DAVID Y. IGE
GOVERNOR

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

Date: Monday, April 3, 2017
Time: 1:35 P.M.
Place: Conference Room 211, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 488, H.D. 2, S.D. 1, Relating to Housing

The Department of Taxation (Department) appreciates the intent of H.B. 488, H.D. 2, S.D. 1, to increase low income housing, but opposes the nonconformity to the Internal Revenue Code (IRC) provisions relating to the at risk and passive activity loss (PAL) limitation rules. The Department otherwise defers to the Hawaii Housing Finance and Development Corporation (HHFDC) on the merits of this bill, and provides the following comments for your consideration.

The tax provisions contained in S.D. 1 were added by the Senate Committee on Housing and Human Services, and eliminate conformity to the IRC sections 42(k), 465, and 469, related to the at-risk rules and the PAL limitations, such that these provisions do not apply with respect to investments in buildings and projects claiming the credit. The measure has a defective effective date of January 1, 2050, but would otherwise apply to qualified low-income buildings awarded credits after December 31, 2017. It also provides that the tax provisions contained in this measure are not repealed when the changes made to section 235-110.8, Hawaii Revised Statutes (HRS), by Section 4 of Act 129, Session Laws of Hawaii 2016, are repealed on December 31, 2021.

The Department first notes that it always prefers conformity to the IRC where possible, as this provides clear guidance to both the Department and to taxpayers, since there is substantial guidance issued in the form of rules and regulations issued by the Internal Revenue Service (IRS), as well as court decisions regarding the various sections of the IRC. Conformity greatly minimizes the burden on the Department and taxpayers, thereby assisting compliance with Hawaii's tax law.

Both the at-risk (IRC section 465) and PAL (IRC section 469) rules apply only to:

- Individuals (including partners and S corporation shareholders);
- Estates;

- Trusts (other than grantor trusts);
- Personal service corporations; and
- Closely held corporations.

Currently, losses from activities that exceed the amount the taxpayer has at risk are disallowed for the current year, but are carried forward until the taxpayer increases the amount that he has at risk, at which time the losses up to that amount may be utilized. Similarly, losses from passive activities that exceed the income from passive activities are disallowed for the current year, but are carried forward until they may be used against passive income or the interest in the activity has been disposed of. If the relaxation of the at-risk and PAL rules applies, taxpayers would be able to immediately use any losses to offset income up to the full extent of ordinary income.

As described above, the at-risk and PAL rules apply to individuals, S corporation shareholders and closely held corporations, but do not apply to large corporations. The reason that these rules do not apply to large corporations is because, as a matter of law, corporate officers, directors, and controlling shareholders owe a duty to the corporation to protect the interests of all shareholders, which a court will enforce through the shareholders. See e.g. In re Reading Co., 711 F.2d 509, 517 (3d Cir. 1983); Gateway Tech., Inc. v. MCI Telecom. Corp., 64 F.3d 993 (5th Cir. 1995). In a small closely held corporation, this limiting factor is not generally present since the interests of the shareholders are more closely aligned, whereas in large corporations, a diverse range of interests will prevent taking abusive positions.

In addition, IRC section 752 (treatment of certain liabilities) applies only to partnerships, and is what allows a partnership to create basis, which a corporation cannot. For example, suppose individuals A and B each contribute $100 to form partnership AB. A and B will start out with a basis of $100. If partnership AB borrows an additional $800 nonrecourse and acquires depreciable property for $1,000, AB has a $1,000 cost basis in the property under IRC section 1012. Under IRC section 752, however, the partners together will have an extra $800 basis in their partnership interests because of the partnership's borrowing. If the partners are equal, then each will have a basis in the partnership of $500, and each of the partners would be able to take deductions, or tax-free distributions, up to the $500 basis. It is this artificial increase in basis that the IRC section 465 at-risk rules are intended to prevent. It should be noted that IRC section 752 has no corresponding equivalent in the corporate tax provisions, not even for S corporations.

The Department is seriously concerned that relaxation of these rules will simply lead to transactions having no economic substance, and which simply are schemes that reduce tax without changing the value of the user's income or assets; these types of schemes substantially burden the Department. As noted in the 2003 report by the Government Accountability Office:

> "[Tax] shelters are complex transactions that manipulate many parts of the tax code or regulations and are typically buried among 'legitimate' transactions reported on tax returns. Because these transactions are often composed of many

pieces located in several parts of a complex tax return, they are essentially hidden from plain sight, which contributes to the difficulty of determining the scope of the abusive shelter problem. Often lacking economic substance or a business purpose other than generating tax benefits, abusive shelters are promoted by some tax professionals, often in confidence, for significant fees, sometimes with the participation of tax-indifferent parties, such as foreign or tax-exempt entities. They may involve unnecessary steps and flow-through entities, such as partnerships, which make detection of these transactions more difficult."

See also Black & Decker Corp. v. United States, 436 F.3d 431, 442–43 (4th Cir. 2006)

Congress originally enacted the at-risk provisions as part of the Tax Reform Act of 1976 in order to deter deductions from losses generated by tax shelters. Prior to the enactment, a taxpayer could increase his or her basis in the partnership by utilizing nonrecourse loans for which the individual had no true economic risk. This increase in basis allowed the taxpayer to use investment losses to offset ordinary income. Although the IRS attempted to limit this practice, its attempts were only marginally effective until the enactment of IRC section 465.

Currently, nonrecourse financing is treated as at-risk only if the property is not acquired by the taxpayer from a related person, and the financing is received from a lender in the business of lending (other than the seller of the property) or a government agency. If the at-risk rules are relaxed for the low income housing tax credit (LIHTC), the investor could acquire the property from a related person at a greatly inflated price using nonrecourse liability (such that no individual partner has liability in the event of default), and yet take virtually unlimited losses in connection with the property.

The at-risk rules prevent a taxpayer from artificially increasing basis through the use of subscription promissory notes (whereby an investor promises to pay an amount in the future) which in fact are never paid. See e.g. Zeluck v. Commissioner, 103 TCM (2012), where the taxpayer contributed $310,000 to a partnership in 2001 in the form of $110,000 in cash and a $200,000 note that matured on December 31, 2009. The taxpayer also guaranteed a note that was issued by the partnership up to an amount equal to the note he contributed, giving him an initial at-risk tax basis of $310,000 ($110,000 of cash plus $200,000 of guaranteed debt). In 2001 and 2002, the taxpayer was allocated losses from the partnership that practically eliminated his at-risk tax basis, and in 2003 the partnership terminated. After the partnership terminated, no attempt was made to enforce payment of the taxpayer's note or the partnership's note on which the taxpayer never made any principal payments and failed to make all interest payments.

The PAL rules were enacted as part of the Tax Reform Act of 1986 to address widespread avoidance of tax through the generation of artificial losses from tax shelters and other trades or business for which the taxpayer did not bear sufficient economic risk. The passive activity loss rules focus on the source and character of losses rather than on the taxpayer's wherewithal to recognize such losses. Broadly speaking, the rules operate to prevent taxpayers from offsetting ordinary income from non-passive activities (i.e., wages or businesses they operate) with losses from passive activities in which the taxpayer does not materially participate, thereby insuring that all taxpayers pay a fair share of taxes on ordinary income. It should also be noted that if the PAL limitation rules are relaxed, a taxpayer will be able to shield their ordinary income and yet obtain capital gain treatment, when the interest in the activity is sold.

How the relaxation of these rules might be used to cause a substantial reduction of taxes paid in a transaction with no economic substance is best illustrated by an example. Suppose a Company A builds an eligible building with a depreciable basis of $1 million, and which generates a net rental loss of $50,000 per year. Company A then sells this same building to related Company B for $10 million, with terms of no money down, and a nonrecourse note for $10 million. For both federal and State tax credit purposes, the eligible credit basis of the building remains at $1 million. For both federal and State tax purposes, the building's depreciation basis in the hands of the subsidiary is the $10 million purported purchase price.

Residential rental real property is generally depreciated over a 27.5 year period, and therefore this $9 million increase in basis will increase the annual net rental loss by an additional $327,273, bringing the annual net rental loss to $377,273. However, for federal tax purposes, a passive investor in the company will generally be able to use only up to $25,000 of this loss (with the excess loss carried forward until it can be used), while for State purposes, elimination of the passive activity loss rules will allow that same person to decrease its taxable State income by the full loss of $377,273. Moreover, if that person only had invested $10,000 in cash in the company, for federal tax purposes, any deduction is further limited by the at risk rules to $10,000 until such time as the taxpayer increases its at-risk basis. Elimination of the at-risk rules for State purposes will allow the taxpayer to claim a proportionate share of the nonrecourse liability in the taxpayer's basis, thereby again allowing it to take full advantage of the deduction.

