LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR

KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

HOUSE COMMITTEE ON FINANCE

TESTIMONY REGARDING HB 1043
RELATING TO LOW-INCOME HOUSING TAX CREDIT

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 27, 2009
TIME: 1PM
ROOM: 308

This legislation amends Hawaii's low income housing tax credit provisions by shortening the credit payout to provide for a five-year credit period.

The Department **supports** this Lingle-Aiona Administration bill.

I. THE DEPARTMENT DEFERS TO THE HOUSING AGENCIES ON THE MERITS.

The Department defers to the various executive housing agencies on the merits of this bill in general. Hawaii is currently facing an affordable housing crisis. It will take meaningful initiatives in order to eliminate the shortage of affordable housing suitable for Hawaii residents.

II. THE ISSUE OF AFFORDABLE HOUSING IS IMPORTANT AND MAKING HAWAII'S CREDIT MORE ATTRACTIVE IS CRITICAL.

The Department recognizes that affordable housing is an important issue. To properly eliminate the affordable housing crisis, sufficient incentives must be available in order to leverage public-private partnerships to construct additional housing in Hawaii. Through the use of the Low-Income Housing Tax Credit, partnerships between the state and private developers are leveraged through tax incentives that subsidize investments in projects.

Under current law, §235-110.8, HRS, allows an eligible taxpayer to claim 50% of the federal low income housing credit over a period of ten years. The federal low-income housing tax credit is claimed over ten years. §42 of the Internal Revenue Code (the "Code"), which Hawaii conforms to, allows eligible taxpayers to obtain a credit equal to the present value of 70% of the qualified basis of new low income housing buildings that are not federally subsidized. Thus, Hawaii's current law effectively allows low income housing investors to obtain 35% (or 50% of 70%) of their qualified basis in low income housing projects in the form of credits.

This legislation is a positive solution. This legislation effectively reduces the horizon of years over which the Low-Income Housing Tax Credit must be claimed. Currently, the Hawaii credit must be claimed over a 10-year period. This bill reduces that period to 5 years. The reduction in the claim period makes the credit far more attractive to investors. The reduction also makes the credit more useful to project partnerships because cash from the government is released in a much shorter time.

III. BUDGETED REVENUE IMPACT

The Department supports the budget impact of this measure because it has already been factored into the executive budget. The revenue loss for this measure is estimated to be as follows:

Revenue Loss		
FY 2011	$	1,275,000
FY 2012	$	2,550,000
FY 2013	$	3,187,500
FY 2014	$	3,442,500
FY 2015	$	3,697,500

Linda Lingle
GOVERNOR

KAREN SEDDON
EXECUTIVE DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
677 QUEEN STREET, SUITE 300
Honolulu, Hawaii 96813
FAX: (808) 587-0600

IN REPLY REFER TO

Statement of
Karen Seddon
Hawaii Housing Finance and Development Corporation
Before the

HOUSE COMMITTEE ON FINANCE
February 27, 2009, 1:00 p.m.
Room 308, State Capitol

In consideration of
H.B. 1043
RELATING TO LOW-INCOME HOUSING TAX CREDITS.

The Hawaii Housing Finance and Development Corporation (HHFDC) **supports** H.B. 1043, which reduces the period over which state low-income housing tax credits are taken from 10 years to 5 years. The low-income housing tax credit (LIHTC) program promotes the development and rehabilitation of low-income rental housing through the use of federal and state LIHTCs. Eligible projects must either set aside 20 percent of units for tenants earning less than 50 percent of the area median income (AMI) as determined by the U.S. Department of Housing and Urban Development (HUD); or 40 percent of units for tenants earning less than 60 percent AMI. The program continues to be a needed financing tool for affordable rental housing development, especially when awarded in conjunction with state rental housing trust funds.

Currently, both the federal and state LIHTCs are generally governed by the requirements of section 42 of the Internal Revenue Code. The State of Hawaii is allotted a per capita tax credit volume cap. A dollar-for-dollar credit is given to eligible projects on a competitive basis. The annual federal LIHTC is either 9 percent (competitive tax credits) or 4 percent (non-competitive tax credits) of qualified development costs.

