House & Senate Committees on Housing
Informational Briefing

Monday, February 1, 2016
Conference Room 329

Stanford Carr Development
Mr. Stanford Carr, President

TESTIMONY OF
Stanford S. Carr

JOINT HOUSE AND SENATE COMMITTEES ON HOUSING
INFORMATIONAL BRIEFING

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HB 1958 RELATING TO A GENERAL EXCISE TAX EXEMPTION FOR LOW INCOME RENTAL SUBSIDIES

Over the last 4 years Stanford Carr Development has completed over 618 housing units over the last 4 years comprising of resort and primary residential, single family homes, multi-family for-sale condominiums and LIHTC Rentals. For purposes of this informational briefing I think it is appropriate to discuss our recently completed LIHTC rental project, Halekauwila Place, a 204 unit family high-rise rental completed in 2014 in Kaka'ako.

Halekauwila Place was developed utilizing the 4% low income housing tax credit (LIHTC) program created in 1986 under Section 42 of the Internal Revenue Code. The LIHTC program is the most successful affordable rental housing production tool created that has financed nearly 2.8 million workforce rental apartments in the U.S. since its inception. It is estimated that the federal 4% LIHTC program and the even more powerful, 9% federal low income housing tax credit program provided funding for nearly one third of the over 400,000 total rental apartments built in the U.S. last year. To be eligible for either the 4% or 9% LIHTC the developer rents to tenants whose incomes do not exceed 60% of the Area Median Income and limit the rents charged on those units to 30% of the 60% income limit; i.e. for a family of four, this would translate into a household income of approximately $57,480 per year and $1,437 per month rent for a three bedroom apartment. The sale of these tax credits are purchased by large corporations and financial institutions to offset their annual tax liability over a 10 year period; the proceeds of the sale of these tax credits is used to partially underwrite the development cost of the apartments.

The 9% federal low income tax is allocated annually to each state (Hawaii received $3,264,990 in 2015) based on its population, the syndication of these credits can cover 75% of the total project development costs, as I stated earlier, it is oversubscribed with nearly 4 times more demand for such credits than Hawaii

Housing Finance and Development Corporation (HHFDC) has to award to projects which is enough to build just over a 100 units per year.

The 4% non-volume cap LIHTC can have the biggest impact and potential for Hawaii in order to develop more workforce rental housing throughout our state. There is no allocation cap on the amount of federal 4% LIHTC; this program along with the State LIHTC program, Rental Housing Revolving Fund (RHRF, fka Rental Housing Trust Fund generated through 50% of the Conveyance Tax) and Private Activity Bond financing can be the solution for financing tools in developing the much needed workforce rentals in Hawaii.

An excellent example of the power of this major federal funding source is the development of Halekauwila Place, a 204 unit workforce rental project in Kaka'ako through a Public, Private Partnership with HHFDC and HCDA. The project was financed with the sale of 4% federal low income housing tax credits, a participating state low income housing tax credits, and a Hawaii Community Development Authority gap financing (structured much like the RHRF) and private activity bond financing issued by HHFDC.

I like to say that 100% of Halekauwila residence represent 80% of Honolulu's workforce, they are school teachers, City & County employees, State workers, visitor related industry workers, small business owners and young professionals just getting started in the their careers. Halekauwila was financed with the allocation and sale of $25M in federal LIHTC and $12.5M in state LIHTC, generating $23.5M in proceeds from the sale of the federal credits and $5.3M from the sale of state credits representing 40% of the total development cost. Most importantly the purchaser of the federal credits invested $23.5M in Hawaii to help create jobs in the architectural, engineering, construction and other related industries and professions towards the construction of 204 much needed rentals. We should be utilizing this program year round to build as much as possible in order to satisfy the more than 20,000 housing (according to a 12/30,2014 housing study) units needed for families earning between 30% (family of four $28,700) and 60% ($57,480) of the area median income.

The key financial tools that made the development of Halekauwila financeable was; exemption from General Excise Tax on design and construction costs, the sale of federal and state LIHTC, $17M in gap financing and the use of Private Activity Bond Financing.

