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WRITTEN ONLY

TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 576

February 18, 2025
10:01 a.m.
Room 211 and Videoconference

RELATING TO FINANCIAL ADMINISTRATION

The Department of Budget and Finance (B&F) offers comments on this bill.

Senate Bill (S.B.) No. 576 amends Chapter 356D, HRS, to: 1) exempt the Public Housing Special Fund (PHSF) non-administrative expenditures from appropriation and allotment; 2) add new annual reporting requirements for the Hawaiʻi Public Housing Authority (HPHA); and 3) expand and clarify the allowable uses and sources of revenue for the PHSF. The bill also amends Section 201H-21, HRS, to update annual reporting requirements for the Hawaiʻi Housing Finance and Development Corporation (HHFDC).

B&F notes that, although the proposed expenditure exemption language for the PHSF directly mirrors the allotment and appropriation exemption language provided in Section 201H-211, HRS, for HHFDC's revolving funds, HPHA's PHSF does not have regular significant revenue sources like the Rental Housing Revolving Fund (RHRF) and the Dwelling Unit Revolving Fund to support similar development and redevelopment activities. It is likely that HPHA will need to continue to rely on the RHRF for gap funding for its redevelopment projects even with the statutory changes proposed in S.B. No. 576.

Thank you for your consideration of our comments.

JOSH GREEN, M.D.
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IN REPLY, PLEASE REFER TO:

Statement of
Hakim Ouansafi, Executive Director
Hawaii Public Housing Authority

Before the
SENATE COMMITTEE ON WAYS AND MEANS

Tuesday, February 18, 2025
10:01 AM – Room 211, Hawaii State Capitol

In consideration of
SB 576
RELATING TO FINANCIAL ADMINISTRATION

Honorable Chair Dela Cruz, Vice Chair Moriwaki, and Members of the Committee:

Thank you for the opportunity to provide testimony in strong support of Senate Bill (SB) 576, a measure that enhances the efficiency of legislative reporting requirements and optimizes the use of the Public Housing Special Fund (PHSF) to better serve Hawaii's housing needs for its residents including the most disadvantaged populations.

The Hawaii Public Housing Authority (HPHA) is one of only two statewide housing authorities in the nation, alongside Alaska, that directly administer public housing units in addition to other state and federal housing programs. We are committed to providing safe, dignified, and affordable housing for all Hawaii residents, including our most vulnerable populations earning below 30% of AMI, seniors on fixed incomes, and individuals with disabilities. Beyond shelter, our mission is to create opportunities that promote economic empowerment, build inclusive and thriving communities, and break the cycle of concentrated poverty. We believe that housing is more than just a place to live—it is a foundation for economic stability, self-sufficiency, and a brighter future for Hawaii's residents.

The HPHA is advancing several major projects to address critical housing needs, with over 5,000 units fully entitled in record time. By leveraging federal funds and underutilized land within Transit-Oriented Development (TOD) zones, HPHA aims to create thousands of new housing units across all income levels. This TOD-driven expansion not only maximizes state assets but also promotes diverse, mixed-income communities that foster economic opportunity and inclusion. As a result of this strategic plan and the Legislature's support, HPHA is advancing major projects to revitalize public housing and increase affordable units including:

- School Street Senior Housing Redevelopment: Construction is progressing on schedule, with completion is targeted for September 2026. This project will provide affordable homes for kūpuna earning up to 60% of the Area Median Income (AMI).
- Kuhio Park Terrace (KPT) Redevelopment: Groundbreaking for the next phase is set for this year, with building permits approved earlier this month. The project will deliver 304 new housing units (650 total planned units) to serve families across a range of income levels.
- Mayor Wright Homes (Phase 1A): 308 mixed-income units and $56M in Governor's budget. Phase 1B consists of 350 Tier Two "missing middle" units. Both phases are part of a 2,448-unit master plan.
- Kapaa Affordable Housing Project: 124 units, replacing 36 public housing units. Awaiting allocation from HHFDC.

In our redevelopment efforts, the HPHA maximizes federal resources through a strategic two-pronged approach that not only replaces obsolete public housing units but also doubles both federal funding and the number of subsidized households statewide. This innovative strategy results in a net gain of two affordable units for every obsolete unit addressed through:

- Tenant Protection Vouchers (TPVs): For every public housing unit demolished due to obsolescence, HPHA secures one-for-one TPVs from HUD. These vouchers become permanent additions to our Section 8 program, expanding long-term rental assistance for low-income families.
- Rental Assistance Demonstration (RAD) Conversion: Each obsolete unit is replaced with a new affordable unit under the RAD program through a Faircloth-to-RAD conversion. This ensures that a project-based subsidy remains on-site, preserving deeply affordable housing while modernizing the property.

Fully supported by HUD, this approach expands affordable housing options, increases federal resources, and broadens opportunities for low-income residents.

While the Public Housing Special Fund (PHSF) does not currently have regular revenue streams like the Rental Housing Revolving Fund (RHRF) or the Dwelling Unit Revolving Fund (DURF) as stated in B&F comments, SB 576 directly addresses this by enabling HPHA to utilize legislative appropriations without administrative delays. This streamlined access will accelerate project timelines, allowing us to demonstrate progress swiftly—particularly for projects with secured public-private partnerships and layered financing.

We agree with B&F that gap financing from the Rental Housing Revolving Fund (RHRF) may still be necessary for some projects. However, enabling PHSF to directly expend appropriations will reduce reliance on RHRF by funding critical pre-construction activities, accelerating project timelines, and lowering overall development costs. Importantly, if this bill passes, repayments into PHSF from completed projects can be recycled into future developments, creating a sustainable funding mechanism that supports continuous affordable housing production. This self-sustaining approach is consistent with best practices for managing public funds and will ensure that resources are reinvested efficiently to meet the state's housing needs. We hope that the Legislature considers establishing a permanent funding source for PHSF. Such a measure would ensure consistent, long-term support for public housing redevelopment.