The annual state credit is equal to 50 percent of the federal credit allocation. The LIHTCs are taken over a ten-year period by the project owner. The credit is available only on the portion of the project that is set-aside for low-income tenants and may be kept by the owner-developer, or sold to qualified investors or partners to raise equity for the development of the project.

Because of the limited market for state credits and the current financial climate, owner-developers are having difficulty selling their state LIHTCs. Amending the period over which state LIHTCs are taken from ten years to five years would increase the present value of the credits when sold to investors, and provide a more attractive financing incentive to potential developers of affordable rental housing.

Thank you for the opportunity to testify.

SUBJECT: INCOME, Low-income housing credit

BILL NUMBER: SB 861; HB 1043 (Identical)

INTRODUCED BY: SB by Hanabusa; HB by Say

BRIEF SUMMARY: Amends HRS section 235-110.8 to provide that the low-income housing tax credit shall be equal to the amount of the federal low-income housing tax credit that the taxpayer claimed or could have claimed pursuant to IRC section 42 with respect to each qualified low-income building located in Hawaii. Stipulates that the amount of the low-income housing tax credit claimed by a taxpayer shall be computed without regard to any federal low-income housing tax credit that is carried forward from a prior taxable year. The definitions and special rules relating to credit periods in IRC section 42(f) shall be operative for the purposes of this section; except that the credit period in section 42(f)(1) of the Internal Revenue Code shall be a five-year period instead of a 10-year period for Hawaii income tax purposes.

This measure shall be applicable to buildings placed in service after December 31, 2009.

EFFECTIVE DATE: January 1, 2010

STAFF COMMENTS: This is an administration measure submitted by the department of business, economic development and tourism BED-02 (09). The legislature by Act 216, SLH 1988, adopted the federal low-income housing credit which was part of the Tax Reform Act of 1986. The credit was enacted to offset the repeal of tax shelters and other incentives to build rental housing under prior law, such as accelerated depreciation, capital gains preference, certain tax-exempt bonds, etc., and to specifically target low-income rentals.

The federal credit is a 70% present value credit for qualified new construction and rehabilitation expenditures which are not federally subsidized, and 30% for those which are federally subsidized. While the existing state credit allows for a credit of 50% of the "applicable percentage of the qualified basis" allowed under federal law taken over a period of 10 years, the proposed measure would shorten the time period to five years.

While this is just one incentive to encourage developers to build affordable housing, consideration should be given to a number of strategies including the debt financing, partnerships with financial institutions who could then turn around and sell the credits, and the use of federal private activity bonds. Finally, apparently public officials still have not recognized that one of the greatest contributors to the cost of housing in Hawaii is the draconian maze of permitting and regulatory processes in order to bring those homes to market. While those regulatory guidelines are to insure the health and safety of the public, streamlining the process would accelerate the time needed to secure those permits thereby reducing the cost of financing. This savings would go a long way toward reducing the final cost of the house to the consumer. For example, for one housing project on Kauai it took nearly five years to secure the necessary permits to build 14 affordable homes.

It should be noted that Congress is currently considering as part of the stimulus package, an acceleration of the low-income tax credit to a five-year period as this measure proposes for the state's low-income housing tax credit. There is also discussion of including $5 billion in additional stimulus funds for affordable housing to fill the "gap" in this market along more stringent recapture of the low-income housing tax credit to insure that these projects remain affordable.

Finally, it should be noted that while it has been difficult to sell the state tax credits because of the freeze in the credit markets, the state low-income housing tax credits are also being by-passed because they must now compete with more generous credits such as the credit for investment in qualified high technology businesses. Thus, the incentive for affordable housing is being thwarted by those other generous credits.

