THE SENATE
THIRTY-THIRD LEGISLATURE, 2026
STATE OF HAWAII

S.B. NO. 2342 S.D. 2

A BILL FOR AN ACT

RELATING TO HOUSING.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

PART I

SECTION 1. The legislature finds that the 2026 qualified allocation plan proposed by the Hawaii housing finance and development corporation falls short of what Hawaii's taxpayers and low-income residents deserve. As the State continues to face a worsening housing shortage, the qualified allocation plan must do more to prioritize perpetual affordability, government-owned housing, and shorter loan terms. Further, criteria such as readiness and income targeting should be de-emphasized to better align with long-term public interest and housing system reform.

The legislature also finds that the low-income housing tax credit is a direct handout of tax revenue to developers. The low-income housing tax credit is not a loan and thus is never repaid. The state rental housing revolving fund provides gap financing for most low-income housing tax credit projects and has become Hawaii's largest financing source for housing

development, supporting more than half of all housing construction statewide and crowding out other financing options due to its extremely generous terms. A typical rental housing revolving fund loan lasts for fifty-seven years; has an interest rate of only 0.25 per cent; defers repayment until the senior private loan is fully paid off, which often occurs decades later; and allows payments to be reduced based on the developer's cash flow. This represents a massive commitment of taxpayer dollars. Over the past decade, the rental housing revolving fund has received approximately $1,216,100,000 in general fund appropriations, making it the second largest line-item investment in the state budget after the emergency and budget reserve fund.

The legislature further finds that Hawaii faces an urgent need for lasting, sustainable affordable housing, and strengthening the qualified allocation plan is critical to addressing this crisis. The State has a fiduciary duty to ensure that funds are used efficiently and responsibly to maximize housing production and reach as many residents as possible. Requiring perpetual affordability, prioritizing government-led developments, and incentivizing early loan

repayment will protect public investments, prevent displacement, and ensure that taxpayer dollars have long-term impact.

Accordingly, the purpose of this Act is to:

(1) Establish a working group to:

(A) Revise the Hawaii housing finance and development corporation's qualified allocation plan; and

(B) Propose revisions to the prioritization of the rental housing revolving fund and the terms of loans made from the rental housing revolving fund;

(2) Require the Hawaii housing finance and development corporation to revise the 2026 qualified allocation plan to:

(A) Require perpetual affordability and prioritize government-owned development projects, applicants required to reinvest financial surpluses to produce more housing, and shorter loan terms; and

(B) Deprioritize readiness and financially unsustainable income targeting categories; and

(3) Prohibit the Hawaii housing finance and development corporation from allocating low-income housing tax

credits or rental housing revolving fund moneys to projects without a perpetual affordability commitment.

PART II

SECTION 2. (a) There is established a working group to revise the Hawaii housing finance and development corporation's qualified allocation plan and consider how to revise the prioritization of the rental housing revolving fund and the terms of loans made from the revolving fund. The Hawaii housing finance and development corporation shall provide administrative support to the working group.

(b) The working group shall:

(1) Revise the Hawaii housing finance and development corporation's qualified allocation plan to more effectively allocate federal and state low-income housing tax credits to projects that best meet the housing needs of the State;

(2) Make recommendations to revise the prioritization of the rental housing revolving fund and the terms of loans made from the revolving fund to support low-income rental housing projects and mixed-income rental projects; and

(3) Comply with any and all federal requirements.

(c) The working group shall consist of the following members:

(1) The executive director of the Hawaii housing finance and development corporation, or the executive director's designee, who shall serve as the chairperson of the working group;

(2) The executive director of the Hawaii public housing authority, or the executive director's designee;

(3) The chairpersons of the senate and house of representatives standing committees having jurisdiction over housing issues, or their designees;

(4) The chairperson of the senate standing committee on ways and means, or the chairperson's designee;

(5) The chairperson of the house of representatives standing committee on finance, or the chairperson's designee; and

(6) Relevant stakeholders, as recommended by the members of the working group, who shall be invited by the working group's chairperson.

(d) The working group shall submit a report of its findings and recommendations, including any proposed legislation, to the legislature no later than twenty days prior to the convening of the regular session of 2027.

(e) The members of the working group shall serve without compensation but shall be reimbursed for expenses, including travel expenses, necessary for the performance of their duties.

(f) No member of the working group shall be subject to chapter 84, Hawaii Revised Statutes, solely because of the member's participation in the working group.

(g) The working group shall be dissolved on June 30, 2027.

SECTION 3. There is appropriated out of the general revenues of the State of Hawaii the sum of $ or so much thereof as may be necessary for fiscal year 2026-2027 to support the working group established by this part.

The sum appropriated shall be expended by the Hawaii housing finance and development corporation for the purposes of this part.

