**TESTIMONY OF**
**THE DEPARTMENT OF THE ATTORNEY GENERAL**
**THIRTY-FIRST LEGISLATURE, 2022**

**ON THE FOLLOWING MEASURE:**
S.B. NO. 3261, RELATING TO HOUSING.

**BEFORE THE:**
SENATE COMMITTEES ON HOUSING AND ON GOVERNMENT OPERATIONS

**DATE:** Thursday, February 3, 2022 **TIME:** 1:00 p.m.

**LOCATION:** State Capitol, Room 225, Via Videoconference

**TESTIFIER(S):** Holly T. Shikada, Attorney General, or
Sandra A. Ching, Deputy Attorney General

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Chairs Chang and Moriwaki and Members of the Committees:

The Department of the Attorney General provides the following comments on this bill.

This bill establishes a new program within the Hawaii Housing Finance and Development Corporation (HHFDC) called the ALOHA Homes Program. Under the program, HHFDC is authorized to construct residential developments on state lands within a one mile radius of public transit stations. HHFDC is authorized to sell 99-year leases for units within such developments to Hawaiʻi residents priced at minimum levels necessary to ensure that developments are revenue neutral for the State and the counties. The median ALOHA homes price shall be adjusted annually for inflation, as determined by the Bureau of Labor Statistics Consumer Price Index for urban Hawaii.

This bill also authorizes HHFDC to sell non-ALOHA Homes Program leasehold condominiums for 99-year terms. It also provides that non-ceded lands set aside by the Governor to HHFDC are not considered “public lands” under chapter 171, Hawaii Revised Statutes (HRS). This bill adds a new section under chapter 237, HRS, to exempt from general excise tax amounts received from the sale of a leasehold interest in an ALOHA home.

This bill further amends section 302A-1603, HRS, to exempt any form of development by HHFDC pursuant to the ALOHA Homes Program from the land component impact fee and construction cost component impact fee requirements of the Department of Education (DOE Impact Fees).

The bill on page 8, lines 14-15, defines “[s]mall and medium vendor” yet this term in not used elsewhere in the measure. We suggest deleting this definition.

The bill on page 21, line 17 to page 22, line 8, exempts the ALOHA Homes Revolving Fund from legislative appropriation and allotment. Article VII, section 5, of the Hawaiʻi State Constitution, however, prohibits such exemptions and provides that “[n]o public money shall be expended except pursuant to appropriations made by law.” We suggest amending the bill to remove this provision.

The bill creates the ALOHA Homes Program under a new subpart on page 5, line 15-16: “C. ALOHA Homes Program.” However, in exempting development under the ALOHA Homes Program from the DOE Impact Fees under section 302A-1603, HRS, the bill incorrectly references the subpart as “B”. The bill at page 31, lines 1-3, should be amended to state subpart “C.”

Thank you for the opportunity to provide these comments.

DAVID Y. IGE
GOVERNOR

CRAIG K. HIRAI
DIRECTOR

GLORIA CHANG
DEPUTY DIRECTOR

STATE OF HAWAI'I
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
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EMPLOYEES' RETIREMENT SYSTEM
HAWAI'I EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**WRITTEN ONLY**

TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEES ON HOUSING AND GOVERNMENT OPERATIONS
ON
SENATE BILL NO. 3261

**February 3, 2022**
**1:00 p.m.**
**Room 225 and Videoconference**

RELATING TO HOUSING

The Department of Budget and Finance (B&F) offers comments on this bill.

Senate Bill (S.B.) No. 3261 establishes the Affordable, Locally Owned Homes for All (ALOHA) Homes Program; exempts certain lands from the definition of public lands; requires the Hawai'i Housing Finance and Development Corporation (HHFDC) to gain legislative approval before disposing of certain lands; provides for the disposition of lands acquired by HHFDC but no longer needed for the ALOHA Homes Program; establishes the ALOHA Homes Revolving Fund (ALOHAHRF); authorizes 3.00 full-time equivalent positions and appropriates an undetermined amount of general funds for FY 23 to be deposited into the ALOHAHRF; and appropriates an undetermined amount of funds from the ALOHARF for FY 23.

S.B. No. 3261 is similar to S.B. No. 1, S.D. 2, from the 2021 Legislative Session. B&F notes Act 167, SLH 2019, required HHFDC to conduct a feasibility study on the implementation of the ALOHA Homes Program. B&F understands that this study has since been completed and its findings published in a report. B&F defers to HHFDC on the findings of the study and issues regarding implementation and administration of the ALOHA Homes Program.

B&F notes that, with respect to the general fund appropriation in this bill, the federal Coronavirus Response and Relief Supplemental Appropriations Act requires that states receiving Elementary and Secondary School Emergency Relief (ESSER) II funds and Governor's Emergency Education Relief II funds must maintain state support for:

- Elementary and secondary education in FY 22 at least at the proportional level of the state's support for elementary and secondary education relative to the state's overall spending, averaged over FYs 17, 18 and 19; and
- Higher education in FY 22 at least at the proportional level of the state's support for higher education relative to the state's overall spending, averaged over FYs 17, 18 and 19.

