EXECUTIVE CHAMBERS
HONOLULU

DAVID Y. IGE
GOVERNOR

February 29, 2016

TO: The Honorable Senator Jill N. Tokuda, Chair
Senate Committee on Ways and Means

FROM: Scott Morishige, MSW, Governor's Coordinator on Homelessness

SUBJECT: SB 2833 SD1 – RELATING TO THE LOW-INCOME HOUSING TAX CREDIT

Hearing: Monday, February 29, 2016, 9:15 a.m.
Conference Room 211, State Capitol

POSITION: The Governor's Coordinator on Homelessness supports this administration bill, which will provide for the development of additional affordable rental housing inventory.

PURPOSE: The purpose of this bill is to increase funding for affordable rental housing development by making the State Low-Income Housing Tax Credit (LIHTC) more valuable. The proposed measure would also reduce the state tax credit period from ten to five years.

The development of low-income affordable housing is necessary to address the issues of homelessness, and respond to the critical shortage of housing inventory in our community. Increasing the value of the State LIHTCs would generate more equity to finance the development of affordable rental housing projects.

This measure is also in alignment with Goal 2, Objective 4 of the Hawaii Interagency Council on Homelessness' Strategic Plan to End Homelessness, which is to "Create and preserve affordable housing for people at 50% and below of area median income."

Thank you for the opportunity to testify on this bill.

DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: www.hawaii.gov/dbedt

Telephone: (808) 586-2355
Fax: (808) 586-2377

Statement of
LUIS P. SALAVERIA
Director
Department of Business, Economic Development and Tourism
before the

SENATE COMMITTEE ON WAYS AND MEANS

February 29, 2016 at 9:15 a.m.
State Capitol, Room 211

In consideration of
S.B. 2833, S.D. 1
RELATING TO THE LOW-INCOME HOUSING TAX CREDIT.

Chair Tokuda, Vice Chair Dela Cruz, and Members of the Senate Committee on Ways and Means.

DBEDT supports S.B. 2833, S.D. 1, an Administration bill. S.B. 2833, S.D. 1 would help to increase the supply of affordable rental housing for low-income households by making the State Low-Income Housing Tax Credit more efficient. Accelerating the period over which the credits may be claimed from 10 to 5 years will make them more attractive to investors, and, therefore, raise more equity to finance the development of the affordable rental projects to which the credits are issued.

Thank you for the opportunity to provide written comments in support of this bill.

DAVID Y. IGE
GOVERNOR

RACHAEL WONG, DrPH
DIRECTOR

PANKAJ BHANOT
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
P. O. Box 339
Honolulu, Hawaii 96809-0339

February 29, 2016

TO: The Honorable Senator Jill N. Tokuda, Chair
Senate Committee on Ways and Means

FROM: Rachael Wong, DrPH, Director

SUBJECT: **SB 2833 SD1 – RELATING TO THE LOW-INCOME HOUSING TAX CREDIT**

Hearing: Monday, February 29, 2016, 9:15 p.m.
Conference Room 211, State Capitol

DEPARTMENT'S POSITION: The Department of Human Services (DHS) supports this administration measure which provides for the development of additional affordable housing units in the State through the mechanism of Low-Income Housing tax credits.

PURPOSE: The purpose of the bill is to increase funding for affordable rental housing development by making the State Low-Income Housing Tax Credit more valuable. The proposed measure would also reduce the State Tax Credit period from ten to five years.

The DHS currently provides services to a wide population of Hawaii residents that need affordable housing in order to both avoid homelessness or to recover from homelessness. Affordable housing is a primary solution to homelessness, and as such, the Department supports the efforts made by the Department of Business Economic Development and Tourism to increase our community's inventory of affordable housing units.

Thank you for the opportunity to testify on this bill.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR

MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

JOSEPH K. KIM
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

To: The Honorable Jill N. Tokuda, Chair
and Members of the Senate Committee on Ways and Means

Date: Monday, February 29, 2016
Time: 9:15 A.M.
Place: Conference Room 211, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 2833, S.D. 1, Relating to the Low Income Housing Credit.

The Department of Taxation (Department) supports S.B. 2833, S.D. 1, to increase the availability of housing for low income individuals and defers to the Hawaii Housing Finance and Development Corporation (HHFDC) on the merits of this bill.

S.B. 2833, S.D. 1, increases funding for affordable rental housing development by making the State Low-Income Housing Tax Credit more valuable to investors by reducing the period over which the State tax credit must be claimed by investors from ten to five years. The measure is effective on January 1, 2017 and applies to qualified low-income buildings awarded credits after December 31, 2016.