PART III

SECTION 4. (a) The Hawaii housing finance and development corporation shall amend the 2026 qualified allocation plan to:

(1) Require all projects to make a perpetual affordability commitment to qualify for receipt of federal and state low-income housing tax credits;

(2) Increase the number of points awarded for:

(A) Government-owned projects located within the transient-oriented development infrastructure improvement program areas, established under section 206E-243, Hawaii Revised Statutes, including:

(i) Projects owned by the State or a county;

(ii) Projects on state- or county-owned land; and

(iii) Projects that are required to be conveyed to the State or a county at a definite time for nominal consideration;

(B) Projects owned by an organization obliged to use all financial surpluses generated by the project to construct, manage, or rehabilitate more housing; and

(C) Projects of applicant developers who:

(i) Have demonstrated accelerated full repayment into the rental housing revolving fund of past rental housing revolving fund loans; or

(ii) Request a shorter repayment term; and

(3) Reduce the number of points awarded for the:

(A) Applicant's readiness criterion; and

(B) Units targeted at average area median income levels that are below those required pursuant to section 42 of the Internal Revenue Code of 1986, as amended.

(b) The Hawaii housing finance and development corporation may adopt rules pursuant to chapter 91, Hawaii Revised Statutes, to carry out the purposes of this part.

PART IV

SECTION 5. Section 201H-15, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

"(a) The corporation is designated as a state housing credit agency to carry out section 42(h) (with respect to limitation on aggregate credit allowable with respect to a project located in a state) of the Internal Revenue Code of 1986, as amended. As a state housing credit agency, the

corporation shall determine the eligibility basis for a qualified low-income building, make the allocation of housing credit dollar amounts within the State, and determine the portion of the State's housing credit ceiling set aside for projects involving qualified nonprofit organizations[~~.~~]; provided that the corporation shall not allocate low-income housing credits to any project without a perpetual affordability commitment; provided further that, for the purposes of this subsection, "perpetual" means the useful life of the project. The corporation shall file any certifications and annual reports required by section 42 (with respect to low-income housing credit) of the Internal Revenue Code of 1986, as amended."

SECTION 6. Section 201H-202, Hawaii Revised Statutes, is amended by amending subsection (e) to read as follows:

"(e) Except as provided in subsection (f), moneys available in the fund shall be used for the purpose of providing, in whole or in part, loans for rental housing projects [~~demonstrating~~] with a perpetual affordability commitment that demonstrate project readiness, efficiency, and feasibility acceptable to the corporation in the following order of priority:

(1) Projects or units in projects that are allocated low-income housing credits pursuant to the state housing credit ceiling under section 42(h) of the Internal Revenue Code of 1986, as amended, or projects or units in projects that are funded by programs of the United States Department of Housing and Urban Development and United States Department of Agriculture Rural Development wherein:

(A) At least fifty per cent of the available units are for persons and families with incomes at or below eighty per cent of the median family income of which at least five per cent of the available units are for persons and families with incomes at or below thirty per cent of the median family income; and

(B) The remaining units are for persons and families with incomes at or below one hundred per cent of the median family income;

provided that the corporation may establish rules to ensure full occupancy of fund projects; [~~provided further that for projects that were awarded low-income~~

~~housing credits pursuant to this paragraph, priority shall be given to projects with a perpetual affordability commitment. For purposes of this paragraph, "perpetual" means the useful life of the project;~~] and

(2) Mixed-income rental projects or units in a mixed-income rental project for persons and families with incomes at or below one hundred forty per cent of the median family income.

For the purposes of this subsection "perpetual" means the useful life of the project."

PART V

SECTION 7. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 8. This Act shall take effect on July 1, 2050; provided that the amendments made to section 201H-202, Hawaii Revised Statutes, by section 6 of this Act shall not be repealed when that section is reenacted on June 30, 2030, pursuant to section 8 of Act 159, Session Laws of Hawaii 2025.

S.B. NO. 2342 S.D. 2

Report Title:
HHFDC; LIHTC; RHRF; Qualified Allocation Plan; Perpetual Affordability; Working Group; Report; Appropriation

Description:
Part II: Establishes a Working Group to revise the Hawaii Housing Finance and Development Corporation's Qualified Allocation Plan and propose revisions to the prioritization of the Rental Housing Revolving Fund and the terms of loans made from the Rental Housing Revolving Fund. Requires a report to the Legislature. Appropriates moneys. Part III: Requires the Corporation to make certain revisions to the 2026 Qualified Allocation Plan. Part IV: Prohibits the Corporation from allocating Low-Income Housing Tax Credits or moneys from the Rental Housing Revolving Fund to projects without a perpetual affordability commitment. Effective 7/1/2050. (SD2)

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