

Coordination of Government Financing Programs Work Group  
December 15, 2004, 1:30 p.m., HCDCH Board Room

Present: Marvin Awaya (Chair), Jack Mahan, Mike Flores, Mark Chandler, Cheryl Fukunaga, Gail Kaito, Stacy Sur, Darren Ueki, Janice Takahashi

#### Update to December 8, 2004 notes

During the meeting on December 8, 2004, the working group identified the underutilization of available resources including HUD Section 8 housing choice vouchers as a problem. As Kauai and HCDCH had voucher utilization rates below the HUD standard of 90%, it was suggested that the unused vouchers could be project-based to acquire or develop rental housing. It appears this is no longer an option since funding levels will be reduced in 2005 for agencies that did not fully utilize their section 8 voucher allocations in 2004. The 2005 appropriations act implements a budget-based method to determine the level of funding for the section 8 housing choice voucher program. The amount allocated for the program in 2005 will be based on the average lease-up level for the months of May-July 2004 multiplied by 12 with some adjustments. Therefore, project-basing of unused section 8 vouchers is no longer a viable financing option to stimulate the development or preservation of rental housing. **With HUD's shift to project-based budgeting, it is important that agencies closely monitor utilization and improve coordination between the leasing and budgeting functions.**

#### Coordination and leveraging of funding sources

Construction costs have increased substantially. A member of the working group mentioned that between January and August 2004 project costs increased by 30% due primarily to increases in the cost of steel, fuel, and the production of petroleum-based products. Developers must seek and leverage various sources of funding to enhance project feasibility. Under the Community Planning and Development programs, HUD encourages a mix of incomes to improve project feasibility. The USDA-RD is paying increased attention to "moderate" income, defined as 115% of the HUD median income. Under the Guaranteed Rural Rental Housing (Section 538) Program, the average rent of all units is 30% of 100% of the area median income and maximum rents are 30% of 115% of the area median income.

Some financing programs do not allow for taking a second position. **The use of parity loans should be explored to improve the leveraging of multiple financing sources.** Government agencies could enter into a tri-party agreement which identifies how debt and equity would be split in the event of default.

#### Land and zoning issues

Another major component of construction costs is the high cost of land. **The state or county legislative bodies could enact land-related incentives as follows:**

- Provide a 2:1 tax deduction for the donation of land for affordable housing.
- Provide state tax credits for the donation of land for affordable housing.
- Provide additional development density for the donation of land for affordable housing.

- Create community land trusts.
- Authorize the transfer of development rights.
- Authorize leases of government property for affordable housing at \$1.00 per year.
- Create a system of exactions for affordable housing. (It should be noted that the members discussed the possibility that exactions could have a negative effect on production and if adverse to the financial feasibility of a development. An exaction, if imprudently applied could have the unintended effect of impeding the production of affordable housing. Consideration should be given to crediting additional or fractional “affordable housing credit” for the development of projects that target lower income residents.)
- Streamline the land entitlement process. Government grants or loans may be lost due to the lengthy process. The USDA has a self-help housing grant and site loans that are good for 24 months. Grantees may lose the USDA grant because it takes more than 2 years to obtain entitlements.
- Create county “expeditors” to expedite the development of affordable housing. The expeditor would steer affordable housing projects through the county entitlement process. (Note: Maui County has an “expediter.” However, that person may not be functioning as members envision here. The chief executive of the county may have to intervene and appoint a departmental cabinet-level assistant to coordinate projects between various county departments. This appoint is contingent on local resources and the current level of coordination in each of the counties.)

Revise government financing programs for added flexibility

During the December 8<sup>th</sup> meeting, the working group suggested that **joint informational meetings be held to help developers to understand federal and state financing programs and how the funds can work together.** There is commitment to do this and beginning in January 2005, the HCDCH will be meeting with the federal and county housing directors to move toward improved coordination of the financing programs.