The Department notes that it does not seem necessary to make IRC section 42(k) inoperative as it applies to all taxpayers, including corporations. IRC section 42(k) makes applicable at-risk rules relating to nonrecourse financing similar to IRC section 49(a)(1), (a)(2), and (b)(1), and contains a recapture provision which requires that any mortgage secured by an interest in the building be repaid at the earlier of certain specified events, including within 90 days of the end of the compliance monitoring period. If the loan is not fully repaid, IRC section 42(k) requires a recapture of credits claimed from the beginning, recalculating the credit by excluding that portion of the mortgage that was not repaid. If the intent of this measure is to allow individuals to invest in low income housing and receive the same tax treatment as corporations then there is no need to make this section inoperative. Furthermore, since the "qualified basis" would be the same for both the federal and State LIHTCs taxpayers that are federally compliant would also be compliant for Hawaii purposes.

The Department notes that with regard to low income housing buildings that are not financed through the use of tax exempt bonds, the LIHTC is already fully subscribed, and no amount of additional incentives can generate additional low income housing using conventional financing. Only projects that are financed with tax exempt bonds are undersubscribed, such that additional inducements may attract additional investors. The Department notes, however, that the LIHTC credit period was shortened 10 to 5 years and it is too early to assess the impact that this change has had on additional projects.

Finally, if the Committee wishes to advance this measure, the Department is able to implement this measure with the current effective date.

Thank you for the opportunity to provide comments.

DAVID Y. IGE
GOVERNOR

HAKIM OUANSAFI
EXECUTIVE DIRECTOR

BARBARA E. ARASHIRO
EXECUTIVE ASSISTANT

STATE OF HAWAII
HAWAII PUBLIC HOUSING AUTHORITY
1002 NORTH SCHOOL STREET
POST OFFICE BOX 17907
HONOLULU, HAWAII 96817

Statement of
Hakim Ouansafi
Hawaii Public Housing Authority
Before the

SENATE COMMITTEE ON WAYS AND MEANS

Monday, April 3, 2017
1:35 PM
Room 211, Hawaii State Capitol

In consideration of
HB 488 HD2 SD1
RELATING TO HOUSING

Honorable Chair Tokuda and Members of the Senate Committee on Ways and Means, thank you for the opportunity to provide testimony concerning House Bill 488, HD2, SD1, relating to housing.

The Hawaii Public Housing Authority (HPHA) **supports** HB 488, HD2, SD1, Part VI and defers on Part II, II, IV, and V to our sister agency the Hawaii Housing Finance and Development Corporation. Part IV of HB488, HD2, SD1, authorizes the issuance of general obligation bonds for the HPHA for public housing development improvements, security upgrades, and renovations for public housing, including security improvements and enhancements at Kalihi Valley Homes.

With most HPHA buildings exceeding fifty years in age, these much needed funds are a great start in assisting the HPHA to address the agency's aging stock, and improve the quality of life for our residents by revitalizing and improving the agency's existing properties. The funds will also enable a more comprehensive security system at the various projects across the State and allow the HPHA to address vacant units in need of major capital repairs.

The HPHA is grateful for WAM's continued dedication to housing issues and prefers the Senate's HB100 SD1 budget draft to the House Finance draft. Such lump sum appropriations will provide the agency the flexibility to manage and expend capital funds in an expeditious manner and provide the agency with critical elements in tackling the backlog of capital needs and unexpected repairs, thereby better serving one of Hawaii' most vulnerable groups.

The HPHA appreciates the opportunity to provide the Senate Committee on Ways and Means with the HPHA's comments regarding HB 488, HD2, SD1. We thank you very much for your dedicated support.

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
April 3, 2017 at 1:35 p.m.
State Capitol, Room 211

In consideration of
H.B. 488, H.D. 2, S.D. 1
RELATING TO HOUSING.

The HHFDC ***supports the intent*** of Part II of H.B. 488, H.D. 2, S.D. 1, and ***supports*** Parts III, IV, and V of the bill to the extent that it is consistent with priorities requested in the Executive Budget.

In particular, HHFDC supports Parts III and IV of the bill, which include General Obligation Bond appropriations for infusion into the Rental Housing Revolving Fund and for a mixed-use affordable rental housing and multi-use juvenile services and shelter center at project located at 902 Alder Street, Honolulu, Hawaii.

HHFDC intends to use the appropriation for 902 Alder Street to finance Phase 1 of the juvenile shelter/services component of this mixed-use residential project located at the site of the old Detention Home. HHFDC's financing resources are able to finance the residential component of the mixed-use project. However, Capital Improvement Project appropriations for the non-housing component of the project are needed in order for the entire project to be able to proceed.

The stated purpose of Part IV is "to provide funding to expand and preserve rental housing opportunities and construct a juvenile services and shelter center for runaway and homeless youths." We would like to clarify that the juvenile shelter is intended to serve young status offenders and low end law violators who are wards of the court and unable to reside with their families in the short term because of safety and other concerns. The services center will be provided through probation and partnering with social services agencies.

The infusion into the Rental Housing Revolving Fund in Part III will help finance the development, or the acquisition and rehabilitation, of rental housing. The Rental Housing Revolving Fund provides loans to projects that set aside rental units affordable to extreme and very low-income families. The loans fill the financing gap to develop an affordable rental housing project. Since its inception, Rental Housing Revolving Fund awards have been made to 78 affordable rental projects comprising a total of 6,232 units statewide.

Part II of the bill would further decouple the State Low-Income Housing Tax Credit (LIHTC) program from the Federal LIHTC program by deleting language relating to the application of the at-risk rule and passive activity loss limitation, thereby allowing individuals and small corporations to invest in State LIHTCs. We defer to the Department of Taxation on the overall merits of these proposed changes to the State LIHTC.

Thank you for the opportunity to provide written comments on this measure.

The Judiciary, State of Hawai'i

Testimony to the Senate Committee on Ways and Means
Senator Jill N. Tokuda, Chair
Senator Donovan Dela Cruz, Vice Chair

Monday, April 3, 2017 1:35 PM
State Capitol, Conference Room 211

By

Rodney A. Maile
Administrative Director of the Courts

WRITTEN TESTIMONY ONLY

Bill No. and Title: House Bill No. 488, House Draft 2, Senate Draft 1 Relating to Housing

Purpose: Specifies that certain provisions of the Internal Revenue Code related to at-risk rules and deductions and to passive activity losses do not apply with respect to claims from the state low-income housing tax credit. Authorizes the issuance of general obligation bonds and appropriates funds for rental housing, mixed-use affordable rental housing, a multi-use juvenile services and shelter center, and public housing. Authorizes the issuance of general obligation bonds and appropriates funds for public housing security improvements, renovation, and repairs. Effective 7/1/2050. (SD1).

Judiciary's Position:

The Judiciary supports the need for both affordable rental housing and the juvenile services and shelter center. The majority of youth that would be served by the juvenile services and shelter center would be status offenders and low level law violators. Many of these offenders are youth that are constantly running away and become part of our homeless population. The shelter will not only provide short term housing for these youth but will also provide services to address issues such as anger, substance abuse and mental health that impact the youth and family relationship. Left unaddressed at this early stage these issues often escalate and may result in the youth moving from status offenses to law violations and situations that require detention. These types of issues may also impact social and educational development which can impact long term social costs upon society in the form of higher use of government services such as welfare.

Many of these youth are from families where the cost of housing is a constant strain on the family and contributes to the stresses that result in acting out behaviors that contribute to the youth coming to the attention of the court.

A juvenile service center such as the one envisioned in this bill is a promising approach used across the nation. Nationally, these centers help decrease the number of youth and families that continue to have interaction with the courts while enhancing public safety. Effective utilization of a center allows police to return to patrol duty instead of sitting with a youth until a parent is able to take custody of the youth. The center will provide services and supports to assist youth and their family that focus on preventing the youth from going deeper in the juvenile justice system. Youth will be diverted to appropriate community-based services based on their needs and risk to public safety.

The need to provide affordable rental housing, as well as the need to provide services to help youth and families that have become part of the juvenile justice system, is extremely important and the Judiciary welcomes the opportunity to be a partner in the accommodation of both of these community needs.

Thank you for the opportunity to testify on this measure.

HAWAII OPERATING ENGINEERS
INDUSTRY STABILIZATION FUND

Affiliated AFL-CIO
OPEIU - 3 - AFL-CIO (3)

Uniting our strengths and working together
for a better tomorrow.