The development community has more projects in the pipeline to build more workforce rentals on each of the four counties, the limitations have been the necessity for more gap financing through the use of the Rental Housing Revolving Fund. HB 2303, SB 2832 Amends section 247-7, HRS, to remove the dollar cap on the allocation of conveyance taxes dedicated to the Rental Housing Revolving Fund to help increase the supply of affordable rental housing statewide. The RHRF receives 50% of the conveyance tax revenues or $38M, whichever is less, repealing the cap will generated the much needed revolving funds necessary to finance more rentals through utilizing the federal 4% LIHTC program, without this gap financing, Hawaii cannot fully utilize this powerful federal program to build rental housing.

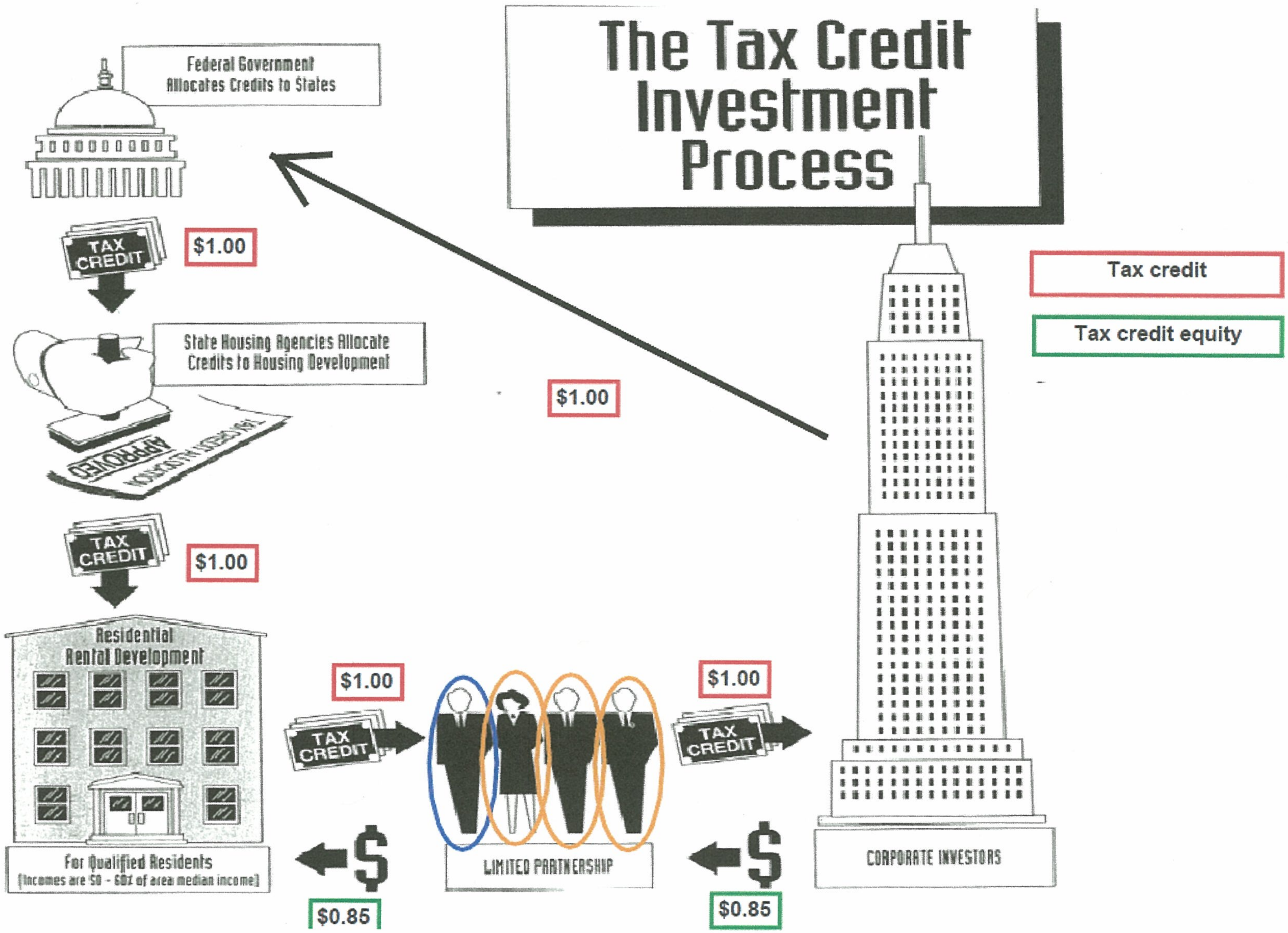
HB 2304, SB 2833 Amends section 235-110.8, HRS, to shorten the term over which State Low-Income Housing Tax Credits (LIHTC) are taken from 10 to 5 years in order to increase the value, and therefore the amount of equity generated by State credits for affordable rental housing projects. State tax credit purchasers have historically been paying approximately .35-.42 cents per $1 for state tax credits, whereas the federal tax credit investor are purchasing tax credits for as much as $1.07- $1.15 per credit. The buyer pool for the Hawaii State Tax Credit is limited to Hawaii tax payers, shortening the use of the credit to offset the investor tax liability from 10 years to 5 years will yield more equity through the sale of the tax credit toward the development costs. The higher yield will mitigate the amount of gap financing necessary to complete the capital stack to finance the rental housing allowing the RHRF to fund more rental developments; i.e. Halekauwila sold $12.5M of State LIHTC for $5.3M or .42per $1, we believe a state investor will likely pay as much as .80 or more per tax credit with the shortened 5 year term, this would have yielded in the case of Halekauwila, $10M vs $5.3M in equity from the sale of the State tax credit, reducing $5M in gap financing in order to complete the necessary capital to close on the construction financing to build Halekauwila. This amendment will enable the RHRF to participate in more rental developments.

