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

SENATE COMMITTEE ON WAYS AND MEANS
February 27, 2025 at 10:30 a.m.
State Capitol, Room 211

In consideration of
S.B. 71 SD1
RELATING TO THE RENTAL HOUSING REVOLVING FUND.

Chair Dela Cruz, Vice Chair Moriwaki, and members of the Committee.

HHFDC has **comments** on SB 71 SD1, which renames the Rental Housing Revolving Fund (RHRF) to the State Housing Revolving Fund (SHRF). It also clarifies the prioritization of funds from the SHRF and eligible applicants of the SHRF and amends the preference criteria and eligibility requirements for applicant developers seeking assistance from the SHRF.

HHFDC strives to maximize the effectiveness of its RHRF program through a competitive annual application process to ensure that the State's resources are efficiently used. Among the current criteria considered when awarding RHRF funds include project readiness, project cost and financing efficiency (uses the least amount of funding per unit per year), affordability commitment, tenant amenities, and target households served.

The prioritization of financing awards in sections 5 and 6 is without regard to the efficiency in the deployment of limited resources and project financial feasibility or readiness of projects. Financial feasibility assessments are essential to prevent the allocation of funds to projects that may fail to secure additional financing, encounter budget shortfalls, or stall due to unrealistic cost assumptions. Without feasibility requirements, there is a risk of funding projects that ultimately cannot be completed, leading to wasted resources and missed opportunities to address housing needs.

Readiness ensures funds are awarded to developments that will begin construction and lease-up in a timely manner. Without this criterion, funds may be allocated to projects that are years away from breaking ground, delaying the production of much-needed affordable housing. Prioritizing shovel-ready projects ensures that funds are put to use immediately, leading to quicker delivery of housing for households in need.

We have concerns about Section 6 of the bill, which appears to prioritize RHRF financing for households at 50-60% AMI. There is significant demand for housing by households under 50% AMI, specifically at the 30-40% AMI levels, which far exceeds the current supply, making it essential to have dedicated financing mechanisms that support deeply affordable rental units. The LIHTC program as used in conjunction with RHRF is the primary means of providing affordable housing for these households. The favorable financing terms of RHRF loans are essential not only for the initial development of these units but also for ensuring their long-term financial sustainability. Without these low-cost loan terms, the feasibility of creating and maintaining housing for residents at or below 30% AMI would be significantly compromised.

There is also demand for workforce housing, which is above 60% AMI to 120% AMI. Under the proposed language, HHFDC would be required to allocate all available funds to projects serving lower AMI levels before any resources could be directed toward workforce housing developments. Given the increasing concern over Hawaii's workforce outmigration, the ability to allocate funding toward workforce housing should be considered. Ensuring a balanced approach that supports both deeply affordable and workforce housing is essential to maintaining a stable, diverse, and economically sustainable community.

Subsection (g) does not need modification, as it is not feasible to construct housing units targeted at 30% AMI residents that are not rentals. We note that without specific requirements or financial incentives to support the development of units at or below 30% AMI, such units will not be built, as they are not financially viable under standard market conditions. Given that the demand for Section 8 vouchers significantly exceeds available resources, it is critical to ensure that deeply affordable housing options, and the required RHRF subsidy, remain a priority.

Section 7 of the bill removes the original eligibility criteria and replaces it with seven new criteria. HHFDC does not oppose giving preference to multifamily units near stations of a locally preferred alternative of a mass transit project; State or county owned projects; or projects that are required to be conveyed to the State or county at a definite time. We have concerns about criteria 4 through 7:

- Subsection (b)(4). Projects are typically owned by partnerships formed as special purpose entities specifically to own and operate the project. Any residual income will benefit the project.
- Subsection (b)(5). Requiring real property to be used for affordable housing in perpetuity could have long-term unintended consequences.
- Subsection (b)(6). A five-year loan term is not feasible for LIHTC projects. HHFDC supports reducing the maximum loan term of RHRF loans to 40 years.