Further, the federal American Rescue Plan (ARP) Act requires that states receiving ARP ESSER funds must maintain state support for:

- Elementary and secondary education in FY 22 and FY 23 at least at the proportional level of the state's support for elementary and secondary education relative to the state's overall spending, averaged over FYs 17, 18 and 19; and
- Higher education in FY 22 and FY 23 at least at the proportional level of the state's support for higher education relative to the state's overall spending, averaged over FYs 17, 18 and 19.

The U.S. Department of Education has issued rules governing how these maintenance of effort (MOE) requirements are to be administered. B&F will be working with the money committees of the Legislature to ensure that the State of Hawai‘i complies with these ESSER MOE requirements.

Additionally, the ARP Act restricts states from using ARP Coronavirus State Fiscal Recovery Funds (CSFRF) to directly or indirectly offset a reduction in net tax revenue resulting from a change in law, regulation, or administrative interpretation beginning on March 3, 2021, through the last day of the fiscal year in which the CSFRF have been spent. If a state cuts taxes during this period, it must demonstrate how it paid for the tax cuts from sources other than the CSFRF, such as:

- By enacting policies to raise other sources of revenue;
- By cutting spending; or
- Through higher revenue due to economic growth.

If the CSFRF provided have been used to offset tax cuts, the amount used for this purpose must be repaid to the U.S. Treasury.

The U.S. Department of Treasury has issued rules governing how this restriction is to be administered. B&F will be working with the money committees of the Legislature to ensure that the State of Hawai‘i complies with this ARP restriction.

Finally, as a matter of general policy, B&F does not support the creation of any revolving fund which does not meet the requirements of Section 37-52.4, HRS. Revolving funds should: 1) serve a need as demonstrated by the purpose, scope of work and an explanation why the program cannot be implemented successfully under the general fund appropriation process; 2) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries or a clear link between the program and the sources of revenue; 3) provide an appropriate means of financing for the program or activity; and 4) demonstrate the capacity to be financially self-sustaining. Regarding S.B. No. 3261, it is difficult to determine whether the proposed revolving fund would be self-sustaining.

Thank you for your consideration of our comments.

DAVID Y. IGE
GOVERNOR

DENISE ISERI-MATSUBARA
EXECUTIVE DIRECTOR

**STATE OF HAWAII**
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
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Statement of
**DENISE ISERI-MATSUBARA**
Hawaii Housing Finance and Development Corporation
Before the

**SENATE COMMITTEE ON HOUSING**
February 3, 2022 at 1:00 p.m.
State Capitol, Room 225

In consideration of
**S.B. 3261**
**RELATING TO HOUSING.**

HHFDC's mission is to facilitate the delivery of affordable housing through its financing and development programs. S.B. 3261 seeks to establish the ALOHA Homes program to develop high density, "low-cost" residential condominiums on state-owned lands within a one-half mile radius of a public transit station to be sold with 99-year leases.

In 2019, Senate Bill 1, referred to as the ALOHA Homes bill, was introduced. Though it did not pass, the Legislature did pass a bill to conduct a feasibility study on the key elements of ALOHA homes. Act 167 (SLH 2019) commissioned the study, which was conducted by the Hawaii Appleseed Center for Law and Economic Justice. The study concluded that the ALOHA Homes program modeled after the housing program in Singapore cannot feasibly be replicated in Hawaii, mainly due to the significant differences in government structure, the relatively high cost of construction and labor in relation to the affordable prices the homes are to be sold for under a revenue neutrality model, and the diminishing returns cited in the study on large scale development as density increases.

Given the results of the study, HHFDC is **unable to support** this bill in its current form.

There were overall concerns not only with the feasibility of the model, but also the practicality of implementing such a program as a whole.

However, there are elements of the model that could be beneficial in moving affordable housing forward. Government housing agencies need a wide range of tools to facilitate increased production of affordable housing.

One element in particular is the exemption from the definition of “public lands.” Chapter 171 of the Hawaii Revised Statutes already exempts lands that HHFDC holds title to from the definition of public lands. Broadening the exemption to include non-ceded lands set aside to HHFDC enables the agency to treat all lands under its control in a consistent manner while concurrently respecting the concerns of the Native Hawaiian community. This action would streamline the approval process and facilitate the delivery of affordable housing on state-owned lands.

To facilitate accurate mapping of lands, a list of the TMK numbers of ceded lands located along the Oahu rail corridor from OHA would be necessary to ensure we are in alignment on what lands do not fall under this exemption.