Two types of Low Income Housing Credits (LIHTCs) are available depending on the nature of the rental housing construction. The so-called 9% credit is generally reserved for new construction and is intended to subsidize 70% of a building’s cost (not including land), while the so-called 4% credit is typically claimed for rehabilitated housing and new construction that is financed with tax-exempt bonds, and is intended to subsidize 30% of a building’s cost (not including land). Each LIHTC project will fall into either the 9% category or the 4% category depending upon how the project is financed. The 9% and 4% categories are further divided by the construction method of the project: (1) new construction; or (2) rehabilitating an existing structure, with rehabilitation completion within 24 months, in order to be eligible for tax credits.

Currently, both the 9% credit and the 4% credit is claimed annually over a 10 year credit period. The actual credit rate fluctuates and is set by the United States Treasury to deliver a subsidy equal to 70% and 30% respectively of a project’s qualified basis in present value terms. For State tax purposes, the amount of the credit is set at 50% of the federal tax credit. Other than projects financed with tax exempt bonds, both the 9% and the 4% credit is subject to the federal allocation limit for the State, which for 2016 is $3,264,990. Although credits allocated for projects financed with tax exempt bonds is not included in this cap, the total amount of the credit that can be allocated is limited by the amount of federal tax free Private Activity Bonds that may be issued by the State.

In addition, to prevent any misunderstanding of the law, the Department suggests that subsection (d)(2) specifically state that the amount of the State tax credit shall not exceed 50% of the federal credits allocated to the project, as follows:

> (2) For the sixth year, zero, except that if and only if the amount of credits allowed for the first five years is less than the full amount of state credits allocated by the corporation for the qualified low-income building, an amount necessary to bring the amount of the state credits to the full amount allocated by the corporation for the qualified low-income building; <u>provided that in no event shall the total amount of state credits exceed fifty percent of the total federal credits allocated to the qualified low-income building over the ten year period</u>;

As currently drafted, the Department will be able to implement the changes set forth in this measure by the effective date, as the provisions do not have a substantial administrative impact. The Department estimates revenue losses of $4 million in FY 2019, $8 million in FY 2020, and $12 million in FY 2021.

Thank you for the opportunity to provide comments.

DAVID Y. IGE
GOVERNOR

CRAIG K. HIRAI
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
Craig K. Hirai
Hawaii Housing Finance and Development Corporation
Before the

SENATE COMMITTEE ON WAYS AND MEANS
February 29, 2016 at 9:15 a.m.
State Capitol, Room 211

In consideration of
S.B. 2833, S.D. 1
RELATING TO THE LOW-INCOME HOUSING TAX CREDIT.

The HHFDC ***supports*** S.B. 2833, S.D. 1, an Administration bill. S.B. 2833, S.D. 1 would improve the State Low-Income Housing Tax Credit (LIHTC) as a financing tool for the development and rehabilitation of affordable rental housing for households at or below 60 percent of the area median income as determined by the U.S. Department of Housing and Urban Development.

Shortening the period over which State LIHTCs are taken from ten years to five years should make them more competitive and, therefore, would increase the present value of the credits when sold to investors. Increasing the value of the State LIHTCs would generate more equity to finance the development of affordable rental housing projects.

For these reasons, HHFDC respectfully requests that the Committee support this bill. Thank you for the opportunity to provide written comments in support of this bill.

CATHOLIC CHARITIES HAWAIʻI

TESTIMONY in SUPPORT of SB 2833 SD1: RELATING TO HOMELESSNESS

TO: Senator Jill N. Tokuda, Chair, Senator Donovan M Dela Cruz, Vice Chair, and Members, Committee on Ways and Means

FROM: Betty Lou Larson, Legislative Liaison, Catholic Charities Hawaii

Hearing: Monday, 2/29/16; 9:15 AM; CR 211

Chair Tokuda, Vice Chair Dela Cruz, and Members, Committee on Ways and Means::

Thank you for the opportunity to provide written testimony **in support of SB 2833**, **SD1,** which would make the State Low-Income Housing Tax Credits more valuable. I am Betty Lou Larson representing Catholic Charities Hawaii. We are also a member of Partners in Care.

Catholic Charities Hawai`i (CCH) is a tax exempt, non-profit agency that has been providing social services in Hawai`i for over 60 years. CCH has programs serving elders, children, developmentally disabled, homeless and immigrants. Our mission is to provide services and advocacy for the most vulnerable in Hawai`i. A priority for advocacy this year is affordable housing and homelessness.

This bill would creatively provide more resources for the construction of affordable rental housing without any additional cost to the State, over time. By reducing the State tax credit period from ten years to five years, this makes these credits more valuable. Investors receive the same credit and the State "suffers" the same loss of revenue, but over 5 years instead of 10 years. The impact is to increase the amount that investors will pay for these state credits. The federal Low Income Housing Tax Credits are so valuable that they are now selling for close to $1.00 for $1.00 of credits!