- Subsection (b)(7). Awarding funds based solely on the lowest cost per unit per year will discourage the development of housing for the most vulnerable populations, particularly those at or below 30% AMI. These projects inherently require greater subsidies, incur higher operating costs due to onsite supportive services, and generate lower rental revenue, making them more expensive to develop. Relying exclusively on cost-per-unit criteria may also incentivize unrealistic cost estimates to secure funding, result in lower construction quality that leads to higher long-term maintenance expenses, and prioritize large-scale developments that may not align with the character and housing needs of neighbor island communities.

We respectfully request that preference be given to projects that meet *any* of the new criteria.

On page 13, nonprofit projects are no longer given preference when ranked equally with a for profit or government project. We note that nonprofit developers pledge to keep their projects affordable on a long-term basis, typically for a term of 65 years. Restrictive land-use covenants, including the agreed-upon term of affordability, are recorded and run with the land.

Thank you for the opportunity to testify on this bill.

JOSH GREEN, M.D.
GOVERNOR
KE KIAʻĀINA

HAKIM OUANSAFI
EXECUTIVE DIRECTOR

BARBARA E. ARASHIRO
EXECUTIVE ASSISTANT

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

IN REPLY PLEASE REFER TO:

25:OED

Statement of
Hakim Ouansafi, Executive Director
Hawaii Public Housing Authority

Before the
SENATE COMMITTEE ON WAYS AND MEANS

Thursday, February 27, 2025
10:30 AM – Room 211, Hawaii State Capitol

In consideration of
SB 71, SD1
RELATING TO THE RENTAL HOUSING REVOLVING FUND

Honorable Chair Dela Cruz, Vice Chair Moriwaki and members of the Senate Committee on Ways and Means, thank you for the opportunity to provide testimony on **Senate Bill (SB) 71, SD1**, which renames the Rental Housing Revolving Fund to the State Housing Revolving Fund (SHRF). Clarifies the prioritization of funds from SHRF and eligible applicants of the SHRF. Amends the preference criteria and eligibility requirements for applicant developers seeking assistance from the SHRF. The Hawaii Public Housing Authority (HPHA) **supports** the passage of this measure and is grateful to the Legislature for its steadfast commitment to addressing Hawaii's affordable housing crisis.

The HPHA is dedicated to providing Hawaii's residents with safe, affordable housing and fostering equitable living environments free from discrimination. Through our public housing and rental assistance programs, we serve some of the most vulnerable members of our community, including families earning less than 30% of the area median income, individuals with disabilities, and the elderly.

Chapter 201H, Subpart III.J., Hawaii Revised Statutes, establishes the Rental Housing Revolving Fund – that will be amended to the SHRF in this measure, sets forth the activities eligible for SHRF assistance, and creates various preferences and priorities for the award of assistance. The SHRF, which is administered by the Hawaii Housing Finance and Development Corporation, provides equity and gap financing, low-interest loans to qualified owners and developers constructing or rehabilitating affordable rental housing units. **SB 71, SD1**, in part, realigns the project preference criteria specified in subsection (b) away from the production of certain unit types (e.g., apartment, townhome, single room occupancy, etc.) and towards meeting a broader range of goals such as promoting transit-oriented development and perpetual affordability commitments.

The Green Administration and the Legislature have provided crucial support to the HPHA in recent years, enabling us to launch multiple redevelopment projects aimed at improving housing conditions and revitalizing aging public housing communities across the State. Each of our agency's ongoing redevelopment projects will remain State-owned or will be conveyed back to the State at a definite time. Additionally, the HPHA is looking to utilize federal repositioning programs like the Rental Assistance Demonstration and Faircloth-to-RAD which require replacement rental units to remain affordable in perpetuity.

Thank you again for your thoughtful consideration of this measure and for your unwavering support of additional affordable housing development in Hawaii.