The following summarizes **areas of concerns** regarding this measure, many of which were outlined in the study:

Cost vs Pricing and Revenue-Neutrality

The cost to develop housing units are not low. This measure does not provide sufficient detail to explain how the units will be produced at a low cost. The estimated cost to build a high-rise unit in Honolulu on State owned land is around $500,000, which does not include off-site infrastructure costs nor reflect the opportunity cost of contributing state land. Developers have also shared that the pandemic has resulted in supply chain issues along with rising material and labor costs so the actual cost at the time of construction may be a lot higher. It is unclear as to how revenue neutrality will be achieved given the gap between the cost to build and the price the units are to be sold at to be considered affordable.

High Density, Diminishing Savings and Cost of Infrastructure

The study cites that one approach to cost savings is density. However, the study also pointed out that the savings from higher densities diminishes as density increases. Regarding high-density it is important that the public be able to visualize and understand what high density development could look like. For example, if the goal was to build 15,000 units on a 50-acre parcel of land, it would require 30 high rise buildings that are each 400 feet tall. Even at this density, there would be little land available for parks, commercial uses, or other amenities that may be desired.

Off-site infrastructure is a major barrier to the development of affordable housing statewide. The lack of detail on how infrastructure will be paid for is concerning, especially given the cost for regional infrastructure for the three TOD priority areas was estimated to be nearly $5 billion over the next 30 years (in 2019 dollars). [1]

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[1] July 2020, Office of Planning, TOD planning & implementation study for Oahu.

Marketability of Leasehold Residential Units

The depth of the market for residential leasehold units is untested. While residential leasehold units are not new to Hawaii, buyers may prefer to own a unit in fee simple. New units constructed under this program will be competing against new and existing fee simple developments. Given the ownership and occupancy restrictions of the program and limited potential for appreciation, buyers may prefer to purchase fee simple units. Unless the strength of the market is validated, the State would be taking a large risk in developing high-rise structures which, by their nature, have high capital costs.

Procurement Requirements

The program requires design, construction, and development contracts to be subject to chapter 103D of the Hawaii Revised Statutes, the Hawaii Public Procurement Code. Although necessary, the procurement code can be extremely cumbersome, which is why HHFDC typically partners with developers to assume the responsibility for design and construction of housing projects. Requiring all design, construction, and development contracts to be subject to Chapter 103D will significantly slow down the pace of housing and raise costs.

Lack of Income Limits in a Constrained Supply Environment

Under the program, affordably priced homes are accessible to everyone regardless of income. The analysis in the feasibility study indicated that this is not a best practice as a constrained housing supply requires prioritizing access. The median income for the city and county of Honolulu is around $106,000. The 2019 Hawaii Housing Planning Study shows the need for housing units by those earning less than $100,000 annually to be around 35,700 units compared to the 14,500 units needed by those earning more than the median income. The study also indicated that their survey of affordable housing polices on for-sale homes shows that to the extent the public subsidizes the home, there are almost always some income limits.

Since land and infrastructure are likely to be contributed or subsidized by the state, a ***good public policy would be one that ensures those individuals and families that can least afford to pay market prices receive priority consideration***.

Opportunity Costs

This measure seeks to establish urban redevelopment sites in which all state lands within a one-mile radius of the rail corridor is made available for housing. This may deprive other state agencies, like the Department of Land and Natural Resources or the Department of Education, the opportunity to utilize their own lands to generate revenue to support their operations and programs.

Resources Needed

If the Legislature decides to pass this measure, it will divert HHFDC's limited human resources from its current programs, which are critical to keeping the pipeline of projects going. The amount of funding and human resources needed to implement this program is uncertain at this time.  In regard to a new ALOHA Homes revolving fund, HHFDC defers to the Department of Budget and Finance to determine if it meets the requirements of Section 37-52.4, HRS.

If HHFDC had to estimate the resources needed, it would involve a minimum of five additional FTE positions at an estimated cost of about $700,000. The cost for IT software and hardware needs associated with this measure is estimated to be around $60,000 for upfront costs and an additional $12,000 annually for the software subscription. If the Legislature desires to commence another study, additional funding will be needed to pay for that study. In addition to an appropriation for staffing, further appropriations will likely be necessary to cover the upfront cost of construction since revenues will not be realized until the units are sold. For example, one 500-unit building would mean that $250,000,000 must be available up front prior to the start of construction.

Thank you for the opportunity to testify.

Church of the Crossroads
United Church of Christ

Senate Committee on Housing
Senate Committee on Government Operations
February 3, 2022 at 1:00 p.m.
State Capitol Conference Room 225 and Videoconference

SUPPORTING SB 3261

*The Church of the Crossroads, founded in 1922, is Hawaii's first intentionally multicultural church and is committed to a mission of peace, justice, and environmental preservation.*

Housing prices in Hawaii have steadily risen for decades, spurred by outside investment that raises overall housing prices. Meanwhile, wages have stagnated because Hawaii's economy is overly dependent on the low-wage tourist industry, depressing wages in all sectors of the economy. The relentlessly growing gap between housing prices and wages have made housing less and less affordable for more and more of Hawaii's families.

An estimated 57,500 housing units will be needed by working and lower income groups between 2015 and 2025.

