



**EXECUTIVE CHAMBERS**  
HONOLULU

**DAVID Y. IGE**  
GOVERNOR

March 14, 2016

TO: The Honorable Representative Mark J. Hashem, Chair  
House Committee on Housing

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

SUBJECT: SB 2833 SD2 – RELATING TO THE LOW-INCOME HOUSING TAX CREDIT

Hearing: Monday, March 14, 2016 at 9:00 a.m.  
Conference Room 329, 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.

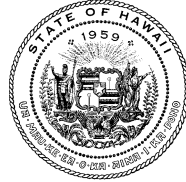
The development of low-income affordable housing is necessary to address the issues of homelessness, and respond to the critical shortage of housing inventory in our community. Increasing the value of the State LIHTC would generate more equity to finance the development of affordable rental housing projects.

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

**SHAN TSUTSUI**  
LT. GOVERNOR



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

**MARIA E. ZIELINSKI**  
DIRECTOR OF TAXATION

**JOSEPH K. KIM**  
DEPUTY DIRECTOR

To: The Honorable Mark J. Hashem, Chair  
and Members of the House Committee on Housing

Date: Monday, March 14, 2016

Time: 9:00 A.M.

Place: Conference Room 329, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: S.B. 2833, S.D. 2, Relating to the Low Income Housing Credit.

The Department of Taxation (Department) supports S.B. 2833, S.D. 2, an Administration measure 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. 2, 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.

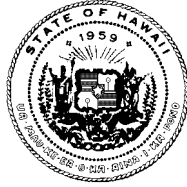
Two types of Low Income Housing Credits (LIHTCs) are available depending on the nature of the rental housing construction. The "9% credit" is generally reserved for new construction and is intended to subsidize 70% of a building's cost (not including land); the "4% credit" is typically claimed for rehabilitated 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% credit category or the 4% credit category, depending upon how the project is financed. The 9% credit and 4% credit 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% credit 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.

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.

Thank you for the opportunity to provide comments.



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

March 14, 2016

TO: The Honorable Representative Mark J. Hashem, Chair  
House Committee on Housing

FROM: Rachael Wong, DrPH, Director

SUBJECT: **SB 2833 SD2 – RELATING TO THE LOW-INCOME HOUSING TAX CREDIT**

Hearing: Monday, March 14, 2016, 9:00 p.m.  
Conference Room 329, 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.



## **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](http://www.hawaii.gov/dbedt)

**DAVID Y. IGE**  
GOVERNOR

**LUIS P. SALAVERIA**  
DIRECTOR

**MARY ALICE EVANS**  
DEPUTY DIRECTOR

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

Statement of  
**LUIS P. SALAVERIA**  
**Director**

Department of Business, Economic Development and Tourism  
before the

### **HOUSE COMMITTEE ON HOUSING**

March 14, 2016 at 9:00 a.m.  
State Capitol, Room 329

In consideration of  
**S.B. 2833, S.D. 2**  
**RELATING TO THE LOW-INCOME HOUSING TAX CREDIT.**

Chair Hashem, Vice Chair Jordan, and Members of the House Committee on Housing.

DBEDT supports S.B. 2833, S.D. 2, an Administration bill. S.B. 2833, S.D. 2, 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 testify.



**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

**HOUSE COMMITTEE ON HOUSING**

March 14, 2016 at 9:00 a.m.  
State Capitol, Room 329

In consideration of  
**S.B. 2833, S.D. 2**  
**RELATING TO THE LOW-INCOME HOUSING TAX CREDIT.**

The HHFDC supports S.B. 2833, S.D. 2, an Administration bill. The Governor's housing strategy is, in part, to "[b]uild homes that people can afford, including rentals, to address the needs of those entering the work force." S.B. 2833, S.D. 2, is one means by which to reach this goal.

S.B. 2833, S.D. 2, 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. The State LIHTC is equal to 50 percent of the federal credit. LIHTCs are typically sold to qualified investors/partners to raise equity for the development of affordable rental projects. The credits are taken over a ten-year period. The federal LIHTCs currently generate at least 95 percent of their face value when sold to investors. However, because of the limited market for state credits, owner-developers are getting only approximately 50 cents on the dollar for the State LIHTCs.