NAIOP
COMMERCIAL REAL ESTATE
DEVELOPMENT ASSOCIATION
HAWAII CHAPTER

February 27, 2025

Senator Donovan Dela Cruz, Chair
Senator Sharon Moriwaki, Vice Chair
Committee on Ways and Means

RE: **SB 71 SD1 - Relating to the Rental Housing Revolving Fund**
Hearing date: Thursday February 27, 2025 at 10:30AM

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

Mahalo for the opportunity to submit testimony on behalf of NAIOP Hawaii in **OPPOSITION** to **SB 71 SD1 Relating to the Rental Housing Revolving Fund**. NAIOP Hawaii is the local 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 71 SD1 renames the Rental Housing Revolving Fund (RHRF) to the State Housing Revolving Fund (SHRF) and clarifies the prioritization of funds from the SHRF. Furthermore the measure amends the preference criteria and eligibility requirements for applicant developers seeking assistance from the SHRF. While we appreciate the Legislature's commitment to addressing Hawaii's housing crisis, we have serious concerns that SB 71 SD1, as written, will hinder affordable housing production rather than support it.

Primarily, SB 71 SD1 precludes for-profit developers from eligibility for the SHRF by providing preference to government agencies and nonprofit organizations. For-profit developers, who have historically been critical partners in affordable housing development bringing expertise, efficiency, and access to private capital. Excluding these developers reduces the capacity to develop housing at the scale needed to address Hawaii's severe housing shortage. Collaborative efforts between government, nonprofits, and for-profits have historically been key to maximizing housing production and leveraging public funds.

NAIOP is concerned that SB 71 SD1 would increase public ownership requirements by mandating state or county ownership of projects or requiring eventual conveyance discourages participation from private developers and raises concerns about long-term operational efficiency. Public ownership often comes with higher administrative costs and operational inefficiencies, potentially reducing the number of units that can be maintained over time.

Furthermore, under subsection (b)(6) providing preference to applicant developers requesting loan terms no longer than 5 years. The shortened loan terms create undue financial pressure on developers, as affordable housing projects typically require longer loan amortization periods to remain financially viable. Such restrictions discourage participation from developers and lenders alike, further slowing housing production.

Moreover, SB 71 SD1 provides preference to projects with perpetual affordability. While affordability is a key goal, perpetual restrictions may disincentivize developers from pursuing projects due to the long-term financial risks and operational burdens associated with such agreements. The measure will discourage private and for-profit developers from participating in affordable housing projects, as it limits long-term financial flexibility and deters investment.

Accordingly, rather than excluding key stakeholders and imposing restrictive criteria, NAIOP Hawaii encourages the Legislature to:

1. Retain broader eligibility for the Rental Housing Revolving Fund to include for-profit developers.
2. Focus on incentivizing partnerships that balance private, nonprofit, and public sector contributions.
3. Provide flexibility in loan terms and affordability requirements to ensure financial feasibility and encourage participation.

By fostering collaboration and maintaining a balanced approach, Hawaii can achieve its affordable housing goals more effectively. **We urge the Committee to reconsider SB 71 SD1**. NAIOP appreciates the Legislature’s commitment to creating affordable housing for Hawaii residents and we look forward to working together. Thank you for the opportunity to provide testimony.

Mahalo for your consideration,

Reyn Tanaka, President
NAIOP Hawaii

CATHOLIC CHARITIES HAWAIʻI

OPPOSE SB 71 SD1: RELATING TO THE RENTAL HOUSING REVOLVING FUND

TO:	Senate Committee on Ways and Means
FROM:	Tina Andrade, President and CEO, Catholic Charities Hawaiʻi
Hearing:	Thursday, 02/27/25; 10:30am; CR 211 and Videoconference

Chair Dela Cruz, Vice Chair Moriwaki, and Members, Committee on Ways and Means:

Catholic Charities Hawaiʻi **opposes SB 71 SD1**, which amends the preference criteria and eligibility requirements for applicant developers seeking funding from the Rental Housing Revolving Fund (RHRF).