March 30, 2017

Senate Committee on Ways and Means
Honorable Jill Tokuda, Chair
Honorable Donovan Dela Cruz, Vice Chair
Honorable Members of the Senate committee on Ways and Means

RE: **SUPPORT OF H.B. 488 HD2 SD1 RELATING TO HOUSING**

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

My name is Pane Meatoga III and I am the Community Liaison representing the Hawaii Operating Engineers Industry Stabilization Fund (HOEISF). We are a labor management fund representing 4000 unionized members in the heavy engineering site work and 500 general contractors specializing in heavy site and vertical construction.

Hawaii Operating Engineers Industry Stabilization Fund **supports** H.B. 488 HD2 SD1, Relating to Housing, which authorizes the issuance of general obligation bonds and appropriates funds for rental housing, mixed-use affordable rental housing, a multi-use juvenile services and shelter center, and public housing. Authorizes the issuance of general obligation bonds and appropriates funds for public housing security improvements, renovation, and repairs.

Hawaii's housing market suffers from a persistent shortage of housing, particularly housing that is affordable for Hawaii's workforce and lower income groups. Approximately thirty-six per cent of Hawaii's households are cost-burdened, meaning that these households pay more than thirty per cent of their income on housing costs. About half of these households pay more than fifty per cent of their income on housing.

This bill will provide the proper financing and tax credits to help set the foundation needed to increase the availability of and access to housing stock in the State, particularly for the State's vulnerable populations.

Hawaii Operating Engineers Industry Stabilization Fund **supports** H.B. 488, HD2, SD1 and recommends its passage.

Sincerely,

Pane Meatoga III
Community Liaison
Hawaii Operating Engineers Industry Stabilization Fund

EAH

A NONPROFIT HOUSING CORPORATION

March 31, 2017

Hawaii State Capitol
Committee on Ways and Means
Attn: Senator Jill N. Tokuda, Chair & Senator Donovan M. Dela Cruz, Vice Chair
415 South Beretania Street
Honolulu, Hawaii 96813

Hearing: Monday, April 3, 2017
Time: 1:35 PM Room 211
Subject: **HB 488 HD2 SD1 Relating to Housing and Issuance of General Obligation Bonds**

TESTIMONY IN SUPPORT

Chair Tokuda, Vice Chair Dela Cruz and members of the Committee on Ways and Means:

Thank you for this opportunity to submit testimony in **STRONG SUPPORT** of the proposed expansion of the eligibility to enable potential investors to purchase the State's Low Income Housing Tax Credits and the issuance of general obligation bonds to fund the State's Rental Housing Revolving Fund (RHRF) and Dwelling Unit Revolving Fund (DURF) in support of affordable rental housing as noted in Part II Section 2, Part III Section 4, and Part IV Section 8.

I am Kevin Carney, Vice President of EAH Housing. EAH is a 49 year old non-profit public benefit corporation whose mission is to develop, manage and promote affordable rental housing. EAH has developed over 95 affordable rental properties, we manage 110 rental properties and we serve over 20,000 residents in communities in Northern California and on the islands of Kauai, Maui and Oahu. The people we serve are primarily those with incomes at or below 60% of the area median income (AMI).

EAH submitted testimony in support on HB 488 HD2 on March 15, 2017 so I will not repeat what was submitted then other than to say thank you for the proposed $75 million in this SD1 to be provided to the RHRF and $75 million to the DURF. The funds will be put to good use in developing affordable rental housing throughout the state. EAH also appreciates the effort to increase the pool of potential investors in the State's Low Income Housing Tax Credits. We are hopeful that this effort will result in an increase in demand which means a potential increase in pricing. If so, we would depend a bit less on the RHRF as a source of GAP financing.

We thank you for taking these positive steps towards meeting the housing needs of our low income community.

Sincerely,

Kevin R. Carney, RB-16444
(PB), NAHP-E
Vice President, Hawaii
EAH Housing, RB-16985

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Testimony by InState Partners
In Support of HB488 HD2 SD1
Relating to Housing
Senate Committee on Ways and Means
Monday, April 3, 2017, 1:35 PM, CR 211

The Honorable Jill Tokuda, Chair and Committee Members, Committee on Ways and Means:

My name is Ryan Brennan, with InState Partners, testifying in strong support of HD488 HD2 SD1 Relating to Housing.

HB 488 HD2 SD1 seeks to address the serious issue of housing in our state through appropriations for several housing programs and support the different programs within the bill.

Equally as important is the ability to provide for more opportunities for private resources to help with the building of housing. We strongly support the amendments made by the previous committee to include provisions of SB 1169 Relating to the Low-Income Housing Tax Credit into this measure.

Low-income housing tax projects would not be feasible without the federal and State low-income housing tax credits ("LIHTCs"). LIHTCs are necessary to subsidize the cost of the projects without which there would not be sufficient incentives for developers to assume the risk of these projects. This is why Hawaii has adopted the federal LIHTCs to be taken against Hawaii taxes. Last year, the Legislature recognized the importance of the LIHTCs by enacting Act 129, which expanded the incentives for Hawaii investors by accelerating the period over which the Hawaii tax credits can be taken from 10 to 5 years, and by matching the federal tax credit rate, rather than just 50% of the federal credit rate.

The purpose of the provisions is to build on the incentives provided under Act 129 by decoupling from the at-risk and passive activity loss limitations under federal income tax law. These federal tax limitations only permit large corporations to benefit from the credit, excluding most Hawaii individual and small businesses from participating, and therefore expand the investor pool to be more inclusive of the typical Hawaii investor.

We urge you to pass HB 488 HD2 SD1. Thank you for this opportunity to testify.

Hawaiʻi
Construction
Alliance

P.O. Box 179441
Honolulu, HI 96817
(808) 348-8885

April 2, 2017

The Honorable Jill N. Tokuda, Chair
The Honorable Donovan M. Dela Cruz, Vice Chair
and members
Senate Committee on Ways and Means
Hawaiʻi State Legislature
Honolulu, Hawaiʻi 96813

RE: Support for HB488 HD2 SD1, Relating to Housing

Dear Chair Tokuda, Vice Chair Dela Cruz, and members:

The Hawaiʻi Construction Alliance is comprised of the Hawaiʻi Regional Council of Carpenters; the Laborers' International Union of North America, Local 368; the Operative Plasterers' and Cement Masons' Union, Local 630; International Union of Bricklayers & Allied Craftworkers, Local 1; and the Operating Engineers, Local Union No. 3. Together, the member unions of the Hawaiʻi Construction Alliance represent 15,000 working men and women in the basic crafts of Hawaiʻi's construction industry.

We write to support HB488 HD2 SD1. Part II of the bill would specify that certain provisions of the Internal Revenue Code related to at-risk rules and deductions and to passive activity losses do not apply with respect to claims from the state low-income housing tax credit. Parts III through V would authorize the issuance of general obligation bonds and appropriate funds for rental housing, mixed-use affordable rental housing, a multi-use juvenile services and shelter center, and public housing. Part VI of the bill would authorize the issuance of general obligation bonds and appropriates funds for public housing security improvements, renovation, and repairs.

The Hawaiʻi Construction Alliance is extremely concerned about the chronic deficiency of affordable housing across the state. Simply put: the shortage of units for working moderate- and lower-income households is at a crisis level, and is negatively affecting our membership, many of whom fall within the 80-140% AMI "middle income range."

With respect to Part II, we acknowledge the important role that the Low-Income Housing Tax Credit program plays in helping private developers and non-profit entities to construct and rehabilitate rental units at the lowest and most-difficult-to-finance end of the income spectrum. We understand that Part II of this bill would incentivize further investment in LIHTCs in Hawaiʻi by allowing more Hawaiʻi investors to utilize the tax credits, expanding the investor market, and generating more participation in state bond financed projects. It is our hope that if this bill passes, Hawaiʻi would see more investment in LIHTCs to help to alleviate the massive housing need for low-income families.

With respect to Parts III through V of the bill, we recognize the huge needs facing families whose incomes levels are at or below 80% AMI. Therefore, we support the provisions of the bill which would authorize the issuance of general obligation bonds for rental housing, mixed-use affordable rental housing, a multi-use juvenile services and shelter center, and public housing, and also appropriate funds for public housing security improvements, renovation, and repairs.

Finally, we also recognize that the funding provided in HB488 HD2 SD1 will create jobs at prevailing wages for the construction industry as new public housing is built and existing public housing is modernized, repaired, and renovated.

Thank you for the opportunity to provide these comments in **support of HB488 HD2 SD1**.