The need for housing that is affordable to Hawaii's families is shown by an Aloha United Way study that estimates that about half of Hawaii's families do not have enough income to cover all of the necessities of daily living. They must cut back on food, medicine, or other necessities. Housing is typically the biggest expense in a family's budget, so housing that is affordable to them would raise their quality of life and lift our entire society.

Many bills are being considered by the Legislature that would build more housing. Unfortunately, however, the great majority of them have such small impacts that they would only marginally reduce the immense need for housing.

Hawaii needs big, new ideas, and SB 3261, the ALOHA Homes bill, is one of them. It is the only bill that seeks to produce enough housing to meet Hawaii's total housing need. Furthermore, unlike other government housing development programs, the bill endeavors to be revenue-neutral to the State and counties.

SB 3261 creates an attitude of optimism that enough housing can indeed be built to ensure that all of Hawaii's families have access to housing that is affordable to them. SB 3261 also creates the structure, rules, requirements, authorizations, funding mechanisms, and the many other details needed to make it happen.

For the foregoing reasons, the Church of the Crossroads supports SB 3161.

The Institute for Human Services, Inc.
Ending the Cycle of Homelessness

**TO:** Honorable Sen. Stanley Chang
Chair, Senate Committee on Housing

Honorable Sen. Sharon Y. Moriwaki
Chair, Senate Committee on Government Operations

**FROM:** Connie Mitchell MS, APRN, BC, Executive Director IHS, The Institute for Human Services

**SUBJECT:** S.B. 3261 – RELATING TO HOUSING.

**HEARING:** February 3, 2022, 1:00 pm Via Videoconference, State Capitol

**POSITION:** IHS strongly supports the passing of S.B. 3261.

The State of Hawaii has been in a housing crisis for decades. The COVID pandemic has made it all too clear that safe and affordable housing is essential for the health of our community. Creating housing that allows our workforce to put roots down in our community is key to a vibrant economy. Our population has been decreasing for consecutive years now. We continue to lose young, talented, skilled people to the continent because housing is simply too expensive.

Further, in our own mission to end homelessness, we need more units to address the availability of affordable housing units. This year, Hawaii was ranked as the second highest rate of homelessness per capita with a higher cost of living than any other state. Even when people are ready for housing, there is not always a unit ready for them. Increasing affordable units for sale, makes more rental units available for the population IHS serves. We need housing for every socio-economic strata of our residents.

This measure would make possible the purchase of affordable units at a time when our community direly needs them to address the dire shortage of such units by allowing HHFDC to sell the leasehold interest on units for a 99 year term. The use of state lands ensures the long term viability of the ALOHA Homes project while creating stability for Hawaii's working families. We all agree we need affordable housing, ALOHA Homes would address the longstanding challenges of making it a reality and offers immediate hope for resolution of our housing crisis.

Thank you.

GRASSROOT INSTITUTE OF HAWAII

February 3, 2022
1 p.m.
Conference Room 225 & Videoconference

**To: Senate Committee on Housing**
**Sen. Stanley Chang, Chair**
**Sen. Dru Mamo Kanuha, Vice Chair**

**Senate Committee on Government Operations**
**Sen. Sharon Y. Moriwaki, Chair**
**Sen. Donovan M. Dela Cruz, Vice Chair**

**From: Grassroot Institute of Hawaii**
**Joe Kent, Executive Vice President**

RE: SB3261 — RELATING TO HOUSING

***Comments Only***

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on SB3261, which would establish the ALOHA homes program to facilitate the development and sale of low-cost homes for Hawaii residents.

The Grassroot Institute has grave concerns about the possible unintended consequences of this bill, which would likely be at odds with the laudable intent of the proposal — that is, to facilitate affordable homes for Hawaii residents.

Like many in Hawaii, we share the Legislature's concern about the lack of affordable homes. However, we believe that the ALOHA homes program as currently envisioned in this bill would result in an expensive, nonsustainable government project that would fail to effectively assist those it is intended to help.

Among reasons we advise against this bill:

**>> Public sector projects more expensive**

Housing constructed pursuant to SB3261 would be subject to HRS 104, which requires the use of prevailing wages,[1] which would raise costs higher than projects built solely in the private sector.

Additionally, Hawaii "encourages" the use of project labor agreements on projects worth at least $25 million,[2] and this has been demonstrated to raise the cost of government contracts by 12% or more.[3]

Both of these factors would add to construction costs, making it harder for ALOHA homes projects to pencil out.

**>> Project feasibility**

The requirement that the "median ALOHA homes within urban redevelopment sites"[4] be priced at the "minimum levels necessary to ensure that the development is revenue neutral for the State and counties" creates an inherent conflict between the twin goals of this legislation.

The costs of building and maintaining housing projects of this scope, while ensuring they remain revenue neutral, means setting the prices for ALOHA homes higher, perhaps significantly higher, than envisioned, thus undermining the affordability goal that is at the heart of this bill.