Under this bill, the State tax credit could significantly increase the amount of funding going into projects for construction of new projects. Our housing crisis demands new and creative tools to leverage all available sources to create housing. To end homelessness and to help our children remain in Hawaii, the key is construction of more affordable rentals. Hawaii already has the most expensive housing in the country, at more than twice the national average. Rent for a 2 bedroom unit rose 67% in Honolulu in the last 10 years. We need to act now. This bill is a win-win solution to put more money into new construction of affordable rental units without additional cost to the State, over time.

Thank you very much for hearing and considering this important bill to provide more resources for the creation of affordable rental housing. Please contact me at (808) 373-0356 or bettylou.larson@catholiccharitieshawaii.org if you have any questions.

Chamber *of* Commerce HAWAII
The Voice of Business

Testimony to the House Committee on Ways & Means
Monday, February 29, 2016 at 9:15 A.M.
Conference Room 211, State Capitol

RE: SENATE BILL 2833 SD 1 RELATING TO THE LOW-INCOME HOUSING TAX CREDIT

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

The Chamber of Commerce Hawaii ("The Chamber") **strongly supports** SB 2833 SD 1 which increases funding for affordable rental housing development by making the state low-income housing tax credit more valuable. Reduces state tax credit period from ten to five years.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

The Chamber of Commerce of Hawaii and the Building Industry Association of Hawaii convened a conference (Houseless in Honolulu) in November of 2015 to raise awareness of one of Hawaii's most pressing issues - home affordability. With the median home price in the Islands now $730,000, the repercussions are having a major impact on Honolulu's economy.

The Department of Business, Economic Development and Tourism forecasted demand for additional housing units by county is 25,847 units for Honolulu, 19,610 for Hawaii, 13,949 for Maui, and 5,287 for Kauai during the 2015-2025 period (DBEDT Report—Measuring Housing Demand in Hawaii, 2015-2025).

We believe that in order to address the current "Housing Crisis," there needs to be a shift in the focus of how government views housing development and move from our current "Regulatory" stance to a more "Production Oriented" stance. For example, this shift would have the City and County of Honolulu adopt a goal of approving an average of 2,500 new residential units each year over the next 10 year period to address the project 25,847 unit demand.

Creating more incentives for investments in the State Low-Income Housing Tax Credit would provide the needed capital investment to produce more units at these price points.

We are in strong support of SB 2388 SD 1 and appreciate the opportunity to express our views on this matter.

1132 Bishop Street, Suite 2105 • Honolulu, Hawaii 96813 • Phone: (808) 545-4300 • Facsimile: (808) 545-4369

Hawai'i Association of REALTORS®
www.hawaiirealtors.com
808-733-7060
808-737-4977
1259 A'ala Street, Suite 300
Honolulu, HI 96817

February 29, 2016

The Honorable Jill N. Tokuda, Chair
Senate Committee on Ways and Means
State Capitol, Room 211
Honolulu, Hawaii 96813

RE: S.B. 2833, S.D.1, Relating to the Low-Income Housing Tax Credit

HEARING: Tuesday, February 29, 2016 at 9:15 a.m.

Aloha Chair Tokuda, Vice Chair Dela Cruz, and Members of the Committee:

I am Myoung Oh, Government Affairs Director, submitting testimony on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i, and its 8,900 members. HAR **supports** S.B. 2833, S.D.1 which increases funding for affordable rental housing development by making the State Low-Income Housing Tax Credit more valuable and reduces State Tax Credit period from ten to five years.

The State Low Income Housing Tax Credit (LIHTC) has been a valuable financing mechanism to generate the development or substantial rehabilitation of affordable rental housing. HAR believe this is one of the key incentives in encouraging developers to build affordable housing and rentals.

Under the program, HHFDC awards federal and state tax credits that may be used to obtain an offset in income tax liability for 10 years or may be syndicated to generate substantial project equity.

HAR believes S.B. 2833, S.D.1 will allow for a shorter recapture period for tax credits and to incentivize the development of affordable rental housing statewide.

Mahalo for the opportunity to submit testimony.

LEGISLATIVE TAX BILL SERVICE

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Low-Income Housing Credit

BILL NUMBER: SB 2833, SD1

INTRODUCED BY: Senate Committee on Housing

EXECUTIVE SUMMARY: Seeks to make the State low-income housing credit more valuable by reducing the payout period from ten to five years.

BRIEF SUMMARY: This measure is sponsored by DBEDT, and is designated BED-23 (16). It amends HRS section 235-110.8 to provide that for each low-income housing project placed in service beginning on January 1, 2017, pursuant to IRC section 42(b), the state housing credit shall be recovered over 5 years instead of 10.

EFFECTIVE DATE: January 1, 2017, and shall apply to qualified low-income buildings awarded credits after December 31, 2016.

STAFF COMMENTS: Act 216, SLH 1988, adopted for Hawaii purposes the federal low-income rental housing credit that 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, 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. 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, and the proposed measure would shorten the 10-year period to 5 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.

Digested 2/26/2016