Mahalo,

Tyler Dos Santos-Tam
Executive Director
Hawaiʻi Construction Alliance
execdir@hawaiiconstructionalliance.org

From: mailinglist@capitol.hawaii.gov
Sent: Sunday, April 2, 2017 9:34 AM
To: WAM Testimony
Cc: milton_s_bain@yahoo.com
Subject: Submitted testimony for HB488 on Apr 3, 2017 13:35PM

HB488
Submitted on: 4/2/2017
Testimony for WAM on Apr 3, 2017 13:35PM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Rev. Stanley Bain	Fatih Action for Community Equity	Support	No

Comments: Thank you for advancing this crucial legislation to help address Hawaii's most pressing need.

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

Hawaii
Habitat
for Humanity®
Association
Building Housing, Building Hope

April 2, 2017

From: George S. Massengale
To: Senate Committee on Ways & Means
Date: Hearing April 3, 2017 at 1:35 P.M.
Subj: HB488, HD2, Relating to Housing

Testimony in Strong Support

Chair Tokuda, Vice Chair Dela Cruz, and members of the committee on ways & means. Please accept our written testimony in strong support of HB488, HD2. This bill if passed would substantially increase the availability of affordable rental housing through the issuance of general obligation bonds.

Although our organization's main focus is the building of affordable ownership homes we clearly understand that much more must be done to house individuals and families that are not in position to pursue the option of homeownership. Once family is in a stable housing situation they can then begin to take steps that will eventually lead to home ownership.

As we all know there is a critical shortage of affordable housing in the State and this measure will provide monies for a comprehensive range of projects to improve existing public housing and create more housing units for Hawaii residents at all income levels.

We are also aware that during this bill's travels through the House of Representatives, funds were zeroed by the finance committee, and now starts it journey anew through the Senate "a more enlighten body". From our analysis of what is need just to begin to make a meaningful impact on our worsening housing crisis we would strongly recommend that the following dollar amount be inserted into this measure:

- $75 million for the Rental Housing Revolving Fund (RHRF) to create affordable rental units
- $75 million for construction of a juvenile service center/shelter at 902 Alder Street along with a 180-unit affordable family housing project utilizing other funding. ***Because the housing development is just within ½ mile of the Ala Moana HART station the amount of affordable housing could be increase pursuant to Interim Planned Development – Transit rules (ROH 21-9.100-5).**
- $75 million for public housing development, improvements and renovations
- $25 million for public housing security improvements, and renovations/repairs for vacant public housing units.

All these appropriations are sorely needed to address Hawaii's Affordable Housing and Homelessness Crisis. Without affordable, stable, and decent housing, low-income individuals and families will continue to face insurmountable barriers to their financial self-sufficiency.

Respectfully,

George S. Massengale
Director, Community Engagement

2051 Young Street, #82, Honolulu, HI 96826 - 808.897.7676 - www.hawaiihabitat.org

From: mailinglist@capitol.hawaii.gov
Sent: Saturday, April 1, 2017 7:13 PM
To: WAM Testimony
Cc: catgraham48@gmail.com
Subject: Submitted testimony for HB488 on Apr 3, 2017 13:35PM

HB488
Submitted on: 4/1/2017
Testimony for WAM on Apr 3, 2017 13:35PM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Catherine Susan Graham	FACE/Housing Now Coalition	Support	No

Comments: Thank you, Senator Tokuda and Ways and Means Members for hearing HB488 and providing another opportunity to increase the funding for affordable housing. I am a member of Housing Now Coalition and I strongly support HB 488 because it provides much needed funding for developers to actually build the affordable housing units that the Legislature mandated last year and because it will also allow more entities to invest in the Low Income Housing Tax Credits, which will provide additional funding for these affordable rental units. Please keep affordable housing a top priority."

DEBARTOLO
DEVELOPMENT

March 31, 2017

The Honorable Jill Tokuda, Chair
and Committee Members
Committee on Ways & Means
Hawaii State Capitol, Rm. 211
Honolulu, HI 96813

Dear Chair Tokuda and Committee Members:

RE: HB 488 HD2 SD1 Relating to Housing

My name is Rich Hartline testifying in strong support of HB488 HD2 SD1 Relating to Housing.

DeBartolo Development strongly supports measures that will help provide housing, which is a very serious issue for our state.

We also strongly support the Low Income Housing Tax Credit (LIHTC) provision. The LIHTC provision eliminates the requirement that the federal at risk and passive activity loss limitations apply to Hawaii projects. Elimination of this requirement expands the investor market, permitting developers to command a higher price for tax credits which provides more incentive to produce low income housing.

Federal tax reductions are highly anticipated, which will place LIHTC projects throughout the nation at risk of not being able to attract investors. We believe that the provisions in this measure will offset this anticipated federal tax reduction, allowing projects to continue.

Thank you for this opportunity to provide supportive testimony on this measure.

Sincerely,

for Rich Hartline
Vice President of Development

{00256333.1}841 Bishop Street, Suite 1070, Honolulu, HI 96813 | PH 808.439.8400 | FX 808.439.8409 | www.debartolodevelopment.com

Hawai‘i Association of REALTORS®
808-733-7060
808-737-4977
1259 A‘ala Street, Suite 300
Honolulu, HI 96817

April 3, 2017

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

RE: H.B. 488, H.D.2, S.D.1, Relating to Housing

HEARING: Monday, April 3, 2017, at 1:30 p.m.

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

I am Myoung Oh, Director of Government Affairs, submitting written testimony on behalf of the Hawai‘i Association of REALTORS® (“HAR”), the voice of real estate in Hawai‘i, and its 9,200 members. HAR **supports** H.B. 488, H.D.2, S.D.1 which specifies that certain provisions of the Internal Revenue Code related to at-risk rules and deductions and to passive activity losses do not apply with respect to claims from the state low-income housing tax credit, authorizes the issuance of general obligation bonds and appropriates funds for rental housing, mixed-use affordable rental housing, a multi-use juvenile services and shelter center, and public housing, and authorizes the issuance of general obligation bonds and appropriates funds for public housing security improvements, renovation, and repairs.

According to the Department of Business, Economic Development and Tourism, nearly 66,000 housing units are needed to meet long-term demand over the next ten years. Not only do we need more affordable homes, including rentals, to meet today’s needs of our working individuals and families.

HAR has historically supported mechanisms to help increase the supply of low and moderate income affordable housing such as the Rental Housing Revolving 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.

As such, HAR supports H.B. 488, H.D.2, S.D.1 to provide for much needed funding for affordable rental housing opportunities for Hawaii’s residents and will help address the States unique challenges.

Mahalo for the opportunity to submit written testimony in support of this measure.

From: mailinglist@capitol.hawaii.gov
Sent: Friday, March 31, 2017 7:52 PM
To: WAM Testimony
Cc: stanfranco@hawaiiantel.net
Subject: Submitted testimony for HB488 on Apr 3, 2017 13:35PM

HB488
Submitted on: 3/31/2017
Testimony for WAM on Apr 3, 2017 13:35PM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
stan franco	Face Maui	Support	No

Comments: It is critical that we have moneys for the building rental housing in Hawaii. We are at crisis stage and our people deserve our attention to this problem. Face Maui supports HB 488.

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.

PARTNERS IN CARE

Oahu Continuum of Care

Partners in Care is a coalition of Oahu's homeless service providers, government representatives and community stakeholders working together in partnership to end homelessness.

TESTIMONY IN SUPPORT OF HB 488 HD2: RELATING TO HOUSING

TO: Senator Jill Tokuda, Chair; Senator Donovan Dela Cruz, Vice Chair; and Members, Committee on Ways and Means
FROM: Greg Payton, Chair of the Advocacy Committee, Partners in Care
Hearing: Monday, April 3, 2017; 1:35 pm; CR 211

Thank you for the opportunity to provide testimony **in strong support** of HB 488 SD1, making an appropriation to the Rental Housing Revolving Fund (RHRF), the Alder Street project for a juvenile services center/shelter, Hawaii Public Housing Authority (HPHA) and the Dwelling Unit Revolving Fund (DURF). I am Greg Payton, the Chair of the Advocacy Committee of Partners in Care (PIC).

Partners in Care is a coalition of over 35 homeless service providers and many others in the community on Oahu dedicated to ending homelessness. In the past two years on Oahu, we have developed a coordinated entry system to more effectively and strategically help homeless to navigate resources and be linked to housing. One big barrier is the lack of affordable units. Honolulu Fair Market Rent for a 2 bedroom jumped up 65% from 2005 to 2015. Even with rental subsides like Section 8, it is hard to find a unit. To end homelessness, we must create more rentals.

We thank your Committee for including funding in your Senate budget (HB 100, SD1) for these four critical housing initiatives. However to continue the momentum that the Legislature created last year with its more robust allocations and the creation of the Special Action Team on Affordable Rental Housing, we urge you to **increase the allocations to the Rental Housing Revolving Fund and the Dwelling Unit Revolving Fund**. We support the HB 100, SD1 allocations of $15 million for Alder Street and $51 million for improvements and security for public housing.