Digested 2/27/09

LAND USE RESEARCH
FOUNDATION OF HAWAII
700 Bishop Street, Ste. 1928
Honolulu, Hawaii 96813
Phone 521-4717
Fax 536-0132

Via Capitol Website

February 27, 2009

House Committee on Finance
Hearing Date: Monday, February 27, 2009, 1:00 p.m. in CR 308

Testimony in Support of HB 1043 – Relating to Low-Income Housing Tax Credits
(Reduces period over which low-income tax credits are taken from 10 to 5 years.)

The Honorable Chair Marcus B. Oshiro, Vice-Chair Marilyn B. Lee & House Finance Committee Members:

My name is David Arakawa, and I am the Executive Director of the Land Use Research Foundation of Hawaii (LURF), a private, non-profit research and trade association whose members include major Hawaii landowners, developers and a utility company. One of LURF's missions is to advocate for reasonable, rational and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources and public health and safety.

LURF is writing **in support** of **HB 1043,** which shortens the period over which the state low-income housing tax credits are taken from 10 years to 5 years.

Background. The lack of affordable housing remains a significant problem affecting Hawaii. Finding ways to provide sufficient affordable housing and market housing for Hawaii's residents has been a major objective for our elected officials, and state and county agencies, and members of the housing industry and business community. For the past two years, LURF has participated in a statewide task force comprised of representatives from all four counties, business, labor, developers, architects, nonprofit providers of services, the State, and the legislature, whose purpose was to identify, address and propose regulatory reform and solutions to remove the barriers to the production of affordable housing.

HB 1043. The purpose of this Bill is to make state low-income housing tax credits more valuable by shortening the period over which the credits can be taken from ten years to five years.

HB 1043 proposes to amend HRS §235-110.8, to by making the tax credit to be claimed equal to the amount of the federal low-income housing tax credit (LIHTC), by adding the following provision:

> (c) The amount of the low-income housing tax credit that may be claimed by a taxpayer as provided in subsection (b) shall be [~~fifty per cent of the applicable percentage of the qualified basis of each building located in Hawaii. The applicable percentage shall be calculated as provided in section 42(b) of the Internal Revenue Code.~~] equal to the amount of the federal low-income housing tax credit that the taxpayer claimed or could have claimed pursuant to Section 42 of the Internal Revenue Code for the same taxable year with respect to each qualified low-income building located in Hawaii; provided that, for purposes of subsection (b), the taxpayer may claim a low-income housing tax credit only with respect to the amount of federal low-income housing tax credit claimed for the first five years of the credit period for each respective qualified low-income building, as defined in Section 42(f)(1) of the Internal Revenue Code that is located in Hawaii; and, further provided that the amount of the low-income housing tax credit claimed by a taxpayer shall be computed without regard to any federal low-income housing tax credit that is carried forward from a prior taxable year.

HB 1043 would allow make the LIHTC tax credit more valuable when sold to investors, and provide more attractive financing incentive to potential developers of affordable rental housing.

According to the Hawaii Housing Finance and Development Corporation (HHFDC), the LIHTC program promotes the development and rehabilitation of low-income rental housing through the use of federal and state LIHTCs. The program continues to be a needed financing tool for affordable rental housing development, especially when awarded in conjunction with state rental housing trust funds. Right now, the LIHTCs are taken over a ten-year period by the project owner. However, because of the limited market for state credits and the current economic situation, owner-developers find it hard to sell their state LIHTCs. Shortening the period over which state LIHTCs are taken from ten years to five years would increase the present value of the credits when sold to investors and provide more attractive financing incentives to potential developers.

LURF's Position. The housing crisis in Hawaii has affected many families who are now forced to live with extended families because of high costs. Access to affordable housing is critical to our communities.

Any further delay of any affordable housing type projects will cause an even bigger crisis in the near future. LURF supports incentives, such as HB 1043, that could allow affordable housing projects to be developed on a timely basis.

Thank you for the opportunity to submit testimony in **support** of HB 1043.