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 testify.

## Testimony by In-State Partners

In Support of SB 2833 SD2  
House Committee on Housing  
Monday; March 14, 2016; 9:00 AM; CR 329

The Honorable Mark Hashem, Chair and Members of the Committee on Housing:

My name is Rachel Stern, with InState Partners, testifying in strong support of HB 2833 SD2 Relating to Housing, and recommend amendments to the bill detailed below and in the attached proposed HD1.

Currently, for every 100 low-income families in Hawaii, there are only 29 affordable housing units available. Housing is considered “affordable” when a household spends less than 30 percent of their income on shelter and utilities. Households that spend more are considered cost-burdened and are frequently forced to make difficult financial tradeoffs with other basic necessities. Under these criteria, more than half of all Hawaii renters do not live in affordable housing.

State and Federal Low Income Housing Tax Credits can be a successful part of the solution to this affordable housing crisis. As the law is written now, the state provides a 50% match for the Federal credits for both 9% and 4% LIHTC projects. This bill instead creates a one-to-one match between state and federal credits for the 4% deals. As is expected, 4% LIHTC deals are much more difficult to finance, because they require developers to take on significantly more debt than the 9% projects. The current 50% state match to federal credits does not generate enough subsidy for the 4% projects to be economically viable, resulting in low developer and investor interest. As such, Hawaii is currently only using 60% of the state’s total possible Federal subsidies for these projects—a one-to-one match will help Hawaii bring more federal dollars to the state, and increase the amount of affordable housing projects being done on the islands.

While the measure provides an opportunity to increase the 4% dollars and deals coming to the state, we urge this committee to amend this measure by deleting the language on page 5, lines 1-2 and page 6, lines 14 – 16. These amendments delete Hawaii’s conformity to the federal at-risk and passive activity loss limitations under Internal Revenue Code section 465 and section 469, respectively.

The at-risk limitation noted on page 5, lines 1-2 only applies to individuals and closely-held corporations, thereby discouraging investments in low income housing tax credit projects from that investor pool. Removing the at-risk rules for state income tax purposes would broaden the potential investor pool. As of now, the at-risk rules effectively limit investments to large investment companies and publicly held corporations, not reflective of the Hawaii investor pool population. Removal of the at-risk limitation would level the playing field for Hawaii investors.

For similar reasons, we ask that you delete lines 14-16 on page 6, concerning passive activity losses, which applies to individuals and closely-held corporations, the same as the at-risk provision, which will also put Hawaii investors at a disadvantage.

We welcome the chance to work with this committee and with the state departments to put forth a measure that incentivizes Hawaii developers and investors while building much needed low-income housing. Thank you for this opportunity to testify.

Proposed HD1

1 [ ~~(5) Application of at-risk rules shall be made under~~  
2 ~~section 42(k);~~ ]

3 of the Internal Revenue Code.

4 [ ~~(f)~~ ] (g) As provided in section 42(e), rehabilitation  
5 expenditures shall be treated as a separate new building and  
6 their treatment under this section shall be the same as in  
7 section 42(e). The definitions and special rules relating to  
8 credit period in section 42(f) and the definitions and special  
9 rules in section 42(i) shall be operative for the purposes of  
10 this section.

11 [ ~~(g)~~ ] (h) The state housing credit ceiling under section  
12 42(h) shall be zero for the calendar year immediately following  
13 the expiration of the federal low-income housing tax credit  
14 program and for any calendar year thereafter, except for the  
15 carryover of any credit ceiling amount for certain projects in  
16 progress which, at the time of the federal expiration, meet the  
17 requirements of section 42.

18 [ ~~(h)~~ ] (i) The credit allowed under this section shall be  
19 claimed against net income tax liability for the taxable year.  
20 For the purpose of deducting this tax credit, net income tax





1 liability means net income tax liability reduced by all other  
2 credits allowed the taxpayer under this chapter.

