it would effectively place the risk upon private developers, while giving the financial benefits of completed properties to the State. Further, prioritizing early repayment of the RHRF takes cashflow away from the reinvestment in property operations. Using project cashflow for early RHRF loan repayment could make Hawaii LIHTC deals less attractive to investors.

The state of Hawaii is in a dire housing crisis. As the Legislature is aware, the cost of housing in Hawaii is extremely high, with Oahu's median price of homes being currently over $1 million. Approximately 153,967 U.S. households are priced out of buying a home for every $1000 increase in price, according to the National Association of Home Builders (NAHB). We are in support of legislation that would allow for the building of much-needed housing at every price point in Hawaii.

We appreciate the opportunity to express our support for HB 336.

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NAIOP
COMMERCIAL REAL ESTATE
DEVELOPMENT ASSOCIATION
HAWAII CHAPTER

LATE

February 2, 2023

Representative Stanley Chang, Chair
Representative Dru Mamo, Vice Chair
Members of the Committee on Housing

RE: **SB858 – RELATING TO HOUSING**
Hearing date – February 2, 2023 at 1:00 p.m.

Aloha Chair Chang, Vice Chair Mamo and members of the committee,

Thank you for allowing NAIOP Hawaii to submit testimony providing **COMMENTS** on SB858 – RELATING TO HOUSING. 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. NAIOP Hawaii is generally supportive of efforts to promote sustainability.

SB 858 proposes to require HHFDC, when considering whether to allocate tax credits to competing affordable housing projects, to give preference to projects that are conveyed to the state upon completion.

Respectfully, NAIOP Hawaii is concerned that the preferences required by this measure are at such high levels that these laws will effectively eliminate all affordable housing projects are not either built on or conveyed to the state upon completion from competition. In turn, the bulk of all new affordable housing will become public housing projects owned and operated by the state.

Many states across the country have attempted similar approaches with their public housing agencies and have determined this practice to be inconsistent with developing and maintaining high quality housing for residents in need.

The current implementation of the low-income housing tax credit program, coupled with the RHRF loan program, as currently being implemented by HHFDC, have produced more affordable housing in the state than any other programs in the state's history by encouraging public-private partnerships with qualified affordable housing developers, investors and state or municipal agencies.

Ultimately, expecting affordable housing developers to devote all profits to the creation of affordable housing units will adversely impact Hawaii's ability to work with developers willing to take on the risks for developing affordable housing projects during the current economic climate.

We respectfully recommend that this measure be held until the legislature can study the impacts the preferences in this measure will have on tried and true public private partnerships. Thank you for the opportunity to testify on this measure.

Mahalo for your consideration,

Jennifer Camp, President
NAIOP Hawaii

LATE

SB-858
Submitted on: 2/1/2023 7:25:52 PM
Testimony for HOU on 2/2/2023 1:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Craig Watase	Individual	Oppose	Written Testimony Only

Comments:

Aloha!

My name is Craig Watase, President of Mark Development, Inc. We are affordable housing developers and property managers since 1977. I am also a past president of the Building Industry Association of Hawaii.

SB858 is a bad idea like its companion SB859.

SB858 wants to award Low Income Housing Tax Credits to developers that convey the project to the State or an organization that will put all proceeds back into affordable housing. So the developer takes all the risk of development and then we have to convey it to the State?

As such, I would argue that this bill:

1. Discourages developers from building affordable housing. The QAP already caps profit on fees. Tax credit investors require the developers (depending on the project) to have $1-3 million in liquid cash and often over $10 million in net assets to be a guarantor on the financing. But in order to get credits now we have to convey it to the State? These credits are not a grant. The IRS has stated that LIHTC are a private investment. If the State's goal is to dismantle the affordable housing developer talent pool, then this is a step in the right direction.

2. doesn't consider that cash flow (if any) already gets reinvested back into affordable projects. Not just to support the overhead and staffing of developers, but also because HHFDC is requiring "readiness", so developers must front the money for market studies, architect and engineering plans that can get permits, hundreds of thousands of dollars for entitlements via 201(h), CPR or subdivision cost, lawyers, environmental assessments, archealogical studies, traffic studies, historic preservation, etc. Often times over $1 million just to compete for credits/RHRF. Conveying to the State might be less offensive if they wanted to provide free and unlimited pre-development funds.

3. These operating proceeds are NOT GUARANTEED. Developer's profits are NOT GUARANTEED. There is not enough room to describe the number of ways a developer can go broke on these projects. There are dozens of examples of developer's working for free having to defer their fees into the cash flow because the development went over budget...often due to no

fault of the developer. Hurricanes, interest rates, inflation, government regulation, slow permitting, supply shortages, hoary bats, etc.etc.

The operating budgets of these projects are so slim. It does not take much to kill the cash flow. The marketablity of a project can change easily creating higher vacancies. Other budget killers can range from tenant damage, uncollectable tenant accounts receiveable, bed bugs, frivolous lawsuites. etc. Unexpected capital improvements like when cast iron pipes only last half as long as they are supposed to because of sulfuric gas backing up from county sewer lines. Or when inmates are let out of jail for covid and we have to spend more money on security. Nevermind inflation or utility price increases or government edicts that prevent rent increases or evictions. I can go on and on.

4. wants to take away the positive cash flow but does not want to accept the risk of the negative cash flow. Well I guess if the project was conveyed to the State then the State would have to pay for operating deficits. Shall I list the State owned projects that have huge vacancies because units are uninhabitable and the millions in deferred maintenance? How can anyone even begin to think that government ownership of housing projects is a good thing? Even if government guaranteed the coverage of losses to a private owner, you lose the incentive to manage, innovate and make the asset perform well...a hallmark of America. Otherwise these projects would feel like communist China. Tax credit investors have told me that they want to see the project cash flow go to the GP so that they are incented to properly manage the asset.

5. consider that affordable housing projects financed with LIHTC typically have a gap in the sources of funds because of **high cost to build and operate in Hawaii**. May I be so bold as to suggest that the legislature can help affordable housing by removing regulatory barriers and anti-business laws. a) There is no good reason for the State Land Use Commisison. b) tort reform will reduce insurance cost which adds up to a huge amount of the cost of development. c) can we use technology to perserve history? Video for virtual reality tours instead of preserving the actual structures and designs at rediculous costs? d) Can I not have to pay $100,000 for an archiologist to monitor my digging 10 inches into the ground for paver blocks on dirt that had already been excavated? This would be a good start.

Thank you for allowing me to share my thoughts.