Hawai'i Association of REALTORS®
www.hawaiirealtors.com
The REALTOR® Building
1136 12th Avenue, Suite 220
Honolulu, Hawaii 96816
Phone: (808) 733-7060
Fax: (808) 737-4977
Neighbor Islands: (888) 737-9070
Email: har@hawaiirealtors.com

AMENDED

February 26, 2009

The Honorable Marcus R. Oshiro, Chair
House Committee on Finance
State Capitol, Room 308
Honolulu, Hawaii 96813

RE: H.B. 1043 Relating to Low-Income Housing Tax Credits

HEARING DATE: Friday, February 27, 2009 at 1:00 p.m.

Aloha Chair Oshiro and Members of the Committee on Finance.

I am Craig Hirai, a member of the Subcommittee on Taxation and Finance of the Government Affairs Committee of the Hawai'i Association of REALTORS® ("HAR"), here to testify on behalf of the HAR and its 9,600 members in Hawai'i. HAR **supports** H.B. 1043, Relating to Low-Income Housing Tax Credits, which makes state low-income housing tax credits more valuable by shortening the period over which the credits can be taken from 10 years to 5 years.

We believe that Smart Growth is our road map to sustaining and enhancing the quality of life in our communities and we believe that this bill aligns with our core principle of providing housing opportunities.

HAR has historically supported mechanisms to help increase the supply of low and moderate income affordable housing such as the Rental Housing Trust Fund Program which can help integrate the use of mixed-income and mixed-use projects, special purpose revenue bonds, low-interest loans, block grants, low-income housing tax credit programs and deferred loan programs to provide rental housing opportunities.

Amending the period over which state low-income housing tax credits are taken from 10 years to 5 years would increase the present value of the credits when sold to investors, and provide a more attractive financing incentive to potential developers of affordable rental housing.

HAR would also note that the attached copies of Sections 1602 and 1404 of the American Recovery and Reinvestment Tax Act of 2009 give state housing credit agencies such as the Hawaii Housing Finance and Development Corporation (HHFDC) an election to substitute grants from the federal government for low-income housing projects in lieu of a low-income housing credit allocation for 2009. The HHFDC would use such a grant to make subawards to finance the construction or acquisition and rehabilitation of qualified low-income buildings. HAR recommends that you consider enacting an election for qualified low-income buildings which would allow their owners to monetize the Hawaii low-income housing tax credit in a manner similar to grants under Section 1602 of the American Recovery and Reinvestment Tax Act of 2009.

Hawai'i Association of REALTORS®
www.hawaiirealtors.com

The REALTOR® Building
1136 12th Avenue, Suite 220
Honolulu, Hawaii 96816

Phone: (808) 733-7060
Fax: (808) 737-4977
Neighbor Islands: (888) 737-9070
Email: har@hawaiirealtors.com

HAR looks forward to working with our state lawmakers in building better communities by supporting quality growth, seeking sustainable economies and housing opportunities, embracing the cultural and environmental qualities we cherish, and protecting the rights of property owners.

Mahalo for the opportunity to testify.

Attachment

Hawai'i Association of REALTORS®
www.hawaiirealtors.com

The REALTOR® Building
1136 12th Avenue, Suite 220
Honolulu, Hawaii 96816

Phone: (808) 733-7060
Fax: (808) 737-4977
Neighbor Islands: (888) 737-9070
Email: har@hawaiirealtors.com

American Recovery and Reinvestment Tax Act of 2009 (H.R. 1)

SEC. 1602. GRANTS TO STATES FOR LOW-INCOME HOUSING PROJECTS IN LIEU OF LOW-INCOME HOUSING CREDIT ALLOCATIONS FOR 2009.

(a) IN GENERAL.—The Secretary of the Treasury shall make a grant to the housing credit agency of each State in an amount equal to such State's low-income housing grant election amount.