3 A tax credit under this section that exceeds the taxpayer's  
4 income tax liability may be used as a credit against the  
5 taxpayer's income tax liability in subsequent years until  
6 exhausted. All claims for a tax credit under this section shall  
7 be filed on or before the end of the twelfth month following the  
8 close of the taxable year for which the credit may be claimed.  
9 Failure to properly and timely claim the credit shall constitute  
10 a waiver of the right to claim the credit. A taxpayer may claim  
11 a credit under this section only if the building or project is a  
12 qualified low-income housing building or a qualified low-income  
13 housing project under section 42 of the Internal Revenue Code.  
14 ~~[Section 469 (with respect to passive activity losses and~~  
15 ~~credits limited) of the Internal Revenue Code shall be applied~~  
16 ~~in claiming the credit under this section.]~~

17 ~~[(i)]~~ (j) In lieu of the credit awarded under this section  
18 for a qualified low-income building that has been awarded  
19 federal credits that are subject to the state housing credit  
20 ceiling under section 42(h)(3)(C) of the Internal Revenue Code,  
21 federal credits that are allocated pursuant to section 42(h)(4)



March 14, 2016

**The Honorable Mark J. Hashem, Chair**

House Committee on Housing  
State Capitol, Room 329  
Honolulu, Hawaii 96813

**RE: S.B. 2833, S.D.2, Relating to the Low-Income Housing Tax Credit**

**HEARING: Monday, March 14, 2016 at 9:00 a.m.**

Aloha Chair Hashem, Vice Chair Jordan, and Members of the Committee:

I am Myoung Oh, Government Affairs Director, here to testify 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.2 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.2 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 testify.



## CATHOLIC CHARITIES HAWAII

### TESTIMONY in SUPPORT of SB 2833 SD2: RELATING TO HOMELESSNESS

TO: Representative Mark J. Hashem, Chair, Representative Jo Jordan, Vice Chair, and Members, Committee on Housing

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

Hearing: **Monday, 3/14/16; 9:00 AM; CR 329**

Chair Hashem, Vice Chair Jordan, and Members, Committee on Housing:

Thank you for the opportunity to provide written testimony **in support of SB 2833, SD2**, 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](mailto:bettylou.larson@catholiccharitieshawaii.org) if you have any questions.



CLARENCE T. C. CHING CAMPUS • 1822 Ke'eumoku Street, Honolulu, HI 96822  
Phone (808)373-0356 • Email: [bettylou.larson@catholiccharitieshawaii.org](mailto:bettylou.larson@catholiccharitieshawaii.org)



2016 OFFICERS

PRESIDENT  
CRAIG WASHOFSKY  
SERVCO HOME & APPLIANCE  
DISTRIBUTION

PRESIDENT-ELECT  
EVAN FUJIMOTO  
GRAHAM BUILDERS, INC.

VICE PRESIDENT  
DEAN UCHIDA  
SSFM INTERNATIONAL, INC.

TREASURER  
MICHAEL WATANABE  
JW, INC.

SECRETARY  
PETER ELDRIDGE  
RAYNOR OVERHEAD DOORS &  
GATES, INC.

SPECIAL APPOINTEE-BUILDER  
PAUL D. SILEN  
HAWAIIAN DREDGING  
CONSTRUCTION CO, INC

SPECIAL APPOINTEE-BUILDER  
MARK KENNEDY  
HASEKO CONSTRUCTION  
MANAGEMENT GROUP, INC.

SPECIAL APPOINTEE-ASSOCIATE  
GARY T. OKIMOTO  
HONOLULU WOOD TREATING, LLC

IMMEDIATE PAST PRESIDENT  
RICHARD HOBSON, JR.  
GENTRY HOMES, LTD.

CHIEF EXECUTIVE OFFICER  
GLADYS MARRONE  
BIA-HAWAII

2016 DIRECTORS

ANTHONY BORGE  
RMA SALES

BEAU NOBMANN  
HPM BUILDING SUPPLY

DOUGLAS E. PEARSON  
CASTLE & COOKE HOMES  
HAWAII, INC.

CHRIS CHEUNG  
CC ENGINEERING &  
CONSTRUCTION, INC.

CLIFTON CRAWFORD  
C&J CONTRACTING, INC.

CURT KIRIU  
CK INDEPENDENT LIVING BUILDERS

DWIGHT MITSUNAGA  
DM PACIFIC, INC.