Catholic Charities Hawaiʻi (CCH) is a tax-exempt, community-based organization that has been providing social services in Hawaiʻi for over 77 years. CCH has programs serving elders, children, families, veterans, the homeless, and immigrants. Our mission is to provide services and advocacy for the most vulnerable people in Hawaiʻi. We have a long history of working in affordable housing and homelessness.

Catholic Charities Hawaiʻi respectfully opposes this bill. We have deep concerns about significant aspects of it. The current language for the Rental Housing Revolving Fund (RHRF) is more flexible and targets the critical needs of the vulnerable populations we serve: elders, families, the homeless, veterans, and others, as well as the ALICE population.

Changing the Name to the State Housing Revolving Fund: This and other small but key changes in the bill seem to reflect a new legislative initiative to promote the development of affordable for-sale housing. If this is the Legislature's intent, we urge the creation of a separate fund or process. The new fund or process should be transparent to the public and should not create confusion with the RHRF's development of affordable rental units.

Deletion of Current Priorities, Particularly the 5% Set-Aside for Units Targeting People with Incomes at or Below 30% of AMI: Building units for very low-income people may require a higher subsidy, but these units are essential to ending homelessness. Developers can only afford to build rentals for persons below 30% AMI with these subsidies and by mixing them with units that charge higher rents. This 5% set-aside is critical for elders facing homelessness, lower-income families in the workforce, and others. In fact, to even find a unit in 2020, well over half of the actual tenants (2,153 out of 3,226) in 47 LIHTC senior projects had incomes at or below 30% AMI. We need more units with rents addressing the 30% AMI population, not fewer.

The current Tier 1 and Tier 2 funding process (up to 100% AMI) for the RHRF reflects the greatest need for rental housing, enabling our workforce to remain in Hawaiʻi. Before overhauling the system, we urge the Legislature to allow time for the current production of Tier 2 rental projects to be completed and evaluated.

Priorities Listed in Section 6, 2(e): Priority #2 deletes the 5% set-aside for those at 30% AMI and states that this priority "shall apply to awards… needed for persons/families with incomes <u>at</u>

50-60% of the area median income." How will the state address housing for those under 50% AMI?

Additionally, Priority #3 for mixed-income projects states that this "shall apply to awards… needed for persons/families with incomes at 120 to 140% of the area median income." Where do persons/families with incomes between 61% and 120% fit into this new state initiative?

TOD/Government Projects and Other Listed Priorities: These would screen out projects for our most vulnerable clients and disrupt the current pipeline for creating affordable rentals. We support the development of state- or county-owned projects, as they would be permanently affordable. However, we also believe residents of Hawaiʻi should have affordable housing choices in other areas, including outside TOD zones or state/county projects. The current priority, which serves the geographic needs of the population, is essential for elders who must live near transportation, shopping, and services to maintain independence. Our workforce also needs affordable housing options based on their jobs, family situations, and other factors. Lower-income areas of the state, especially non-urban areas, would be excluded by making TOD the top priority.

The current RHRF language already allows consideration of TOD areas and state/county projects alongside other projects, but these priorities are now deleted in this bill. Housing priorities should reflect a wider scope of locations to meet the overall needs of our population rather than being limited to state, county, or TOD-designated projects.

Obligation to Use Financial Surplus for Housing: A major concern is the cost of implementing rules and creating a new bureaucracy for this proposed change. Yet, it is unclear whether any developers (aside from possibly the state or county) would utilize this priority. This new bureaucracy would need to monitor, audit, and track projects for 60–100+ years. Would this administrative burden on HHFDC detract from its main purpose of creating affordable housing?

We support efforts to ensure that projects retain affordability beyond the 61-year requirement in LIHTC awards. We suggest that the state continue exploring initiatives implemented by other states to accomplish this.

This is a complex bill with many possible unintended consequences. We respectfully urge you to defer this bill.

If you have any questions, please contact our Legislative Liaison, Betty Lou Larson at (808) 527-4813.