We understand that the State revenue projections have decreased creating a very tight budget. We also recognize that the legislature is reviewing multiple state needs, so increased funding may be difficult to achieve. We urge you to consider the long term benefits for Hawaii when affordable housing is created.

Partners in Care supports allocating **$75 million to the Rental Housing Revolving Fund (RHRF).** The RHRF has created 5,880 units as of 6/30/16. . The Hawaii Housing Finance and Development Corporation has already received about $121 million in requests this year for new proposed affordable rental projects,78% of which targeted family housing. The need is great but limited funds means some good projects will not be funded. We need to keep the momentum growing.

One of PIC's top priorities is homeless youth. We support **$15 million to the Alder Street juvenile services/shelter project.** Redeveloping this underutilized state land would be ideal to create services and a shelter for high risk youth who are runaways, etc. Over 700 youth are homeless each year. These youth face sexual exploitation, assault, hunger, lack of schooling, and mental illness. The $15 million for the youth center would also enable the construction of 180 units of rental housing, designated for families. What a great model for future state TOD projects.

PIC also strongly supports **$75 million for DURF** to create infrastructure that is vital for affordable housing projects to move forward in many areas.

We support the $51 million allocated in the Senate budget (HB 100, SD1) for public housing improvements, security and repairing vacant units. HPHA has an estimated backlog of $500 million in repairs. Their properties have been deteriorating for decades. In 85 properties across the state, they serve over 20,000 people. Immediate action is needed for the health and safety of residents as well as repairs to put these valuable units for low-income people back into circulation ASAP.

We thank you for your dedication to ending homelessness and creating affordable rental housing. Please keep the momentum growing to achieve these two high priorities for our State. Please contact me at (808) 529-4554 or gpayton@mhkhawaii.org if you have any questions.

CATHOLIC CHARITIES HAWAIʻI

TESTIMONY IN SUPPORT OF HB 488 HD2, SD1: RELATING TO HOUSING

TO: Senator Jill Tokuda, Chair; Senator Donovan Dela Cruz, Vice Chair; and Members, Committee on Ways and Means
FROM: Terrence L. Walsh, Jr., President and Chief Executive Officer
Hearing: Monday, 4/3/17; 1:35 pm; CR 211

Thank you for the opportunity to provide written testimony **in strong support** of HB 488, which provides funds for affordable rental housing, a multi-use juvenile services and shelter center, housing infrastructure, and public housing. I am Terry Walsh, with Catholic Charities Hawaiʻi. We are also a member of Partners in Care. This funding provides critical long range solutions to homelessness.

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. Our mission is to provide services and advocacy for the most vulnerable in Hawai`i. Ending homelessness is a top priority for 2017.

The KEY to ending homelessness and stopping the flow <u>into</u> homelessness is to create more affordable rental units. This bill is a major step to create adequate housing for the people of Hawaii, not only to end homelessness but to give options for our children to remain in Hawaii and our working people or seniors to have affordable rental units. The need is huge! **Oahu rents soared 23% in 3 years (2012 to 2015).** Hawaii needs approximately 24,551 housing units, statewide, from 2016 – 2020; and approximately **13,500 units (55%) are needed for households at 80% and below the AMI**. Typically, these are rental units.

Last year, the Legislature took a bold step and created a Special Action Team on Affordable Rental Housing. 22,500 units need to be built over the next 10 years. We thank your Committee for the CIP funding you included in HB 100, SD1, for the four housing programs, below. To continue the momentum from last year's more robust allocations, <u>**we urge you to increase the funding for the Rental Housing Revolving Fund and the Dwelling Unit Revolving Fund**</u>.

<u>We recognize that the State is under tight fiscal constraints. We appreciate that the Legislature must balance many important needs and this level of funding may not be feasible.</u> However, ending homelessness and creating decent affordable rental housing for the people of Hawaii requires consistent and significant funding or we will fall further behind. Homelessness grows; brain drain grows as young people leave the islands; families and kupuna undergo increased stress. An ongoing strong commitment to grow our affordable housing stock is vital.

We need to keep the momentum going to create more rental units via the Rental Housing Revolving Fund. With significant funding last year, developers are stepping up and proposing new affordable projects. HHFDC <u>recently received about $121 million in applications</u> to the Rental Housing Revolving Fund. Some will be left on the table without additional funding.

There is strong agreement that infrastructure must be addressed if the state is to promote large increases in its inventory of affordable housing. Funding the Dwelling Unit Revolving Fund will provide this focus. Improving and repairing vacant public housing units are also critical to fully utilize these federally subsidized units. A youth shelter for runaways and status offenders is needed ASAP since this population can face perilous and life-threatening situations. The Alder Street property would have a double impact: serve youth and create 180 units of affordable family rental units. It could also be a model for further Transit Oriented Development (TOD) projects.

Due to the high need, we urge you to consider: **$75 million** for the Rental Housing Revolving Fund and **$75 million** for the Dwelling Unit Revolving Fund since lack of infrastructure is a key barrier to developing much needed rentals in many areas. We also support the Senate's budget which has allocated **$15 million** for Alder Street youth service center/shelter**;** and **$51 million** for the Hawaii Public Housing Authority for imporvments, renovations, security in public housing.

We need to act now. Please contact our Legislative Liaison, Betty Lou Larson, at 373-0356 or bettylou.larson@catholiccharitieshawaii.org, if you have any questions.

From: mailinglist@capitol.hawaii.gov
Sent: Friday, March 31, 2017 5:04 PM
To: WAM Testimony
Cc: dabitbol@chowproject.org
Subject: *Submitted testimony for HB488 on Apr 3, 2017 13:35PM*

HB488
Submitted on: 3/31/2017
Testimony for WAM on Apr 3, 2017 13:35PM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Heather Lusk	The Community Health Outreach Work to Prevent AIDS Project (CHOW Project)	Support	No

Comments:

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

STANFORD CARR DEVELOPMENT, LLC

April 1, 2017

Hawaii State Senate
Committee on Ways and Means
Senator Jill N. Tokuda, Chair
Senator Donovan M. Dela Cruz, Vice Chair

RE: H.B. 488, H.D. 2, S.D. 1, Related to Affordable Housing

The Honorable Chair Jill N. Tokuda, Vice Chair Donovan M. Dela Cruz and members of the Committee:

Stanford Carr Development, LLC submits this testimony in strong support of H.B. 488, H.D. 2, S.D. 1, which specifies that certain provisions of the Internal Revenue Code (IRC) related to at-risk rules, deductions limited to amount at risk, and passive activity loss limitations do not apply to State Low-Income Housing Tax Credits (LIHTC) and authorizes the issuance of general obligation bonds in the amount of $75,000,000 for deposit into the Rental Housing Revolving Fund (RHRF) for fiscal year 2017-2018.

As a private developer of workforce rental housing serving households earning at or below 60 percent of the area median income (AMI), we rely heavily on governmental subsidies to help finance a project's construction. The LIHTC and RHRF are essential tools for the creation of affordable rental housing and this bill serves to maximize their utility.

PART II: STATE LOW-INCOME HOUSING TAX CREDIT

This bill intends to expand Hawaii's LIHTC program, the most effective tool in the production and preservation of workforce rental housing. Established as part of the Tax Reform Act of 1986, the LIHTC program provides tax incentives to encourage investment in the development, acquisition and rehabilitation of workforce rental housing serving households earning 60 percent of the area median income (AMI) and below. The tax credits generated are most often sold to qualified investors in exchange for an equity investment in a project. This equity investment reduces the debt burden on the tax credit property

To augment the Federal LIHTC, the State of Hawaii created a State LIHTC which is equal to fifty percent (50%) of the Federal LIHTC allocated to a project. The Hawaii Housing Finance and Development Corporation (HHFDC) has been designated as the agency responsible for the administration of both Federal and State LIHTC Programs for the State of Hawaii.

The equity generated from the sale of the State LIHTC's, however, is severely limited by the size and makeup of the market for such credits. Only a handful of financial institutions who operate in the islands are qualified to purchase such tax credits and therefore very little competition exists and LIHTC's are priced artificially lower than if sold in a competitive market such as California. Passage of this bill would expand the market for State LIHTC's and allow individuals as well as small business the opportunity to participate in and benefit from the Program. Greater participation in the State LIHTC Program will lend to a more competitive marketplace for such credits and place upward pressure on their pricing thereby maximizing the equity generated for the development of workforce rental housing projects.

In short, the proposed decoupling from at-risk rules and passive activity loss limitations under the IRC will expand the investor pool and strengthen the market for State LIHTC's.