At the same time, requiring the median ALOHA home price to be affordable for those who make 80% or less of the median income, per the requirement that "Development shall be subject to chapter 104, would effectively create a 50% affordable housing requirement for the building. This would nearly guarantee that ALOHA homes projects would lose money.

Our research using the "Inclusionary Housing Calculator" developed by the Grounded Solutions Network shows that it is nearly impossible in a market with short supply like Honolulu to make a profit building housing with a 50% so-called affordable housing requirement without government subsidies.[5]

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[1] SB1_SD1 of 2021, p. 13 which states, "Development shall be subject to chapter 104."
[2] "Council approves PLAs despite many concerns," Grassroot Institute of Hawaii, Oct. 9, 2019.
[3] "Honolulu City Council's PLA proposal is pilau," Keli'i Akina, Grassroot Institute of Hawaii, Oct. 20, 2019; Paul Bachman and David G. Tuerck, "Project Labor Agreements and the Cost of School Construction in Ohio," The Beacon Hill Institute, May 2017, p.1; and Vince Vasquez, Dr. Dale Glaser and W. Erik Bruvold, "Measuring the Cost of Project Labor Agreements on SchooL Construction in California," National University System Institute for Policy Research, 2011, p. 10.
[4] SB1_SD1 of 2021, p. 16.
[5] "Inclusionary Housing Calculator 2.0," Grounded Solutions Network, 2019.

For example, a condominium project with 120 units on 1 acre of land costing $400 per square foot[6] and requiring 50% of the units to be affordable would see a net loss of $46.77 million, even if the land was somehow free.[7]

**>> 99-year leases**

One of our greatest concerns is the 99-year leases that are at the heart of the ALOHA homes program.

Buying a property with a 99-year lease means that one day the property will no longer belong to the buyer. This makes leasehold properties less valuable and less desirable than comparable properties that could be purchased fee simple.

Another strike against leasehold units is that they cannot be borrowed against for a loan, which takes away the ability of their owners to borrow against their properties to start a business, invest or otherwise contribute to the local economy.

One of the reasons that home ownership is considered a path to upward mobility is because it creates equity. But the ALOHA homes program is not providing people with the advantage of home ownership. It is simply providing them with shelter and robbing them of the opportunities and financial security that flow from home ownership.

The example of the Hawaiian Home Lands should be enough to demonstrate that leaseholds create administrative headaches for both the government and the lessees. What they don't create is intergenerational wealth.

**>> Traps the tenant**

Another concern is that under the ALOHA Homes plan, an owner faces strict limits on his or her ability to sell the unit. If the owner does sell, he or she must give up 75% of the sale profit to the state. There also are limits on the ownership of other real property while one is the owner of an ALOHA home.

This means that anyone who buys an ALOHA home would be trapped in the property, unable to sell it without taking a major loss.

If enacted into law, the bill would incentivize holding on to the leasehold for as long as possible over purchasing another property — even when the "need' for an ALOHA home has passed.

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[6] Construction costs for residential multifamily units in Honolulu are between $250 and $420 per square foot, according to "North America Quarterly Construction Cost Report," Rider Levett Bucknall, Q4 2021, p. 5.

[7] "Project Summary," Grounded Solutions Network, accessed Feb. 16, 2021.

Thus, the ability of the program to address perpetual shortages in affordable housing would be limited to the state's ability to build new homes.

**>> No incentive to improve the property**

Property improvements generally are made by owners who hope to profit from the increased value they create. However, because the ALOHA homes program would not allow the lessees to profit from the sale of their properties, there would be no incentive to improve the units.

When improving and caring for a property is disincentivized, repairs and maintenance often fall by the wayside. Therefore, ALOHA homes units could eventually fall into disrepair.

The effect would be similar to that of rent-controlled apartment buildings in New York and San Francisco, where the lack of financial incentive to spend on upkeep can result in neglected, deteriorating buildings — with their physical state matching their reduced and restricted market prices.

This year's version of the ALOHA Homes proposal includes a requirement that each development include the establishment of an operating and maintenance program, along with the funding to cover that cost. This requirement would further increase the price of each project, and it is not clear if this would even help much, since tenants still would not have incentive to upkeep their units, which they do not own, over the long term.

To put it bluntly, the ALOHA homes program risks becoming another government housing project in the worst sense of the term.

**>> Does not provide rentals**

The ALOHA homes program would have a limited effect on the amount of housing available and would not lower the cost of rent, since no new rentals would be added to the housing stock. Thus, while the intent of SB3261 is to address a lack of affordable housing, this bill overlooks a significant factor in the housing market — rentals — especially for those who cannot make use of the program.

**>> Costs would be enormous**

The bill optimistically posits that the ALOHA Homes program would not end up costing Hawaii's taxpayers, but there is no guarantee that the plan would be "revenue-neutral," as its supporters intend.

Our experience with the Honolulu rail project is sufficient to demonstrate that projected costs on public works projects don't necessarily reflect actual costs. In any government project, costs are likely to exceed original estimates.

