JOSH GREEN, M.D.
GOVERNOR

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LT GOVERNOR

Hawaii Green Infrastructure Authority
An Agency of the State of Hawaii

JAMES KUNANE TOKIOKA
CHAIR

GWEN S YAMAMOTO LAU
EXECUTIVE DIRECTOR

Testimony of
Gwen Yamamoto Lau
Executive Director
Hawaiʻi Green Infrastructure Authority
before the
SENATE COMMITTEE ON WAYS AND MEANS
Tuesday, February 18, 2025, 10:01 AM
State Capitol, Conference Room 211
in consideration of
Senate Bill No. 744, SD1
RELATING TO CONDOMINIUMS

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

Thank you for the opportunity to testify on SB 744, SD1 relating to condominiums. The Hawaiʻi Green Infrastructure Authority (HGIA) **supports** this bill which establishes a Condominium Loan and Loan Loss Reserves Program administered by HGIA.

With approximately 55% of all condo units in Hawaii built prior to 1980[1], there are a significant number of 40+-year old condominium projects requiring replacements, upgrades and retrofits, including re-piping, spalling, window and railing replacements, and fire alarms[2], etc., all of which are costly and complicated. Additionally, there are a number of condominium projects on the secondary market's "unavailable list" already negatively impacting over 30,000 units, due to inadequate insurance coverage and other issues, elevating the urgency of this situation.

Similar to secondary market lenders financing condo mortgages, commercial lenders[3] typically require full insurance coverage before issuing loans for condo upgrades and retrofits. This bill will enable HGIA to provide much needed financing for condominium associations to fund essential repairs and address deferred maintenance and structural issues to enhance its insurability, which in turn will enable buyers of individual units to access secondary mortgage financing.

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[1] "Why Hawaii's Aging Condos Can't Afford to Defer Maintenance," First Insurance Company of Hawaii, January 5, 2004.
[2] "A Condominium Can Last Hundreds of Years, But Not Its Components," Hawaii Business Magazine, August 31, 2020.
[3] Including C-PACE lenders.

We support the measure so long as it does not adversely impact priorities identified in Executive Budget Request for FY2026. Thank you for this opportunity to provide comments and testify in support of SB 744, SD1.

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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. 744, S.D. 1

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

RELATING TO CONDOMINIUMS

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

Senate Bill (S.B.) No. 744, S.D. 1: 1) establishes the Condominium Loan (CL) Program (CLP) within the Hawaiʻi Green Infrastructure Authority (HGIA) for the purpose of providing qualified condominium associations with low-cost financing, or refinancing of loans previously obtained, for maintenance or repair projects; 2) establishes the CL Revolving Fund (CLRF) to provide loans for the CLP; 3) requires the CLRF to be audited at least once annually by a certified public accountant and for HGIA to submit annual reports to the Legislature; and 4) establishes the CL Loss Reserves Program (CLLRP) within HGIA for the purpose of incentivizing financial institutions to provide loans to condominium associations to make necessary repairs and maintenance by covering potential losses arising from a loan default. This measure also appropriates an unspecified amount of general funds in FY 26 and FY 27 for deposit into the CLRF; and appropriates an unspecified amount of revolving fund ceiling for the CLRF in FY 26 and FY 27.

First, B&F notes that HGIA may not be the appropriate agency to administer the CLP and the CLLRP. HGIA's purpose is to provide low-cost financing for green infrastructure projects to accelerate the State's transition to clean energy. It is unclear how the repair and maintenance of condominiums relate to this mission.

Second, prior to the establishment of such a major loan program or loan loss reserve program, assessments and/or studies should be carried out to collect the data necessary to determine its feasibility and/or identify other solutions to address financing difficulties for condominium associations. Without knowing crucial information such as the total number of condominiums, facility ages, insurance statuses, previously completed capital improvement projects, etc., it is difficult to determine whether it would be feasible for the State to establish the CLP and the CLLRP, much less how much funding they would need to ameliorate the condominium insurance issue in Hawaiʻi. Furthermore, given that many projects will likely cost millions or even tens of millions of dollars each, any appropriated amount for the CLP or the CLLRP will likely only benefit a very limited number of condominium associations.