PART III: RENTAL HOUSING REVOLVING FUND

When it created the RHTF (now referred to as the RHRF), the State Legislature understood that workforce housing units could only be developed if a source of monies was made available to provide "equity gap"

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

low-interest loans or grants to qualified owners and developers. Since inception, the RHRF has helped finance the development of 78 affordable rental projects comprising a total of 6,232 units statewide. Though the RHRF is available to subsidize development costs, the current demand of said monies by developers outstrips the amount of funds available for project commitments. By authorizing the issuance of $75,000,000 in general obligation bonds to augment RHRF monies for fiscal year 2017-2018, developers such as ourselves can take advantage of the historically low interest rates and produce rental housing for Hawaii's workforce and lower income groups.

Developers employ the use of the 4 percent non-competitive Low-Income Housing Tax Credit and Private Activity Tax-exempt Bonds administered by the Hawaii Housing Finance and Development Corporation to development workforce rental housing. Unlike 9 percent competitive LIHTCs, there is no ceiling or limit on the amount of 4 percent LIHTC and "new money" tax-exempt bonds available to developers. Furthermore, the proceeds from the sale of the 4 percent LIHTC and "new money" tax-exempt bonds brings an influx of private investment dollars into the state that would otherwise be absent. However, the money secured through these sources falls short of the total dollars required to cover a project's development cost. Each rental unit requires between $100,000 and $125,000 in additional subsidies to be financially feasible. The RHRF plays a crucial role in providing the "gap equity" necessary to complete the capital stack to finance the construction of such financing.

The passage of this bill ensures that developers will have access to a guaranteed amount of monies to build much needed workforce rental housing to help address the State's growing housing shortage.

CLOSING

We applaud the legislature in their efforts to encourage the development of much needed workforce housing for the residents of Hawaii and appreciate the opportunity to provide testimony in full support of the aforementioned bill. Although not a panacea for the State's housing crisis, passage of H.B. 488 would strengthen the market for State LIHTC's and increase the amount of RHRF monies available for the construction of additional workforce rental housing units available for local families.

Respectfully submitted,
STANFORD CARR DEVELOPMENT, LLC

Stanford S. Carr

LATE

Testimony of
Christopher Delaunay, Government Relations Manager
Pacific Resource Partnership

THE SENATE
THE TWENTY-NINTH LEGISLATURE
REGULAR SESSION OF 2017

COMMITTEE ON WAYS AND MEANS
Senator Jill N. Tokuda, Chair
Senator Donovan M. Dela Cruz, Vice Chair

DECISION MAKING

DATE: Monday, April 3, 2017
TIME: 1:35 pm
PLACE: Conference Room 211

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

PRP **supports** HB 488, HD2, SD1, relating to Housing, which specifies that certain provisions of the Internal Revenue Code related to at-risk rules and deductions and to passive activity losses do not apply with respect to claims from the state low-income housing tax credit and authorizes the issuance of general obligation bonds and appropriates funds for rental housing, mixed-use affordable rental housing, a multi-use juvenile services and shelter center, and public housing. This measure also authorizes the issuance of general obligation bonds and appropriates funds for public housing security improvements, renovation, and repairs.

The shortage of affordable housing units for working moderate-and lower-income households is at a crisis level negatively affecting families throughout the State, including many in the 80%-140% AMI range. This measure is another tool to help tackle the problem of affordable housing for Hawaii's residents.

We respectfully request your support on HB 488, HD2, SD1. Thank you for this opportunity to testify.

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(Continued From Page 1)

About PRP

Pacific Resource Partnership (PRP) is a not-for-profit organization that represents the Hawaii Regional Council of Carpenters, the largest construction union in the state, and more than 240 of Hawaii's top contractors. Through this unique partnership, PRP has become an influential voice for responsible construction and an advocate for creating a stronger, more sustainable Hawaii in a way that promotes a vibrant economy, creates jobs and enhances the quality of life for all residents.

LATE

IMUALLIANCE

46-063 Emepela Pl. #U101 Kaneohe, HI 96744 · (808) 679-7454 · Kris Coffield · Co-founder/Executive Director

TESTIMONY FOR HOUSE BILL 488, HOUSE DRAFT 2, SENATE DRAFT 1, RELATING TO HOUSING

Senate Committee on Ways and Means
Hon. Jill N. Tokuda, Chair
Hon. Donovan M. Dela Cruz, Vice Chair

Monday, April 3, 2017, 1:35 PM
State Capitol, Conference Room 211

Honorable Chair Tokuda and committee members:

I am Kris Coffield, representing IMUAlliance, a nonpartisan political advocacy organization that currently boasts over 350 members. On behalf of our members, we offer this testimony <u>in support of</u> House Bill 488, HD 2, SD 1, relating to housing.

According to the 2016 statewide *Point In Time Count* (PITC) report, 7,921 houseless persons were counted on a single night in January last year, up 4 percent from 2015. More than half of these persons were unsheltered. O'ahu accounted for 62 percent of the total (4,940 people), up 1 percent from the previous year. Kaua'i saw a 30 percent increase in the homeless population living on its shores (442 people), while the Big Island saw an increase of 12 percent (1,394 people). Overall, our state saw a 12 percent increase in the number of unsheltered homeless individuals and families and, concurrently, a 4.5 percent decrease in the number of sheltered individuals and families. Notably, the size of the houseless population on O'ahu is up 25 percent from 2009, when 3,638 homeless people were counted. Additionally, Department of Education officials said, last January, that 3,576 public school students are homeless. Last year's PITC captured just over half of them. We know, then, that our state's homeless population is not only larger than the statistics show, but growing.

Over 30 percent of juvenile arrests in Hawai'i are for running away from home, the highest proportion in the nation. Nationally, one in seven young people between the ages of 10 and 18 will run away. Approximately 75 percent of runaways are female, while 46 percent of runaway and homeless youth report being physically abused, 38 percent report being emotionally abused, and 17 percent report being forced into unwanted sexual activity by a family or household member, according to the National Conference of State Legislatures. Roughly 30 percent runaway children will be approached for commercial sexual exploitation within 48 hours of being on the run, with over 80 percent being approached for the sex trade during the course of their time on streets. A federal study found that an estimated 38,600 runaway youth have been sexually assaulted, in the company of someone known to be sexually abusive, or engaged in sexual activity in exchange for money, food, or shelter. Runaways are perceived as easy targets for sex traffickers because they lack stable shelter, a supportive environment, and financial resources, placing them at greater risk of forced prostitution and sexual servitude.

Traffickers exploit our limited number of available shelter beds to lure young people into exploitation. As the homeless childcare provider Covenant House observes, traffickers tell homeless youth that shelters are full and ask, "Where are you going to go? Why don't you come with me? I'll take care of you." Coupled with threats of and enacted physical and sexual violence against the victims or their families, these coercive techniques compel runaway youth to remain enslaved. LGBTQ youth, who comprise an estimated 40 percent of the runaway and homeless youth population in the United States, are exponentially more likely to fall prey to human traffickers because of discrimination, family and community trauma, and a longing for comfort and acceptance (an estimated 26 percent of LGBTQ adolescents are rejected by their families and put out of their homes simply for being open and honest about who they are). In providing care for victims of human trafficking, IMUAlliance has heard their stories hundreds of times.

We must fund homeless services, especially efforts to provide shelters for our state's unhoused youth population. Houseless children suffering from complex and overlapping trauma deserve our compassion, best provided through acute treatment and mental health care. Homeless sex trafficking victims are often coerced into abuse through forced drug addiction and are twice as likely to suffer from post-traumatic stress disorder as soldiers in a war zone. Moreover, we must find a balance between rampant real estate speculation and meeting the affordable housing needs of our state's most economically vulnerable residents. Just as our homeless population has soared over the past few years, so, too, has our state's cost of housing. The median price of condominiums on O'ahu increased 8.3 percent in 2016 to $390,000, while the median price for single-family homes increased by 6.5 percent to $735,000, according to the Honolulu Board of Realtors. Average rent for a 900-square foot apartment in Honolulu now exceeds $2,200, with the cost of a four-bedroom home in urban Honolulu now exceeding $1.1 million. At least 44 percent of residences in Hawai'i are owner unoccupied, according to the University of Hawa'i Economic Research Organization, meaning that nearly 50 percent–and by some estimates over half–of Hawai'i's homes are investment properties.