So what happens if the construction and maintenance costs of the ALOHA homes outstrip projections? Either the prices of the homes themselves will go up, undermining the intent of providing low-income residents with low-cost homes, or taxpayers will end up footing the bill.

Given that construction costs alone in Honolulu are generally 38% higher than on the mainland,[8] the only responsible option is to plan for higher-than-expected costs for this project.

**>> Other options exist**

Finally, we must consider whether this bill represents the best way to address the housing crisis in our state.

There is no guarantee that the program would benefit more than a relatively small number of residents. Moreover, it would not provide the secondary benefits of home ownership — that is, financial freedom and stability. Rather, it is focused only on providing a roof to live under, under restricted terms, for those who are qualified to take advantage of the program.

The costs may be substantial while the end result would be unlikely to make a significant impact on the amount of affordable housing available in Hawaii.

Moreover, if the apartment units are built in Honolulu, that would not necessarily lead to more affordable housing per square foot. As land-use expert Randal O'Toole pointed out in a 2019 report for the Grassroot Institute of Hawaii, land costs in urban Honolulu are higher than in the surrounding areas, making increased development in urban zones an inadequate response to the problem.[9]

The solution, as outlined in the report, must include lowering the regulations that constrain "building out." As O'Toole explained, Hawaii does not have a physical shortage of land for affordable homes. Rather, we have an artificial shortage caused by government regulation and ownership of land.

The answer to the lack of affordable housing is not to offer low-income residents a poor deal on a government housing project. It is to increase the supply of homes available for sale or rent.

This can be achieved both by liberalizing zoning restrictions in the urban core, as well as increasing the amount of land available for development by as little as 1 to 2 percentage points to let the suburbs grow.

Thank you for the opportunity to submit our comments.

[8] "ENR Square Foot Costbook 2019 Edition," Engineering News-Record, 2018, p. 174.
[9] Randal O'Toole. "Build Up or Build Out? How to make housing more affordable." Grassroot Institute of Hawaii, February 2019.

Sincerely,
Joe Kent
Executive Vice President, Grassroot Institute of Hawaii

**SENATE COMMITTEES ON HOUSING & GOVERNMENT OPERATIONS**
**Hawaii State Capitol**
**415 South Beretania Street**
**Via Videoconference**
**1:00 PM**

February 3, 2022

RE: SB 3261, RELATED TO HOUSING

Chairs Chang & Moriwaki, Vice Chairs Kanuha & Dela Cruz, and members of the committee:

My name is Daryl Takamiya, 2022 President of the Building Industry Association of Hawaii (BIA-Hawaii). Chartered in 1955, the Building Industry Association of Hawaii is a professional trade organization affiliated with the National Association of Home Builders, representing the building industry and its associates. BIA-Hawaii takes a leadership role in unifying and promoting the interests of the industry to enhance the quality of life for the people of Hawaii.

**BIA Hawaii supports the intent of SB 3261**, which proposes to establish the ALOHA homes program to develop low-cost homes on state-owned and county-owned land in urban redevelopment sites to be sold in leasehold by the Hawaii housing finance and development corporation (HHFDC) to qualified residents. The bill will also exempt certain land from the definition of public lands.

SB 3261 consolidates many of the ideas and initiatives of which we have been strong proponents over the last few years. This type of consolidated and focused effort is required in order to build our way out of our housing crisis by increasing the supply of housing at all price points. We strongly support and encourage more dialogue on the bill especially on some of the specific action items. We support the purpose of focusing on low-cost, high-density leasehold houses on government lands located along the transit corridor. We do suggest that to avoid "gentrification," a mix of incomes and price points be provided.

We appreciate the opportunity to provide our comments on this matter.

schatz collaborative

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February 2, 2022

Senate Committee on Government Operations
The Honorable Sharon Moriwaki, Chair
The Honorable Donovan M. Dela Cruz, Vice Chair
Senate Committee on Housing
The Honorable Stanley Chang, Chair
The Honorable Dru Mamo Kanuha, Vice Chair
State Capitol
Honolulu, HI 96813

**SUBJECT: Strong Opposition to SB 3261**

Dear Chair Chang, Chair Moriwaki, Vice Chair Kanuha, Vice Chair Dela Cruz and Committee Members,

My name is Linda Schatz and I am the principal of Schatz Collaborative LLC, a real estate development company. Schatz Collaborative LLC has been developing in Hawaii since 2016 with financial and development partners from the Western United States. We focus on multi-family workforce and market rate rentals and specialize in retail development. Our company has also consulted and managed the planning of many master planned communities on Oahu and Hawaii Island for land developers to ensure the redevelopment of mixed income communities and synergistic commercial uses.