Federal financing program requirements are generally firm and the most difficult to change. Therefore, state and county housing programs should be designed to augment existing federal programs. **Consideration should be given to a concurrent resolution requiring the HCDCH to convene a coordinating committee comprised of housing stakeholders to evaluate government financing programs and make recommendations to improve the coordination of programs to support the development and preservation of affordable housing. The concurrent resolution should appropriate funds to facilitate neighbor island participation.**

The coordinating committee established pursuant to the concurrent resolution would not replace the coordinating team approach for specific projects that was discussed on December 8, 2004. The Community Economic Revitalization Teams (CERTs) concept was recommended to addressing coordination from a project standpoint. In Washington State, CERTs were designed to provide a single point of access to state and federal programs in rural areas. It becomes an institutionalized one-stop shop. Agencies work together to tweak programs to make particular projects viable.

**The Rental Housing Trust Fund (RHTF) program could be streamlined and made more flexible to enhance project feasibility. Proposed revisions follow:**

- Eliminate duplicative reviews and streamline the RHTF approval process by repealing the RHTF Advisory Commission.
- Repeal sections 201G-432(e) and (f), HRS to allow for more flexibility in the use of the RHTF.
- Amend section 201G-432(g), HRS by removing the loan-to-value ration cap of 95% and revising the debt-coverage ratio to not less than 1.0 to 1.0.
- Amend section 201G-435, HRS to expand the pool of eligible applicants to include nonprofit and for-profit developers and corporation, limited liability corporations or partnerships, and partnerships.
- Authorize the RHTF to pay for pre-development grants. (Note: The RHTF may fund pre-development loans or grants. However, the RHTF has not recently funded this activity due to limited funds.)
- While not a legislative action, a separate report to HCDCH will be provided on streamlining the administrative and loan approval process. There are several requirements that are outdated and inapplicable to second mortgage financing. Furthermore, the RHTF needs encouragement to be less “risk adverse” and more proactive in processing and reviewing loan applications.

**Consideration should also be given to authorize the HCDCH’s Dwelling Unit Revolving Fund to be used for permanent financing by amending section 201G-411, HRS.**

“Big” bond issue

There was agreement among the working group that political will is needed to address the housing crisis. The State of California enacted Proposition 46, the Housing and Emergency Shelter Trust Fund Act of 2002, in response to the state’s continuing housing crisis. The Act was a \$2.1 billion bond measure that provided millions of dollars to help fund the construction, rehabilitation and preservation of affordable rental housing, emergency shelters and homeless facilities, as well as funds for downpayment assistance to low and moderate income first-time homebuyers. Seniors, families with children, teachers, persons with disabilities, veterans and working people were identified as the beneficiaries of Prop. 46. The money to pay for the Prop. 46 programs came from tax revenues generated over a 20 year period. By financing the cost of the housing programs over time, the State could offer much-needed programs today without incurring a large expense in the immediate fiscal year. Although California was in a deficit in 2002, the State decided it was a good time to issue taxable bonds since interest rates were low. The development of housing that resulted from Prop. 46 were also viewed as an economic stimulus. The following link provides a list of programs from Prop. 46:

<http://www.calhfa.ca.gov/hcd-prop46.pdf>

**If there is political will, the State of Hawaii could issue taxable bonds to address Hawaii’s housing crisis.** Proceeds could be used for the development of affordable housing, homeless facilities, credit enhancement (loan guarantees) for conventional

financing, and downpayment loans for first-time homebuyers. Proceeds from the bond issue would be allotted without a requirement to repay the funds.

Graduated conveyance tax

The RHTF, in combination with low-income housing tax credits, has been the primary source of financing for the development of affordable rental housing. Approximately 200-250 rental units are developed or preserved annually. **To increase the level of funding for the RHTF, consideration should be given to increasing the amount of the conveyance tax on higher-priced properties.** Currently, the conveyance tax rate is 10 cents per \$100.00 of consideration. The tax rate could be adjusted as follows: 10 cents per \$100.00 for consideration paid in the amount of less than \$600,000; 20 cents per \$100.00 for consideration paid in the amount of \$600,000 to less than \$1 million; and 30 cents per \$100 for consideration paid in the amount of \$1 million or greater. 