Many of those properties, in turn, are owned by mainland and foreign buyers, whose real estate market speculation is a prime driver of Hawai'i''s highest-in-the-nation cost of housing. According to a study released in May of 2016 by the Hawai'i Department of Business, Economic Development, and Tourism, there are "clear distinctions" between the average price of homes bought by local residents, mainlanders, and foreigners. Analyzing purchases made between 2008 and 2015, DBEDT found: "The average sale price was highest among foreign buyers. The average sale price of the total of 5,775 homes sold to foreign buyers from 2008 to 2015 was $786,186, 28.3

percent higher than the average sale price to the mainlanders ($612,770) and 64.7 percent higher than the average sale price to local buyers ($477,460)."

Researchers who authored the National Low Income Housing Coalition's *Out of Reach 2016* report found that a full-time worker would need to earn $34.22/hour to afford a two-bedroom apartment at fair market value in our state, with Honolulu experiencing a 67 percent increase in fair market rent between 2005 and 2015. Average rent for a two-bedroom unit surpassed $2,100 in 2015, with average rent for a 900-square-foot exceeding $2,200 in 2016. In the past three years alone, Honolulu rent has increased 23.5 percent. While 47 percent of Hawai'i residents are renters (a number that does not include individuals and families renting outside of the regulated rental market), they earn an average wage of $14.49/hour, scarcely enough to meet their basic needs. One out of every four households in Hawai'i report that they are "doubling up" or are three paychecks or less away from being homeless, per the Hawai'i Appleseed Center for Law and Economic Justice. Additionally, 54 percent of households are cost-burdened, meaning that they pay more than 30 percent of their income for housing costs. Put simply, homelessness is directly tied to our state's exorbitant cost of living and penchant for catering to people who use the islands as their own private Monopoly board. We beseech you to seek innovative ways of making housing in Hawai'i more affordable, while funding the services necessary to show aloha for our economically disadvantaged neighbors.

When you fund shelter and services for homeless families and children, you are helping to end slavery in Hawai'i. Mahalo for the opportunity to testify in support of this bill.

Sincerely,
Kris Coffield
Executive Director
IMUAlliance

THE Michaels ORGANIZATION
Together We Build Communities

www.themichaelsorg.com

LATE

Michaels Development Company
University Student Living
Michaels Military Housing
Prestige Building Company
Interstate Realty Management Company
Michaels Management Services
Continental Mortgage Corporation
Riverside Capital

Testimony of Michaels Development Company – Hawai`i Region
In **Support** of HB488 HD2 SD1 RELATING TO HOUSING
Committee on Ways and Means
Monday, April 3 at 1:35 pm, Conference Room 211

Chair Tokuda, Vice Chair Dela Cruz and members of the Committee on Ways and Means:

We appreciate the opportunity to testify in support of HB 488 HD2 SD1 that provides for much needed funding for affordable rental housing opportunities for Hawaii's residents by authorizing appropriations for the Rental Housing Revolving Fund (RHRF) and the Dwelling Unit Revolving Fund (DURF).

RHRF has long been an essential tool to fulfill affordable housing financing gaps and with the Trump administration proposal to substantially cut funding to the U.S. Department of Housing and Urban Development (HUD), which will eliminate or reduce other gap financing tools such as Community Development Block Grant (CDBG) and HOME Investment Partnership (HOME), it is even more critical that a substantial appropriation is authorized for the RHRF to help cover the loss of these gap financing mechanisms.

Additionally, the distinct possibility of changes in the Internal Revenue Code by the Trump administration, including a reduction in corporate tax rates, is causing significant disruption to affordable housing financing, as low-income housing tax credit (LIHTC) investors are offering less equity per dollar of credit, resulting in notably less equity and amplifying the financing gap. Therefore, the RHRF demand is multiplied and significant appropriation is essential.

DURF is a financial tool that fulfills another, but equally important affordable housing financing demand, as it can be used for the acquisition of real property, along with development and construction of residential properties with interim and permanent loans to developers, which is an essential tool to assist in the initial costs of affordable housing and will be needed now more than ever with the financing gaps created by the reduction of Federal funding.

We appreciate that there are many demands on the budget, but we would submit that the funding of affordable housing has both a social and economic impact for the State that reaches into the lives of many Hawai`i residents with positive effects for improved education and health outcomes, increased earnings and decreased public service dependence for low-income residents and through the development industry, jobs for construction workers, architects, engineers and planners, as well as jobs in local businesses like restaurants and retail.

Michaels Development Company is the largest affordable housing developer in the nation, having overseen $3.5 billion in development and substantial rehabilitation, resulting in 52,661 units in 376 communities, since 1973. There are 50,459 units currently under management serving 115,000 residents, including the Towers at Kuhio Park in Kalihi. Two more communities will be added in December 2017 with the completion of the 85-unit Hale Makana ‘Ohana and the 85-unit Hale Makana ‘O Kupuna in Kailua-Kona.

Pacific Guardian Center – Mauka Tower
737 Bishop Street, Suite 1520
Honolulu, Hawaii 96813
(808) 691-9446

Chamber of Commerce HAWAII
The Voice of Business

Testimony to the Senate Committee on Ways and Means
Monday, April 3, 2017 at 1:35 P.M.
Conference Room 211, State Capitol

LATE

RE: HOUSE BILL 488 HD2 SD1 RELATING TO HOUSING

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

The Chamber of Commerce Hawaii ("The Chamber") **supports** HB 488 HD2 SD1, which specifies that certain provisions of the Internal Revenue Code related to at-risk rules and deductions and to passive activity losses do not apply with respect to claims from the state low-income housing tax credit; authorizes the issuance of general obligation bonds and appropriates funds for rental housing, mixed-use affordable rental housing, a multi-use juvenile services and shelter center, and public housing; authorizes the issuance of general obligation bonds and appropriates funds for public housing security improvements, renovation, and repairs.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 1,600+ 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 bill proposes to appropriate $75,000,000.00 to the rental housing revolving fund to assist in the construction of rental housing targeted for the 80% and below AMI income group. HHFDC has indicated that government funding required for each of these units is roughly $125,000.00 per unit. The $75,000,000.00 appropriation should result in approximately 400 new units.

In addition, the bill also appropriates $15 million for the much needed juvenile service and shelter center near on Alder Street. We understand that the center will be part of a mixed use project that will include residential rental units.

The Chamber and the Building Industry Association of Hawaii convened the first "Houseless in Honolulu" event in November of 2015 to raise awareness of one of Hawaii's most pressing issues - home affordability. Then again in November of 2016 we convened our second event, "Still Houseless in Honolulu." The bottom line is we need to build our way out of this crisis by increasing the supply of housing at all price points. With the median home price in the Islands now $730,000, the repercussions are having a major impact on Honolulu's economy.

We need to "build" our way out of our housing crisis. In order to do that, we need to increase the supply of housing, both rentals and fee simple, at all price points. The Department of Business, Economic Development and Tourism forecasted demand for additional housing

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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).

The proposed appropriation will provide the funding necessary to build more rental units, especially for those at the lower end of the income spectrum. We appreciate the opportunity to express our support for this bill.

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PROTECTING HAWAII'S OHANA, CHILDREN, UNDER SERVED, ELDERLY AND DISABLED

LATE

April 3, 2017

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

FROM: Natalie Okeson, Interim Executive Director, PHOCUSED

SUBJECT: Testimony in Support of HB488, HD2, SD1 RELATING TO HOUSING

Hearing: April 3, 2017 at 1:35pm
Conference Room 211

Chair Tokuda, Vice Chair Dela Cruz, Committee Members:

Thank you for the opportunity to testify in strong support of HB488, HD2, SD1. My name is Natalie Okeson, and I am the Interim Executive Director of PHOCUSED. PHOCUSED is a nonprofit, nonpartisan organization dedicated to increasing the safety for, visibility of, and investment in the children and adults in Hawaii who are marginalized, impoverished, and under-served. Since its formation, our organization has been a leading voice in advocating for our homeless population, as well as increasing the number of affordable housing units, as such units are critical to preventing households from falling into homelessness as the gap between rental prices and wages grows. PHOCUSED is also a proud member of Partners in Care and the Housing Now Coalition.

Our organization would like to thank you for the dedication you showed for those in our community who are in need of homeless services, affordable housing, adult dental coverage, and kupuna care, among many others in Senate Draft 1 of HB100. We greatly appreciate the tremendous amount of work you have done to develop a balanced budget during a time of downward economic forecasts and a number of pressing issues related to funding. We thank you for appropriating monies towards the Alder Street Project, as well, which is also included in HB488, HD2, SD1.

However, PHOCUSED encourages the committee to look once more at funding the Rental House Revolving Fund, the Hawaii Public Housing Authority, and the Dwelling Unit Revolving Fund at $75 million dollars each. We believe that it is critical that we become truly aggressive in our approach to solving our massive affordable housing crisis. We support the amended bill with its language regarding the Low-Income Housing Tax Credit because it will increase the pool of eligible organizations and individuals that are able to bid on the tax credits, which could help drive up the value of the credits thereby increasing funding available for affordable housing projects.