## Schatz Collaborative LLC ***opposes SB 3621.***

I applaud the effort to try to find creative solutions to solve our housing crisis. But as someone who develops rental housing for a living and has expertise in master planned communities, I cannot support this bill. It requires at a minimum 75,000 units to be built at Aloha Stadium on 3/4$^{th}$ of the developable area. That is roughly 1,000 dwelling units per acre which is denser than Manhattan in NYC and many times denser than Kaka'ako. There are no details in the bill that explain how the gap between costs and an affordable price to the buyer will be covered by the State to achieve a revenue neutral condition. It is also unclear that there is enough demand for leasehold housing in the marketplace. This bill is well intentioned but lacks an understanding of the current market realities, ideal standards in urban planning

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for an island State, and the infrastructure needs of a community. Therefore, I cannot support this measure.

Thank you again for the opportunity to submit this testimony. If there are any questions, or if additional information is needed, please do not hesitate to contact me at (808)428-8717.

Warmest Regards,

Linda Schatz
Principal

**Testimony of the Hawaiʻi Appleseed Center for Law and Economic Justice**
**Comments** – SB3261 RELATING TO HOUSING, ALOHA homes
Conference Room 225 & Videoconference
Thursday, February 3rd, 2022 at 1:00 PM

Aloha Chairs Chang and Moriwaki, Vice Chairs Kanuha and Dela Cruz and committee members,

Thank-you for the opportunity to provide **comments** on SB3261.

In September 2021, Hawaiʻi Appleseed issued its final draft of the *ALOHA Homes Implementation Study* prepared for the Hawaiʻi Housing Finance Development Corporation pursuant to Act 167, Session Laws of Hawaiʻi 2019. The study focused on the iteration of the ALOHA Homes concept in existence at the time of the study's commencement in early 2020. Because the bulk of the study was concluded prior to issuance of the study's first draft in February 2021, it did not examine the changes made to the ALOHA Homes concept during the 2021 legislative session, or in this most recent version, SB3261.

The changes made from the 2019 version are significant and effectively address some of the concerns highlighted in the study including: (1) eliminating reference to a $300,000 purchase price for a unit, which the study determined to be too low; (2) changing the density requirement from a minimum of 250 units per acre to something that conforms with local area plans; and (3) not seeking to preempt county level housing plans and ordinances.

Additionally, SB3261 removes 'ceded lands' from the proposal which addresses another main concern of last year's bill.

With some further changes, the ALOHA Homes concept has the potential to serve as a significant and important element of a comprehensive solution to Hawaiʻi's housing crisis. The study's conclusion that the ALOHA Homes concept was "not viable" was based largely on the finding that "a leasehold program ***at the scale*** contemplated in ALOHA Homes [i.e., that it will "[e]nd the housing shortage in Hawaii"][1] will not be feasible."[2] While we do not believe that ALOHA Homes alone will fulfill all of Hawaiʻi's housing needs, the use of long-term leaseholds on undisputed government-owned lands as proposed by ALOHA Homes can fulfill important housing needs (e.g., for the 80% of AMI and above segment of the market) and is worthy of pursuit. The legislature's passage of some version of ALOHA Homes would help address a significant housing need for an important segment of Hawaiʻi residents.

To move the ALOHA Homes concept forward, we believe the following changes to SB3261 will be necessary:

[1] SB 1, S.D. 2 (2021), pg. 4, line 20.
[2] *ALOHA Homes Implementation Study* (Sept. 2021), pg. 58.

**Testimony of the Hawai'i Appleseed Center for Law and Economic Justice**
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1. Adjust the language of the bill to clarify that ALOHA Homes has potential to address critical housing needs, but it alone cannot end the housing shortage.

2. Adjust the language to clarify that separate investments in infrastructure will likely be necessary to allow for ALOHA Homes developments. The revenue neutrality goals of ALOHA Homes are only possible if the units are built on government-owned lands with sufficient infrastructure in place, a significant limiting factor to scaling the concept.

In addition to the above changes, as set forth in the study, we would recommend the following adjustments to the bill:

1. Rather than providing HHFDC a right of first refusal and/or the benefit of 75 percent of the proceeds of the sale of an ALOHA Homes unit, we suggest placing limits on the re-sale price based on a set formula that ensures the preservation of affordability for future buyers.

2. Provide for income preferences to prioritize the households for whom ALOHA Homes creates a previously unavailable opportunity to purchase a home.

3. Leave open the possibility of additional subsidies to permit lower income households the opportunity to access the ALOHA Homes program.

4. Work with the counties to align ALOHA Homes with existing housing programs to the greatest extent possible (e.g., by coordination of waiting lists for already existing county affordable housing programs).

Mahalo for the opportunity to testify on this important proposal.

DEVELOPMENT
MANAGEMENT
CONSTRUCTION
FINANCE

Testimony of The Michaels Organization | Michaels Development – Hawai`i Region
SB 3261 RELATING TO HOUSING
Thursday, February 3, 2022
Senate Joint Committees on Housing and Government Operations

Michaels Development is one of the nation's largest affordable housing developers in the United States. We have built affordable housing communities in 35 states along with Washington D.C. and the US Virgin Islands. We have developed over 55,000 units in over 425 communities along with providing on-site management. Finally, we have a partnership with a non-profit social services organization, who has an on-site presence at all of our properties, to ensure our residents succeed.