I urge the House and Senate to please pass HB 2303, SB2832- Relating to Conveyance Tax and HB2304, SB 2833-Relating to Low-Income Housing Tax Credits so the development community can start building much needed workforce rentals.

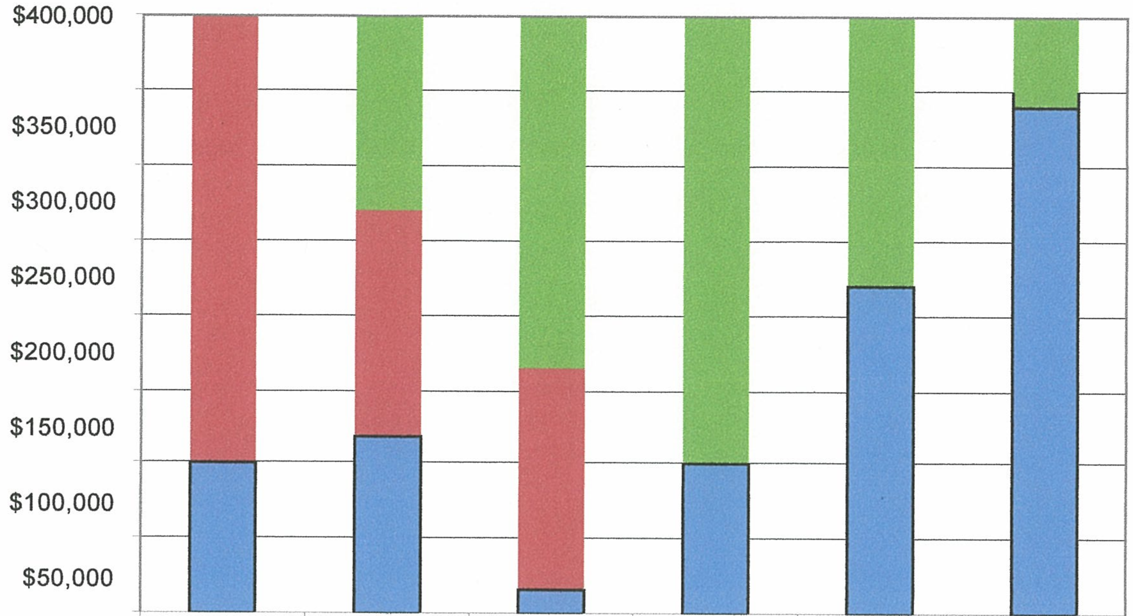
Mahalo

Stanford S. Carr

Why build affordable housing?