JACKSON PARKER  
D.R. HORTON, SCHULER DIVISION

JENNIFER ANDREWS  
COLDWELL BANKER PACIFIC  
PROPERTIES

MARK HERTEL  
INTER-ISLAND SOLAR SUPPLY,  
OAHU-MAUI-HAWAII-KAUAI

MARSHALL HICKOX  
HOMEWORKS CONSTRUCTION, INC.

SARAH LOVE  
BAYS LUNG ROSE & HOLMA

MAILING  
P.O. BOX 970967  
WAIPAHU, HAWAII  
96797-0967

STREET  
94-487 AKOKI STREET,  
WAIPAHU, HAWAII 96797

P 808.847.4666  
F 808.440.1198  
E INFO@BIAHAWAII.ORG

WWW.BIAHAWAII.ORG

**Testimony to the House Committee on Housing**  
**Monday, March 14, 2016**  
**9:00 A.M.**  
**State Capitol, Conference Room 329**

**RE: S.B. 2833 S.D.2, Relating to Low Income Housing Tax Credit**

Dear Chair Hashem, Vice-Chair Jordan, and members of the Committee:

My name is Gladys Marrone, Chief Executive Officer for the Building Industry Association of Hawaii (BIA-Hawaii), the Voice of the Construction Industry. We promote our members through advocacy and education, and provide community outreach programs to enhance the quality of life for the people of Hawaii. BIA-Hawaii is a not-for-profit professional trade organization chartered in 1955, and affiliated with the National Association of Home Builders.

BIA Hawaii is in **strong support** of S.B. 2833 S.D. 2 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 Building Industry Association of Hawaii and the Chamber of Commerce 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 projected 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 S.B. 2833 S.D. 2 and appreciate the opportunity to express our views on this matter.

# 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, SD2

INTRODUCED BY: Senate Committee on Ways and Means

EXECUTIVE SUMMARY: Seeks to make the State low-income housing credit more valuable by reducing the payout period from ten to five years. As a policy matter, if it is considered desirable to offer incentives to develop such projects, consideration should be given to attacking the root causes of why such projects are prohibitively expensive, such as the permitting process. As a technical matter, the statute is self-contradictory because although it says the credit is available regardless of whether the federal credit is applied for, the statute provisions impose limits based on the allocation of federal credits to the subject project, and those allocations won't exist unless the federal credit is applied for.

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.

As a technical matter, we note that the current draft contains contradictory provisions. Subsection (b) of section 235-110.8, as it now exists, provides that a credit under this section may be claimed whether or not the taxpayer claims a federal low-income housing credit under IRC section 42. Subsections (c) and (d), as added by this bill, would divide all credit claims between those receiving “an allocation” prior to 1/1/2017 and those receiving “an allocation” after 12/31/2016. “An allocation” is not specifically defined in HRS section 235-110.8, but because subsection (a) states that IRC section 42 is operative for Hawaii income tax purposes, the statute as amended by the bill, and therefore refers to the allocation of federal credits to the state project under IRC section 42(h). There will be no such allocation, however, unless the taxpayer claims a federal low-income housing credit. Furthermore, paragraph (d)(2), as added by this bill, states that in no event shall the total amount of state credits exceed 50% of the total federal credits allocated to the project. Presumably, if the taxpayer does not claim a federal low-income housing credit and there is no allocation of federal credits, paragraph (d)(2) will limit the total amount of state credits to zero, contradicting subsection (b) as described above.

Digested 3/11/2016



**LATE**

February 28, 2016

Senator Jill N. Tokuda, Chair  
Senator Donovan M. Dela Cruz, Vice Chair  
Senate Committee on Housing

**Comments and Support of SB 2833, SD1 Relating to the Low-Income Housing Tax Credit. (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.)**

**WAM Hearing: Monday, February 29, 2016, 9:15 p.m., in Conf. Room 211**

The Land Use Research Foundation of Hawaii (LURF) is a private, non-profit research and trade association whose members include major Hawaii landowners, developers and a utility company. LURF's mission 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 appreciates the opportunity to **strongly support SB 2833, SD1.**