First off, we would like to thank the introducers of this bill and in particular, Chair Chang for all of his hard work in assessing the housing needs of our local residents. As an affordable housing developer, we are acutely aware of our State's need for affordable housing.

SB 3261 proposes to establish the ALOHA Homes program within the Hawaii Housing and Finance Development Corporation (HHFDC), in order to build affordable housing units for qualified individuals. While the intent is certainly laudable, the implementation of such program is more than likely not possible under preexisting rules and regulations. The reason for this being that the ALOHA Homes program was modeled after housing developments in other countries, most notably, Singapore.

A recent study published by HHFDC, underscores why the ALOHA homes program in Hawaii may face hurdles.

First, a key difference in the structure of government between the U.S. and Singapore becomes an issue when we focus on how land use is granted. Singapore has a highly centralized government with far reaching power, unlike our decentralized system of delegation and disbursement. In Singapore the government is the primary landowner and financer. Singapore does not have to work with and through the myriad of congruent and conflicting city, county, state, and federal requirements for housing and housing financing to secure, permit, construct, and operate developments as contemplated in the proposed legislation. Further, and foremost, the citizenry and community are excluded from such a process contemplated in this bill.

Moreover, government agencies without the benefit of the invested developer community typically do not provide the most cost-efficient use of resources to deliver housing. These cases are numerous across all municipalities throughout the United States. The reason the Hawaii Housing Finance and Development Corporation finances public-private partnerships with developers is that the development community is the most efficient way to utilize capital to expedite the building of housing without the tendency toward inefficiency that comes with State or local government getting in the business of developing housing themselves.

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It our humble opinion, the State would be better served by creating a process to identify key lands and offer them through an auction process with entitlements and financing awards in place. Thereby, allowing the development community to bid on such lands to maximize the development of State lands more effectively and more quickly than what is outlined in this legislation.

We thank the committees for the opportunity to testify.

**SB-3261**
Submitted on: 2/2/2022 2:04:37 PM
Testimony for HOU on 2/3/2022 1:00:00 PM

| Submitted By | Organization | Testifier Position | Remote Testimony Requested |
|---|---|---|---|
| Gerald Gordner | Individual | Support | No |

Comments:

I am a researcher in urban planning and land use policy and I strongly support SB 3261. Senator Chang's proposal is a clear, well-considered, and feasible path to ending the housing shortage in Hawaii. Not only that, it is consistent with other desirable planning goals including sustanability, walkability, and use of public transit. If the committee fails to pass ALOHA Homes in this cycle, it is tacitly resigning itself and the State to another year of rising housing costs and diminishing population and signaling that it is uninterested in solving Hawaiians' most pressing problem. We need transformative policy that ensures housing affordability through housing abundance. ALOHA Homes is the immediate opportunity to meet that need. Take it.

**TESTIMONY OF ELLEN GODBEY CARSON IN SUPPORT OF SB3261**
To the Senate Committee on Housing
For Hearing on February 3, 2021 at 1:00pm

**I strongly support SB3261, the ALOHA Homes bill.** While I write as an individual, I have served as President and director of Institute for Human Services, a leader for Faith Action for Community Equity, and member of the Church of the Crossroads Peace and Justice Mission Team, spending hundreds of volunteer hours helping Hawaii find better systemic ways to address its dual crises of homelessness and lack of affordable housing.

I believe the ALOHA Homes bill is the game changer we need. We need a way to create affordable housing that will be sustainable and budget neutral, with non-profit approaches to building tens of thousands of affordable units quickly. SB3261 is designed to do just that. It also offers much needed community planning for our transit oriented areas in ways that will enhance the sense of community for those of us living in urban Honolulu.

Senator Chang's bills for ALOHA Homes (the Singaporean model of housing) are the only proposal I've seen in my 30+ years of living in Hawaii that have any hope of making a major change in the supply of affordable housing units, in a way that is sustainable and budget neutral, using market forces and creative intelligence instead of taxpayer subsidies.

I was one of a few dozen people who paid our own way on Senator Chang's affordable housing study tour to Singapore and Hong Kong two years ago. I marveled at Singapore's system that allows approximately 90% of their population to own their own home, at affordable prices, on an island that shares many of the same daunting challenges we have in Hawaii. Our current methods for creating affordable housing in this state have been inadequate, incremental, unbelievably slow and tedious. We have failed to create the critical mass of new affordable housing we need.

In my opinion, these ALOHA homes bills deserve our strongest support. Let's give them a chance to work in Hawaii. It's true that there will be much to be worked out in details of how best to make a Singaporean model work in Honolulu. That's why these bills need all of us working together toward this goal, to help Hawaii create a new model for sustainable affordable housing in the United States.

Respectfully submitted,

Ellen Godbey Carson
Honolulu, Hawaii