Thank you for the opportunity to submit testimony in support of HB488, HD2, SD1. We urge you to increase the amounts dedicated to these projects, as we know that you all are truly dedicated to the vulnerable populations the members of PHOCUSED serves.

LATE

LAND USE RESEARCH
FOUNDATION OF HAWAII

1100 Alakea Street, Suite 408
Honolulu, Hawaii 96813
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April 3, 2017

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

Support of HB 488, HD2, SD1 Relating to Housing (Specifies that certain provisions of the Internal Revenue Code related to at-risk rules and deductions and to passive activity losses do not apply with respect to claims from the state low-income housing tax credit. Authorizes the issuance of general obligation bonds and appropriates funds for rental housing, mixed-use affordable rental housing, a multi-use juvenile services and shelter center, and public housing. Authorizes the issuance of general obligation bonds and appropriates funds for public housing security improvements, renovation, and repairs. Effective 7/1/2050.)

WAM Hearing: Monday, April 3, 2017, 1:35 p.m., in Conf. Rm. 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 **supports the following parts of HB 488, HD2, SD1**, which would address Hawaii's housing shortage by:

- **Part III: Rental Housing Revolving Fund.** Specifying a general obligation (G.O.) bond issuance and appropriation amount of $75,000,000 for the Rental Housing Revolving Fund (RHRF), which the Hawaii Housing Finance & Development Corporation (HHFDC) will use to finance various capital improvement projects which will create needed housing;

- **Part IV: Rental Housing and Juvenile Services and Shelter Center.** Specifying a G.O. bond issuance and appropriation amount of $15,000,000 to expand and preserve rental housing opportunities and construct a mixed-use affordable rental housing and multi-use juvenile services and shelter center intended to serve young status offenders and low end law violators who are wards of the court and unable to reside with their families in the short term because of safety and other concerns. The services center will be provided through probation and partnering with social services agencies;

- **Part V: Dwelling Unit Revolving Fund.** Providing an appropriation of $75,000 out of the general revenues of the State for deposit into the Dwelling Unit Revolving Fund (DURF), which HHFDC will use to implement Act 132, SLH 2016, which broadened the uses of DURF to include regional state infrastructure construction in conjunction with housing and mixed-use transit-oriented development projects. This funding will enable the state to address a significant barrier to housing development - the lack of roads, water, sewer, drainage, and utilities; and

- **PART VI: Hawaii Public Housing Authority improvements.** Replacing specific appropriations and language for public housing security enhancements with a single general bond issuance and appropriation of %$75,000 to the Hawaii Public Housing Authority (HPHA) to for development, improvements, security upgrades, repairs, and renovations of public housing, including security improvements and enhancements at Kalihi Valley Homes.

<u>LURF's Position</u>. There is a critical shortage of affordable housing in the State and this measure will provide monies for a comprehensive range of projects to improve existing public housing and create more affordable housing units for Hawaii residents at various income levels.

LURF understands that **Part III** of this measure includes G.O. bond appropriations for infusion into the RHRF, which will help finance the development, or the acquisition and rehabilitation, of rental housing, through among other things, loans to projects that set aside rental units affordable to extreme and very low-income families; and those RHRF loans will fill the "financing gap" to develop an affordable rental housing project. According to HHFDC, RHRF awards have been made to 78 affordable rental projects comprising a total of 6,232 units statewide.

The appropriation in **Part IV** of this measure includes G.O bond appropriations for a mixed-use affordable rental housing and multi-use juvenile services and shelter center at project located at 902 Alder Street, in Honolulu, Hawaii. As explained in HHFDC's testimony in support of this bill, it intends to use this appropriation to finance Phase 1 of the juvenile shelter/services component of this mixed-use residential project located at the site of the old Detention Home. LURF understands that while HHFDC is able to finance the residential component of the mixed-use project, the Capital Improvement Project appropriations for the non-housing component of the project are needed in order for the entire project to be able to proceed.

Part V of this measure includes an appropriation of $75,000 out of the general revenues of the State for deposit into the Dwelling Unit Revolving Fund (DURF). LURF understands that DURF has been used since the early 1970's for the acquisition of real property; development and construction of residential, commercial and industrial properties; interim and permanent loans to developers; any and all thing necessary to carry out and administer the purposes of the Housing Development program; and pursuant to Act 132, SLH 2016, implement regional state infrastructure programs, including but not limited to the expansion of community facilities and regional state infrastructure constructed in conjunction with housing and mixed-use transit-oriented development projects, permanent primary or secondary financing, and supplementing building costs.

According to the testimony of HPHA, with most HPHA buildings exceeding fifty years in age, **Part VI** of this measure would provide much needed funds to address and improve the quality of existing State public housing, by modernizing, repairing and maintaining HPHA's aging housing stock. LURF also understands that the funds will also enable a more comprehensive security system at the various HPHA housing projects across the State and would allow the HPHA to address vacant units in need of major capital repairs.

At this time, LURF does not a take a position regarding **Part II**, which specifies that certain provisions of the Internal Revenue Code (IRC) related to at-risk rules and deductions and to passive activity losses do not apply with respect to claims form the state low-income housing tax credit. LURF is not familiar with the details of Part II, including whether its purpose and intent has been approved or allowed under the IRC, the nature of the "benefits" of this part, particularly whether similar applications have been successfully implemented in other states to assist housing developers to build affordable housing, or if there are any possible unintended consequences.

For the above reasons, LURF **strongly supports** **parts III, IV, V and VI of HB 488, HD2, SD1** and respectfully urges your favorable consideration.

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

From: mailinglist@capitol.hawaii.gov
Sent: Friday, March 31, 2017 4:50 PM
To: WAM Testimony
Cc: thelma.kealoha.1@gmail.com
Subject: Submitted testimony for HB488 on Apr 3, 2017 13:35PM

HB488
Submitted on: 3/31/2017
Testimony for WAM on Apr 3, 2017 13:35PM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Thelma Akita-Kealoha	Individual	Support	No

Comments: I am asking that you please support HB 488. The proposed funds for the Rental Housing Revolving Fund and the Hawaii Public Housing Authority (HPHA) are essential to continue the momentum to create more affordable rentals. Improving and repairing vacant HPHA units are especially critical since these units come with rental subsidies so homeless and very low income people can pay just 30% of their income for rent. Thank you!

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.

From: mailinglist@capitol.hawaii.gov
Sent: Sunday, April 2, 2017 1:03 AM
To: WAM Testimony
Cc: cliffes@aol.com
Subject: *Submitted testimony for HB488 on Apr 3, 2017 13:35PM*

HB488
Submitted on: 4/2/2017
Testimony for WAM on Apr 3, 2017 13:35PM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Esther Arinaga	Individual	Support	No

Comments:

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.

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LATE

Chair Jill Tokuda
Vice-Chair Donovan Dela Cruz
Senate Committee on Ways and Means

April 3, 2017
Testimony in Support of HB 488, HD2, SD1

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

My name is Kathy Jaycox and I am writing to express my support for HB 488, HD2, SD1.

Thank you for hearing this bill and providing another opportunity to increase the funding for affordable housing. I am a member of the Housing Now! Coalition and I strongly support HB 488 because it provides much-needed funding for developers to actually build the affordable housing units mandated by the Legislature last year. In addition, this bill will allow more entities to invest in the Low Income Housing Tax Credits, which will provide additional funding for these affordable rental units.

As you already know, access to affordable rental housing for Hawaii's workforce is one of the most pressing needs faced by our state. Thank you for whatever you can do to sustain affordable housing as a top priority of the Legislature.

Kathy Jaycox
559 Pauku St
Kailua, HI 96734

TO: Senator Jill Tokuda, Chair Ways and Means Committee

FROM: Wally Inglis

Dear Chair Tokuda and Members of the Senate Committee on Ways and Means:

I stand in strong support of this bill whose purpose is "to increase the availability of and access to housing stock in the state, particularly for the state's vulnerable 5population." This bill provides adequate funding to make this increase possible. I urge that the amounts of $75 million each for RHRF, DURF and HPHA be provided--along with $15 million for the Alder Street Project.

Additionally, I support the language of Part II of the bill which increases incentives to encourage more investors to purchase tax credits. As a director of a nonprofit which has constructed more than 500 units of affordable housing in Pearl City, I appreciate the availability of tax credits and other state programs which promote public/private partnerships for building low-cost housing.

Both as an individual and a member of the Housing Now! Coalition, I urge you to pass out this bill for approval by the full Senate.

Aloha,

Wally Inglis
Palolo Valley