The proposed expenditure exemption offers the same flexibility afforded to other state agencies and mirrors successful models for revolving funds—without introducing the delays or inefficiencies that have raised concerns with other programs. This practical and proven approach will empower HPHA to deliver affordable housing more effectively while maintaining fiscal accountability.

It is important to highlight that the PHSF will be dedicated to supporting HPHA's redevelopment of state-owned and state-managed housing projects. This distinguishes it from HHFDC's revolving funds, which primarily finance private developer-led projects. As a result, HPHA does not require the same level of recurring revenue as HHFDC. This distinction underscores the complementary—but distinct—roles of HPHA and HHFDC in addressing Hawaii's housing crisis, with PHSF serving as a targeted, state-controlled tool to accelerate the redevelopment of already entitled publicly owned affordable housing units.

In addition, HPHA and its developer partner has engaged with financial institutions experienced in supporting housing authorities and state agencies to develop strategies that optimize scarce state resources for maximum housing production, speed, and financial predictability. A key proposal involves utilizing a Debt Service Reserve as a credit support tool to lower interest costs on both construction and permanent debt financing. This innovative mechanism acts as a revolving financial backstop without directly deploying state funds into individual projects. Instead, it provides credit support across multiple projects within the Ka Lei Momi redevelopment initiative. As projects reach completion or stabilization, their reliance on the reserve diminishes, freeing capacity for subsequent projects. This rolling mechanism maximizes the impact of a single state investment, benefiting multiple developments throughout the life cycle of the Ka Lei Momi initiative.

This combined approach—direct appropriations and innovative financing tools—will ensure HPHA delivers urgently needed housing efficiently, effectively, and at scale.

A direct appropriation is particularly critical now given recent DOGE mandated staffing reductions at HUD, which are expected to prolong federal approval timelines. Securing direct appropriations would enable HPHA to immediately initiate the federal Section 18 Demo/Dispo process as we will clearly demonstrate to HUD that the project has committed resources, potentially expediting the Section 18 review and advancing the project without unnecessary delays.

Direct appropriations to HPHA, rather than through HHFDC's RHRF will significantly enhance our ability to leverage federal funding, reduce delays, and accelerate the redevelopment of state-owned public housing. While the RHRF remains a valuable tool for supporting affordable housing statewide, its structure presents limitations for the HPHA's redevelopment projects including:

- Adding unnecessary costs to our large-scale projects through agency-imposed fixed interest charges—costs that would be eliminated with a direct appropriation.
- Mandatory allocation of 75% of project cash flow toward RHRF repayment, limiting reinvestment flexibility.
- Repayment term limits that may not fully align with the unique financing needs of public housing redevelopment projects—terms which could potentially be more flexible and favorable through direct appropriations.
- Direct appropriations eliminate the need for HPHA to submit a separate RHRF application and relieves HHFDC from the time-consuming review, scoring, and loan closing processes—streamlining approvals and accelerating project timelines. The current RHRF process requires multiple administrative steps, resulting in months of delays and duplicated efforts. With direct appropriations, HPHA can immediately initiate the federal Section 18 Demo/Dispo process, clearly demonstrating project progress to HUD and expediting federal approvals.
- Direct state appropriations demonstrate the state's commitment ("skin in the game"), boosting lender and investor confidence and securing more favorable loan terms and interest rates. Lower interest rates on large-scale projects result in millions of dollars in savings over time, which can be reinvested into additional housing. This direct investment also strengthens public-private partnerships, attracting more project funding and maximizing the impact of public resources.

The Legislature's investment in HPHA redevelopment efforts will yield long-term benefits, including:

- Revitalizing Aging Housing Stock and Advancing State Housing Priorities: HPHA is addressing over $720 million in deferred maintenance by prioritizing redevelopment over costly renovations. Rather than spending hundreds of millions to repair outdated properties, these funds can be invested in constructing new, modern units, which increases housing capacity and reduces long-term reliance on CIP funds for capital repair and maintenance. This approach not only expands permanent affordable housing, supporting the state's goal of reducing homelessness, but also provides social benefits such as deconcentrating poverty through diverse, mixed-income communities. By building new units and revitalizing public housing, HPHA advances state housing priorities, delivering more units, stronger communities, and lasting public benefits.
- Maximizing federal funding opportunities, including securing federal administrative subsidies that support the salaries of over 300 public servants—resources that would otherwise be lost.
- By utilizing state-owned land, HPHA significantly lowers development costs, making projects more financially feasible and attracting private investment. This approach ensures long-term affordability by preserving units in perpetuity while also promoting economic and social mobility through the creation of mixed-use, mixed-income communities that provide residents with better access to jobs, education, and essential services. Together, these strategies advance the state's housing goals, delivering lasting benefits for Hawaii's families and communities.

SB 576 is a vital measure to streamline affordable housing delivery, empower HPHA with the flexibility and resources necessary to accelerate redevelopment, expand affordability, and create thriving, sustainable communities.

As a state agency entrusted with advancing your vision for public and affordable housing, HPHA deeply appreciates your leadership and steadfast support. Your commitment has been instrumental in enabling us to address Hawaii's urgent housing needs, provide homes for kūpuna, families, and individuals, and expand access to deeply affordable housing opportunities.

Mahalo for your time, thoughtful consideration, and unwavering commitment to Hawaii's people.

We deeply appreciate your continued support and the opportunity to provide testimony today.