(b) LOW-INCOME HOUSING GRANT ELECTION AMOUNT.—For purposes of this section, the term ''low income housing grant election amount'' means, with respect to any State, such amount as the State may elect which does not exceed 85 percent of the product of—

(1) the sum of—

(A) 100 percent of the State housing credit ceiling for 2009 which is attributable to amounts described in clauses (i) and (iii) of section 42(h)(3)(C) of the Internal Revenue Code of 1986, and

(B) 40 percent of the State housing credit ceiling for 2009 which is attributable to amounts described in clauses (ii) and (iv) of such section, multiplied by

(2) 10.

(c) SUBAWARDS FOR LOW-INCOME BUILDINGS.—

(1) IN GENERAL.—A State housing credit agency receiving a grant under this section shall use such grant to make subawards to finance the construction or acquisition and rehabilitation of qualified low-income buildings. A subaward under this section may be made to finance a qualified low-income building with or without an allocation under section 42 of the Internal Revenue Code of 1986, except that a State Housing credit agency may make subawards to finance qualified low-income buildings without an allocation only if it makes a determination that such use will increase the total funds available to the State to build and rehabilitate affordable housing. In complying with such determination requirement, a State housing credit agency shall establish a process in which applicants that are allocated credits are required to demonstrate good faith efforts to obtain investment commitments for such credits before the agency makes such subawards.

(2) SUBAWARDS SUBJECT TO SAME REQUIREMENTS AS LOW-INCOME HOUSING CREDIT ALLOCATIONS.—Any such subaward with respect to any qualified low-income building shall be made in the same manner and shall be subject to the same limitations (including rent, income, and use restrictions on such building) as an allocation of housing credit dollar amount allocated by such State housing credit agency under section 42 of the Internal Revenue Code of 1986, except that such subawards shall not be limited by, or otherwise affect (except as provided in subsection (h)(3)(J) of such section), the State housing credit ceiling applicable to such agency.

(3) COMPLIANCE AND ASSET MANAGEMENT.— The State housing credit agency shall perform asset management functions to ensure compliance with section 42 of the Internal Revenue Code of 1986 and the long-term viability of buildings funded by any subaward under this section. The State housing credit agency may collect reasonable fees from a subaward recipient to cover expenses associated with the performance of its duties under this paragraph. The State housing credit agency may retain an agent or other private contractor to satisfy the requirements of this paragraph.

Hawai'i Association of REALTORS®
www.hawaiirealtors.com

The REALTOR® Building
1136 12th Avenue, Suite 220
Honolulu, Hawaii 96816

Phone: (808) 733-7060
Fax: (808) 737-4977
Neighbor Islands: (888) 737-9070
Email: har@hawaiirealtors.com

(4) RECAPTURE.—The State housing credit agency shall impose conditions or restrictions, including a requirement providing for recapture, on any subaward under this section so as to assure that the building with respect to which such subaward is made remains a qualified low-income building during the compliance period. Any such recapture shall be payable to the Secretary of the Treasury for deposit in the general fund of the Treasury and may be enforced by means of liens or such other methods as the Secretary of the Treasury determines appropriate.

(d) RETURN OF UNUSED GRANT FUNDS. — Any grant funds not used to make subawards under this section before January 1, 2011, shall be returned to the Secretary of the Treasury on such date. Any subawards returned to the State housing credit agency on or after such date shall be promptly returned to the Secretary of the Treasury. Any amounts returned to the Secretary of the Treasury under this subsection shall be deposited in the general fund of the Treasury.

(e) DEFINITIONS. — Any term used in this section which is also used in section 42 of the Internal Revenue Code of 1986 shall have the same meaning for purposes of this section as when used in such section 42. Any reference in this section to the Secretary of the Treasury shall be treated as including the Secretary's delegate.

(f) APPROPRIATIONS. — There is hereby appropriated to the Secretary of the Treasury such sums as may be necessary to carry out this section.

SEC. 1404. COORDINATION OF LOW-INCOME HOUSING CREDIT AND LOW-INCOME HOUSING GRANTS.

