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IN REPLY REFER TO

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

HOUSE COMMITTEE ON HOUSING

February 11, 2009, 10:30 a.m.
Room 325, State Capitol

In consideration of
H.B. 1592
RELATING TO HOUSING.

The Hawaii Housing Finance and Development Corporation (HHFDC) **opposes** H.B. 1592. Subject to the availability of funds, the HHFDC currently leverages its funds such as the Dwelling Unit Revolving Fund and the Rental Housing Trust Fund, with other funding sources. As such, we do not believe this bill is necessary.

We defer to the Department of the Attorney General and the Department of Budget and Finance with respect to specific legal and fiscal issues raised by this bill.

Thank you for the opportunity to testify.

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON HOUSING
ON
HOUSE BILL NO. 1592

February 11, 2009

RELATING TO HOUSING.

House Bill No. 1592 proposes to amend Part III of Chapter 201H, Hawaii Revised Statutes, by adding a new subpart to authorize the leveraging of Union financing for housing projects.

The Department opposes the language contained in Section 2 of the bill beginning on page 3, line 1 which states:

“When the corporation is required to guarantee the investment, the department of budget and finance shall maintain a balance of state funds equaling the investment on deposit with the private financial institution. The department shall be required to maintain that balance until the private financial institution receives income from the project in an amount equivalent to its investment in the project; except that, if the investment was in the form of a loan, the required balance shall be maintained until the loan is fully amortized.”

Requiring the Department to maintain investments in a particular private financial institution for an unknown period of time would be disadvantageous to the State in investing for the purpose of yield maximization and liquidity. For example, if the private financial institution’s interest rates were substantially below other competitors, the Department would not have the ability to invest elsewhere and maximize the yield on the investment of State funds.

Furthermore, the Department would not be able to liquidate this investment should the State require liquidity to meet its cash flow needs.

The Department recommends that the aforementioned section of the bill be amended as follows:

“When the corporation is required to guarantee the investment, the corporation shall establish and maintain a reasonable reserve fund as an appropriate reserve for the loan guaranty. The aggregate maximum amount of investments guaranteed by the corporation shall not exceed \$ _____ department of budget and finance shall maintain a balance of state funds equaling the investment on deposit with the private financial institution. The department shall be required to maintain that balance until the private financial institution receives income from the project in an amount equivalent to its investment in the project; except that, if the investment was in the form of a loan, the required balance shall be maintained until the loan is fully amortized.”

The corporation must establish and fund at a reasonable level, a reserve fund to back their guaranty in order for the amount of the investment or loan guaranty to be excluded from being counted against the debt limit of the State.

Thank you for the opportunity to provide testimony on this bill.