Third, B&F notes that Part I, Section 4, and Part II, Section 11, of the measure's proposed HRS chapter conflict regarding the use of the CLRF. Part II, Section 11, states that HGIA shall use moneys in the CLRF to make deposits into financial institution reserve accounts in line with the CLLRP; however, Part I, Section 4, which establishes the CLRF, only authorizes moneys in the CLRF to be expended for providing loans in accordance with Part I, which does not include the CLLRP.

Lastly, as a matter of general policy, B&F does not support the creation of any revolving fund, which does not meet the requirements of Section 37-52.4, HRS. Revolving funds should: 1) serve a need as demonstrated by the purpose, scope of work, and an explanation why the program cannot be implemented successfully under the general fund appropriation process; 2) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries or a clear link between the program and the sources of revenue; 3) provide an appropriate means of financing for the program or activity; and 4) demonstrate the capacity to be financially self-sustaining. Regarding S.B. No. 744, S.D. 1, it is difficult to determine whether the proposed CLRF would be self-sustaining.

Thank you for your consideration of our comments.

SanHi
GOVERNMENT STRATEGIES
A LIMITED LIABILITY LAW PARTNERSHIP

DATE: February 17, 2025

TO: Senator Donovan Dela Cruz
Chair, Committee on Ways and Means

FROM: Mihoko Ito / Tiffany Yajima

RE: **S.B. 744, S.D.1 – Relating to Condominiums**
Hearing Date: Wednesday, February 18, 2025 at 10:10 a.m.
Conference Room: 211

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

We submit this testimony on behalf of the Hawaii Bankers Association (HBA). HBA represents seven Hawai`i banks and one bank from the continent with branches in Hawai`i.

HBA **submits comments** on S.B. 744, S.D.1 Relating to Condominiums, which 1) establishes within the Hawaiʻi Green Infrastructure Authority the Condominium Loan Program to provide qualified condominium associations with low-cost financing or refinancing on previously obtained loans for maintenance and essential repairs, and 2) establishes the Condominium Loan Loss Reserves Program to incentivize lenders into providing loans at competitive rates and terms for the purpose of allowing condominium associations to make necessary maintenance or repairs.

This program proposes to provide loans for repair and maintenance purposes to condominium associations that are unable to secure full replacement value insurance for their properties. HBA supports the intent of creating these new loan programs so that it might help condominiums address some of the repair and maintenance issues that are related to insurability issues. This is important because the high cost of insurance premiums for condominiums has resulted in condominium boards electing to reduce the amount of insurance coverage of condominiums to less than one hundred percent (100%) replacement coverage. Unfortunately, this has had the unintended consequence of impacting mortgage loans for condominium units, because federal guidelines on Fannie Mae and Freddie Mac prohibit these entities from purchasing mortgages on condominium units that are insured at less than full replacement coverage.

S.B. 744 was originally a state loan program, but was amended in the S.D.1 to add a second component - a credit enhancement program which proposes a

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public/private partnership with banks. We note that HBA is concerned that the lender credit enhancement program as proposed in S.B. 744, S.D.1 would not be workable, because lenders are not be able to issue loans without 100% insurance coverage even if a credit enhancement is available.

HBA worked with the Green Infrastructure Authority to amend this overall loan program to be workable - that language is now reflected in S.B.1601, S.D.1 and includes, among other things: 1) loan eligibility criteria for the state loan program and 2) public private partnerships with community development financial institutions.

If the Committee is inclined to move this measure, HBA requests that this bill use the language in S.B. 1601, S.D.1. This would provide an avenue for condominiums to address deferred maintenance issues that are contributing to condominium insurability issues.

We look forward to continuing to work with policymakers to develop solutions that serve both condominium owners and the broader financial ecosystem. Thank you for the opportunity to submit this testimony.