Subsection (i) of section 42 is amended by adding at the end the following new paragraph:

''(9) COORDINATION WITH LOW-INCOME HOUSING GRANTS.—

''(A) REDUCTION IN STATE HOUSING CREDIT CEILING FOR LOW-INCOME HOUSING GRANTS RECEIVED IN 2009.—For purposes of this section, the amounts described in clauses (i) through (iv) of subsection (h)(3)(C) with respect to any State for 2009 shall each be reduced by so much of such amount as is taken into account in determining the amount of any grant to such State under section 1602 of the American Recovery and Reinvestment Tax Act of 2009.

''(B) SPECIAL RULE FOR BASIS.—Basis of a qualified low-income building shall not be reduced by the amount of any grant described in subparagraph (A).''.

PACIFIC HOUSING ASSISTANCE CORPORATION
677 ALA MOANA BOULEVARD• SUITE 712•HONOLULU, HAWAII 96813• (808) 523-5681

TESTIMONY ON H. B. 1043, RELATING TO LOW-INCOME HOUSING TAX CREDITS

Before the House Committee on Finance
February 27, 2009; 1:00 pm (Agenda #4); CONFERENCE ROOM 308
Submitted By: Marvin Awaya, Executive Director

The Pacific Housing Assistance Corporation strongly supports H.B. 1043 which will shorten the period which the tax credits can be taken to 5 years. This reduction of time will increase the "value" and actual proceeds used to fund the development of affordable rental housing.

Over the years the State Low Income Housing Tax credits have suffered competition from the State High-Tech tax credits that are generally seen as more valuable to Hawaii investors. Because of the high-tech tax credits we have experiencing tax credit purchase rate deterioration from about $.55 for $1.00 of housing tax credit to as low as $.35. The reduction in the actual proceeds that a project receives is what the purchase rate is and deterioration has caused an increase need of State Rental Housing Trust Funds and County CDBG and HOME funds to fill the gap.

Reducing the time period that the housing tax credits are taken will increase the calculated internal rate of return that investors use to decide where their investment dollars should go.

The LIHTC program is heavily regulated and abuse by investors has been non-existent because of severe penalties imposed by the U.S. Internal Revenue Service for non-compliance of program rules. Housing tax credit projects are monitored annually program requirements strictly enforced by the owner and the State monitoring agency (Housing Finance & Development Corporation).

The State Legislature should also consider incorporating the "exchange" of State tax credits patterned after the American Recovery and Reinvestment Act of 2009.

The Pacific Resource
PARTNERSHIP

Testimony of C. Mike Kido
External Affairs
The Pacific Resource Partnership

House Committee on Finance
Representative Marcus Oshiro, Chair
Representative Marilyn Lee, Vice Chair

HB 1043 – RELATING TO LOW-INCOME HOUSING TAX CREDITS
Friday, February 27, 2009
1:00 pm
Conference Room 308

Chair Oshiro, Vice Chair Lee and members of the House Finance Committee:

My name is C. Mike Kido, External Affairs of the Pacific Resource Partnership (PRP), a labor-management consortium representing over 240 signatory contractors and the Hawaii Carpenters Union. PRP and its member contractors support the intent and purpose of HB 1043 – to make state low-income housing tax credits more valuable by shortening the period over which the credits can be taken from ten years to five years.

The low-income housing tax credit program promotes the development and rehabilitation of low-income rental housing through the use of federal and state low-income tax credits. Amending the period over which the credits can be taken from ten years to five years, would increase the present value of the credits when sold to investors and also provide financing incentives to developers of affordable rental housing.

PRP respectfully ask for your favorable consideration of HB 1043.

ASB Tower, Suite 1501 • 1001 Bishop Street • Honolulu, Hawaii 96813
Tel (808) 528-5557 • Fax (808) 528-0421 • www.prp-hawaii.com

CENTRAL PACIFIC BANK

P.O. Box 3590
Honolulu, HI 96811-3590
Telephone (808) 544-0500

February 25, 2009

The Honorable Marcus Oshiro
Committee on Finance
State House of Representatives

Re: In **Strong Support** of HB 1043 Relating to Low-Income Housing Tax Credits

Dear Representative Oshiro & Committee Members:

I am Roy Amemiya, Senior Vice President of Central Pacific Bank (CPB) testifying in strong support of HB 1043 which makes state low-income housing tax credits more valuable by shortening the period over which the credits can be taken from ten (10) years to five (5) years.