**SB 2833, SD1.** The purpose of this bill is to increase the value, and therefore the amount of equity generated by State Low-Income Housing Tax Credits (LIHTCs), by shortening the term over which the credits are taken from ten years to five years. SB 2833, SD1 is sponsored by the State Department of Business, Economic Development, and Tourism (DBEDT), and is part of the Governor's Legislative Package

**LURF's Position and Comments.** The shortage of housing and rentals is because it is very challenging to build housing in Hawaii. Since the 1970's, LURF members have built a majority of the affordable and market housing in Hawaii, despite several cycles of economic downturns, stock market crashes, health epidemics, overseas wars, world-wide terrorism, natural disasters, *Not-In-My-Back Yard* and anti-development opposition and lawsuits, growing costs of construction materials and labor, and increasing government mandates, duplicative regulatory processes, requirements, obstacles and barriers. In its testimony relating to this bill, even the Tax Foundation of Hawaii made the following observation regarding the reasons for the high cost of housing in Hawaii:

*“...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.”*

Nevertheless, the LIHTC program continues to be a powerful financing tool for affordable rental housing development. The LIHTC program promotes the development and rehabilitation of low-income rental housing at or below 60 percent of the area median income (AMI), as determined by the U.S. Department of Housing and Urban Development (HUD).

The State LIHTC is tied to the Federal LIHTC program, and the state credit is equal to 50 percent of the federal credit. LIHTCs are currently 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/partners to raise equity for the development of the project. LURF understands that the federal LIHTCs are generally worth up to 95 percent of their face value when sold to investors. However, because of the limited market for state credits, owner-developers are getting only approximately 40 cents on the dollar for the State LIHTCs.

The proposed changes to the State LIHTC should improve their value, and provide more equity to finance the development of affordable rental housing units. 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. Increasing the value of the State LIHTCs would generate more equity to finance the development of affordable rental housing projects, and make such projects easier to develop.

For the reasons set forth above, LURF is **in strong support of SB 2833, SD1**, and respectfully urges your favorable consideration of this bill.

Thank you for the opportunity to present testimony regarding this measure.





# Chamber of Commerce HAWAII

*The Voice of Business*

**LATE**

**Testimony to the House Committee on Housing  
Monday, March 14, 2016 at 9:00 A.M.  
Conference Room 329, State Capitol**

**RE: SENATE BILL 2833 SD 2 RELATING TO THE LOW-INCOME HOUSING TAX  
CREDIT**

Chair Hashem, Vice Chair Jordan, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **strongly supports** SB 2833 SD 2 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 projected 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 2 and appreciate the opportunity to express our views on this matter.

jordan3-Kevin

---

From: mailinglist@capitol.hawaii.gov  
Sent: Sunday, March 13, 2016 10:05 PM  
To: HSGtestimony  
Cc: bourcier@hawaii.edu  
Subject: Submitted testimony for SB2833 on Mar 14, 2016 09:00AM

**LATE**

**SB2833**

Submitted on: 3/13/2016

Testimony for HSG on Mar 14, 2016 09:00AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
Camille Bourcier	Individual	Support	No

Comments: I support this bill.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

Do not reply to this email. This inbox is not monitored. For assistance please email [webmaster@capitol.hawaii.gov](mailto:webmaster@capitol.hawaii.gov)

jordan3-Kevin

---

From: mailinglist@capitol.hawaii.gov  
Sent: Monday, March 14, 2016 3:12 AM  
To: HSGtestimony  
Cc: annsfreed@gmail.com  
Subject: Submitted testimony for SB2833 on Mar 14, 2016 09:00AM

**LATE**

**SB2833**

Submitted on: 3/14/2016

Testimony for HSG on Mar 14, 2016 09:00AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
Ann S Freed	Hawaii Women's Coalition	Support	No

Comments: Aloha Chair, Vice Chair and Committee, As in previous testimony we are in strong support of this measure. It seems a small price for a big payoff for Hawaii's families living at or below the poverty line. Mahalo, Ann S. Freed, Co-Chair, Hawaii Women's Coalition.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

Do not reply to this email. This inbox is not monitored. For assistance please email [webmaster@capitol.hawaii.gov](mailto:webmaster@capitol.hawaii.gov)