

Financing Strategies to Develop Affordable Housing Working Group  
December 13, 2004, 9:00 a.m., HCDCH Planning Conference Room

Present: Craig Hirai (Chair), Karen Iwamoto, Gail Kaito, Betty Lou Larson, Debbie Luning, Sandi Miyoshi, Mavis Masaki, Darren Ueki, Chuck Wathen, Janice Takahashi

### General Discussion

Condominium units have been a large component of the rental supply. In recent years, many of these units have been sold as owners take advantage of the seller's market. This loss in rental housing stock places upward pressure on rents. A member of the working group projected that rents will increase by as much as 8% a year over the next 4 years.

Rents have not, however, reached a level to spur the private development of rental housing units. Therefore, there is a need to create competition to develop rental housing by providing developer incentives including financing and the removal of disincentives. Disincentives include restrictions on developer's profit, a lengthy approval process, and unnecessary financing requirements. While the state should diligently review applications for financing assistance, flexibility is needed. The extent to which a project is scrutinized should be commensurate with the level of risk. For example, if there is credit enhancement for a tax-exempt revenue bond financed project, there could be less scrutiny by the State

### General Excise Tax (GET) collections on residential rents

Reference is made to a July, 2004 report by the State Department of Taxation (DoTax) entitled "*Tax Credits Claimed by Hawaii Taxpayers, 2002.*" Of the \$125.9 million in tax credit claims in tax year 2002, there were general fund outflows benefiting residential renters of approximately \$10.2 million (the Low-Income Renter's Credit of \$7.18 million and the Low-Income Housing Tax Credit of \$3.025 million). The DoTax estimated that FY 2004 general fund tax collections on residential rents were \$86.6 million. If there is approximately \$10.2 million in residential tax credit claims, that leaves about \$76 million in general excise taxes paid by renters that continues to be retained annually in the general fund. **Thus, the working group believes that it would be reasonable to transfer significant portions of the annual amount of general excise taxes collected on residential rents being paid into the general fund to the Rental Housing Trust Fund for a period of ten years.**

### Consider Authorizing RHTF Funding for HUD Mixed-Finance Public Housing Development.

The HUD Mixed-Finance Public Housing Development program transforms the typical "public housing project" to a mixed-income housing community. If a mix of public housing units and non-public housing, low-income, and/or market rate rental housing units could be constructed or rehabilitated under this program, **consideration should be given to authorizing Rental Housing Trust Fund (RHTF) funding for such mixed-finance developments.** The level of funding for such projects must be equitable keeping in mind the need to construct other types of rental housing both on Oahu and the neighbor islands.

Pursuant to HRS section 201G-432(e), (1) at least 50% of the RHTF-funded units in a project must be for persons and families with incomes up to 60% of the area median family income (MFI); (2) at least 10% of the units must be for persons and families with incomes up to 30% of

MFI; and (3) the remaining units for persons and families with incomes up to 100% of MFI. While meeting the 10% @ 30% MFI and 50% @ 60% MFI requirements is probably attainable in HUD mixed-finance projects, the 100% MFI restriction may be unfeasible particularly when market rents are needed to subsidize the lower-income units. **Consideration should be given to amending the 100% MFI income cap in section 201G-432(e)(3).**

In HUD mixed-finance public housing developments, the HCDCH may need to become a partner in a formal partnership or a member in limited liability company with a for-profit developer. Such a formal partnership or limited liability company would technically be a for-profit entity. Pursuant to section 201G-436, HRS, preference for RHTF funding may be given to non-profit developers over for-profit developers. This preference may hinder the HCDCH from partnering with for-profit developers to revitalize public housing under the HUD Mixed-Finance Public Housing Development Program. **Consideration should be given to modifying section 201G-436, HRS for HUD mixed-finance development projects.**

#### RHTF Funding for Preservation and New Construction Projects

At the Moanalua Terrace, a 700+ unit preservation project, approximately 50% of the units are rented at market prices. This mix of lower-income and market units is needed to ensure the financial and socio-economic viability of the project. The income for market rate residents generally does not exceed 140% of MFI.

It is estimated that a new construction rental project could feasibly support no more than 20% of its units at up to 50% of MFI. Developers do not want to be hampered by RHTF income restrictions such as those stated in section 201G-432(3). Another RHTF restriction that may serve as a disincentive to private-sector participation in the development of rental housing is the preference for non-profit developers over for-profit developers. The intent should be to encourage widespread development of rental housing to address the critical shortage.

**Consideration should be given to modifying the income requirements in section 201G-432(3), as well as the nonprofit developer preference in section 201G-432(3).**

#### RHTF Funding for Student Housing

A large number of units in McCully and Moiliili are rented to university students. If more student housing units are built, that would relieve pressure on the rental market in these neighborhoods and in other neighborhoods impacted by university and college students.

**Consideration should be given to authorize the RHTF to finance student housing projects.**

Next meeting: December 16, 2004, 2:00 p.m., HCDCH Planning Conference Room