CPB is a community bank with assets of over $5 billion and 39 branches on four islands. We consider our bank as a leader in providing affordable housing for Hawaii's people.

We have positively used the current low income housing tax credits in two ways: First, we lend to developers of low income housing projects and currently are involved in four (4) active projects plus another two (2) that are in pre-development. Two of these projects are located on the neighbor islands. Combined the six (6) projects account for over 500 housing units. The ability to finance these projects is enhanced by the ability of the developers to utilize the investment tax credits. The reduction of the period over which tax credits can be taken will positively impact developer financing.

The second way we utilize the tax credits is as an equity investor in low income housing developments. HB 1043 will positively impact our return on these investments as well. Currently, we invest in five (5) separate funds which in turn are providing equity in thirteen low income housing projects with a fourteenth set to begin soon.

The need for affordable housing in Hawaii continues to grow and we are pleased that the legislature is considering this measure as it will contribute to the overall goal of increasing inventory. We ask that you favorably consider this bill.

Aloha,

Roy K. Amemiya, Jr.

STANFORD CARR DEVELOPMENT, LLC

February 25, 2009

House Committee on Finance
State Capitol, Conference Room 308
415 South Beretania Street
Honolulu, Hawaii

RE: Testimony Supporting HB 1043: Relating To Low-Income Housing Tax Credits
Hearing date Friday, February 27, 2009 at 1:00 PM

Dear Honorable Chair Marcus R. Oshiro:

I am writing in support of HB 1043 but also to request further changes to make the State Low Income Housing Tax Credit program more effective. As written, the change will make the state LIHTCs more valuable by shortening the overall credit period from ten years to five years, however, we feel that the this change alone will not materially impact the investment community's appetite for these projects nor will it result in increased production of affordable housing units in Hawaii.

As you may know, the American Recovery and Reinvestment Act of 2009 includes a provision that allows each state allocating agency the ability to exchange a portion of the federal low-income housing tax credits for a direct allocation of cash from the Treasury (Section 1602: Grants To States For Low-Income Housing Projects In Lieu Of Low-Income Housing Credit Allocations). The exchange rate is established at $0.85 for each $1 of credit returned over the 10-year tax credit period. The direct grant allocation is then awarded in the form of grants or deferred payment loans by the state allocating agency (i.e. HHFDC) to projects.

We feel that the federal exchange concept should be incorporated into HRS §235-110.8: Low-Income Housing Tax Credit. As the committee's Justification Sheet indicates, the limited market for state LIHTCs has resulted in developers getting less investor equity for these credits. While the State Department of Taxation will continue to provide for the full value of the tax credit (plus depreciation loses under a tax credit structure), the diminished value during the sale of the credit creates a funding deficit that requires additional subsidies. This further burdens the state's ability to produce affordable units and only decreases overall production levels. We feel that this provision should apply to all state LIHTC allocations (both 9% and 4% tax credits).

The proposed exchange of tax credits for cash will take advantage of the in-place infrastructure. No new bureaucracy or added costs will be required for implementation. In addition, the economic stimulus resulting from increased construction levels of affordable housing units coincides with the broader goal to jump-start the local economy. Please feel free to contact me (808-781-3648) or Jesse Wu of my staff (808-990-5678) if you have any questions.

Sincerely,

Stanford S. Carr, President

ALAKEA CORPORATE TOWER ○ 1100 ALAKEA STREET, 27TH FLOOR ○ HONOLULU, HAWAII 96813
PHONE (808) 537-5220 ○ FACSIMILIE (808) 537-1801 ○ WEBSITE: www.stanfordcarr.com