

**Financing Strategies to Develop Affordable Housing
October 26, 2004, 9:00 a.m., HCDCH Boardroom**

Present: Craig Hirai (Chair), Debbie Luning, Betty Lou Larson, Laura Thielen, Darren Ueki, Mavis Masaki, Janice Takahashi

Sources of financing to develop rental housing include:

1. Rental Housing Trust Fund (RHTF) provides equity gap financing at very favorable terms.
2. Hula Mae Multifamily Program provides tax-exempt bond financing for for-profit and nonprofit entities. The program may be coupled with the 4% tax credits. Debt must be repaid.
3. In lieu fees. Developers may have the option of satisfying an affordable housing condition imposed by the State Land Use Commission or a county unilateral agreement by paying a fee instead of actual developing affordable housing. The fees generally are paid to the counties.
4. General excise tax (GET) exemptions. The HCDCH and the counties are authorized under Sections 46-15.1 and 201G-116, HRS, to certify eligible affordable housing projects for exemption from GET. This equates to a cost savings of approximately 4% per unit.

Strategies for consideration:

1. When mortgage interest rates or real property taxes increase, homeowners are able to realize larger Hawaii income tax deductions, which can be viewed as subsidies from the General Fund. However, when a tenant's rent increases his or her landlord pays 4% of the increase to the State General Fund as GET. The State Department of Taxation estimates that GET collections on residential rents is \$86.6 million for FY 2004, based on U.S. Census Bureau, U.S. Bureau of Labor Statistics, and DBEDT data. **Is there a way to capture a share of any increase in GET collections on residential rents or a share of the GET collections on residential rents?** Funds could be deposited in the Rental Housing Trust Fund (similar to how 25% of conveyance tax revenues are currently deposited in the RHTF).
2. GET exemptions serve as an incentive for developers to develop affordable housing. Presently, developers must generally participate in a "government assistance" program approved by the HCDCH to be eligible for the exemption. **The GET exemption could be expanded to privately-sponsored affordable rental housing projects that are newly constructed or substantially rehabilitated within a certain timeframe.** Eligibility criteria must be developed including the minimum

number of units, minimum period of affordability, timeframe to commence and complete development, etc. Legislation will be needed.

Section 8 voucher recipients have difficulty finding rental units in the private market. Should GET exemptions be provided to landlords who rent to Section 8 recipients? After some discussion, the working group decided that to exempt all Section 8 rents from GET would be too costly relative to any new rental housing units created, and tabled the proposal.

3. Unilateral agreements do not provide sufficient incentive for developers to build rental housing. **The counties should consider providing 2 to 3 times more affordable housing credit to developers for building affordable rentals. The counties should also allow developers to build the affordable rentals outside of the developer's development plan area anywhere in the county or on Hawaiian Home Lands.**
4. The RHTF receives 25% of conveyance tax collections or approximately \$2-3 million per year. The RHTF program, coupled with low income housing tax credits, is the most productive of all government assistance programs. However, there isn't enough money in the RHTF. **More of the conveyance tax collections could be diverted to the RHTF; suggest an increase to 50% of current collections.** Legislation will be needed.
5. **Community Reinvestment Act** funds could be used to augment the RHTF.

Next meeting: November 9, 2004 at 9:00 a.m. at HCDCH.