RENTAL HOUSING SUBSIDY ANALYSIS



	60% AMI LIHTC (9%)	60% AMI LIHTC (4%)	30% AMI LIHTC (4%)	No LIHTC (61+% AMI)	No LIHTC (100% AMI)	No LIHTC (140% AMI)
Gap Subsidy	$-	$130,400	$235,000	$295,000	$179,000	$60,000
LIHTC	$298,000	$149,000	$149,000	$-	$-	$-
Mortgage	$102,000	$120,600	$16,000	$105,000	$221,000	$340,000

Income target

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Avalon Development
Ms. Christine Camp, President & CEO

No Written Testimony Provided

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Self-Help Housing Corporation of Hawaii
Ms. Claudia Shay, Executive Director

SELF-HELP HOUSING CORPORATION OF HAWAII

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February 1, 2016

To: Senator Breene Harimoto, Chair
Senator Brickwood Galuteria, Vice-Chair
Senate Committee on Housing

Representative Mark Hashem, Chair
Representative Jo Jordan, Vice-Chair
House Committee on Housing

From: Claudia Shay
Executive Director

RE: Informational Briefing on Affordable Housing

Aloha and thank you for the opportunity to address the Senate and House Committees on Housing. The Self-Help Housing Corporation of Hawaii, founded in 1984 to address the severe shortage of affordable housing in Hawaii, has completed 49 projects assisting 624 low income families on Oahu, Kauai, Maui, and Molokai to build their own houses through the team self-help housing method. SHHCH has also completed 12 contractor built houses, both new construction and rehab. SHHCH provides the following technical assistance: development of subdivisions for affordable housing; provision of financial counseling to qualify families for mortgage financing; drafting of house plans, and site plans; attainment of building permits, and approvals; the provision of loan counseling and packaging; the provision of homeownership education; instructions in construction skills through the self-help method to low income families; and the provision of construction management services including attainment of material, supplies, sub-contractors, bookkeeping on construction loans, and attainment of pertinent inspections.

In the past 4 years SHHCH completed the construction of a 72 lot subdivision in Ma'ili, Oahu; the purchase of a fully developed 70 lot subdivision in Pokai Bay, Oahu; the completion of a 14 lot project in Hana, Maui; the completion of 33 houses in the Ma'ili Self-Help Housing Subdivision; the attainment of mortgage financing and building permits for another 22 families presently constructing their houses in the Ma'ili Teams 4 & 5; the attainment of mortgage financing for another 8 families in the Ma'ili Team 6, the purchase of a 8 lot subdivision in Kapaa, Kauai; and the attainment of financing for another 8 families in Kapaa, Kauai who are currently building their own houses.

SHHCH is about to launch the Pokai Bay Self-Help Housing Project of 70 developed lots in Waianae geared to families whose incomes are below 80% and 50% of the area median income. SHHCH will offer one and two story, three and four bedroom houses for approximately $295,000 with expected appraisals of $480,000-$500,000. SHHCH anticipates starting residential construction in June, 2016.

The problems SHHCH has encountered are delays in attaining building permits, approvals of road and utilities' dedication; and inordinately long delays in loan processing by government lenders. These delays cause serious problems with meeting benchmarks on which SHHCH's funding depends; thereby causing cash flow problems intermittently for the corporation. Concomitantly, the delays have resulted in the accrual of significant carrying charges resulting in the increase of house and lot packages for low income families.

The legislature can assist by continuing the funding for HHFDC for DURF funds, Hula Mae funds, Rental Housing funds, maintaining the general excise tax exemptions, maintaining the Chapter 201 H exemptions, and offering down payment assistance to low income families. If SHHCH 's loans for acquisition and infrastructure were from a private bank instead of HHFDC, it would have lost its property a long time ago due to the inordinately long delays in loan processing caused by the federal lender. With delays for government approval a developer continually risks losing its land and investment of several years in an affordable housing project. The expediting of government approvals, the elimination of duplicate approvals, and simultaneous review of preliminary subdivision approval and 201 H applications would expedite approvals. The legislature may also assist in providing funding for innovative projects for affordable housing such as shell housing where the foundation and exterior frame are contractor built, and the owner/builder finishes off the house, container homes, co –housing, or other creative solutions.

Thank you.