POTS Program Narrative

Description of Action and Technique

Financing New Low Income (LIHTC) Rental Construction Projects

Action A1 – Have Congress Increase Its Annual Allocation for the Federal LIHTC program (currently $8 Billion) for Hawaii. In 2012, states received a LIHTC allocation of $2.20/person with a minimum small state allocation of $2,525,000 (for 9% Tax Credit). The state allocation limits do not apply to the 4% Tax Credit that is automatically packaged with tax-exempt bond financed projects. Increasing the LIHTC allocation to Hawaii will provide the State with more means to finance low-income rental projects. The states' LIHTC allocation was last increased by Congress in 2001 (≈ 40%).

Technique – *Requires identification by HHFDC, HPHA and agencies such as HCDA of financing needs of qualified LIHTC Rental Housing developments and action by the Hawaii Congressional Delegation.*

Action A2 – Identify a pool of corporations with an appetite for the LIHTC. Identifying this pool of private equity investment has a national scope as the current pool of local corporations with a significant federal tax burden is limited. Identifying such a pool of interested private equity would enhance the ability of local developers to finance LIHTC rental projects.

Technique – *Secure legislative funding for an entity such as HHFDC or HCDA to develop information/prospectus on State LIHTC developments and circulate to national financial institutions and corporations.*

Action A3 – Identify qualified LIHTC housing developments and costs. Issue State Tax Exempt Bonds (Hula Mae Multi Family Revenue Bond) to finance in part these LIHTC Rental Housing Developments. This action would increase the amount of private equity investment in qualifying LIHTC Rental Housing Developments.

Technique – *Requires identification by HHFDC, HPHA and agencies such as HCDA of the development costs for qualifying LIHTC Rental Housing Projects needing financing and action by the Hawaii State Legislature to appropriate the tax exempt bonds.*

Action A4 – Secure Congressional Approval to Increase the HOME allocation to the State of Hawaii. Increasing the HOME allocation will make more money available through the City & County of Honolulu for LIHTC Rental Housing development.

Technique – *Requires identification by HHFDC, HPHA and agencies such as HCDA of the development costs for qualifying LIHTC Rental Housing Projects needing financing and action by the Hawaii Congressional delegation to secure the increased allocation and the HHFDC and/or City & County of Honolulu to allocate the HOME funds to the identified LIHTC Rental Housing Developments.*

Action A5 – Work with the State ERS to provided gap financing for identified LIHTC or non-LIHTC Rental Housing Developments that can provide a return of ≈ 7.75%. In cases where the return to the ERS is justified, this can provide a source of equity gap financing that could stimulate the production of needed LIHTC or non-LIHTC Rental Housing.

Technique – *Requires identification by HHFDC, HPHA and agencies such as HCDA of the development costs and returns for qualifying LIHTC or non-LIHTC rental housing developments and agreement by the ERS Board of Directors to invest in qualifying developments.*

Action A6 – HCDA to work with the City & County of Honolulu to establish a Tax Increment Financing (TIF) Mechanism or Community Facility District whereby expected incremental increases in property values will be set aside to provide gap financing for LIHTC Rental Housing Developments in the Kakaako Community Development District.

Technique – *Requires HHFDC, HPHA and HCDA to identify prospective LIHTC Rental Housing Developments in need of gap financing and to work with the City & County of Honolulu to establish a TIF or other mechanism to provide gap financing for known LIHTC Rental Housing Developments.*

Action A7 – HCDA to amend its administrative rules (HAR) to require that developers of commercial space which employs a majority of workers at 60% AMI or less to provide Reserved Housing Rental units or a cash-in-lieu fee to the Authority to provide such units.

Technique – *HCDA to amend its administrative rules on the subject.*

Policy Changes Targeting the Production/Maintenance of Low-Income LIHTC Rental Housing Developments

Action B1 – Amend HHFDC QAP to specify that LIHTC Rental Housing Developments may include 10% of the rental units for families earning up to 80% AMI as well as families earning ≤ 60% AMI and 10% of the rental units for families earning ≤ 30% AMI such that the average median income for the project is 60% AMI. Currently, while the definition of low-income housing provides for participation by families earning ≤ 80% AMI, the LIHTC program does not allow for families earning ≤ 80% AMI to participate. Allowing the 80% AMI to be classified as qualified LIHTC families will increase rental revenue and the amount of permanent financing available to the project.

Technique – *HHFDC to amend their QAP appropriately.*

Action B2 – HCDA to coordinate any and all administrative rules (HAR) with the HHFDC to ensure continuity and consistency in LIHTC and appropriate qualified income housing policies.

Technique – *HCDA and HHFDC staff to coordinate all appropriate administrative rules (HAR) relating to financing, development, qualifying and enforcement of qualified income housing units.*

Action B3 – HCDA and the City & County of Honolulu to coordinate the development of rule (HAR), ordinance or code to allow bicycle parking and mechanized parking to substitute for current off/on-site parking facilities requirements for LIHTC Rental Housing Developments.

Technique – *HCDA and the City & County to coordinate the development of amended rules (HAR), ordinance or code to implement action.*

Policy Changes To Enhance the Production of HCDA Reserved Housing Moderate-Income Housing Developments (Rental or For-Sale)

Action C1 – Amend HCDA rules (HAR) to allow for permitted developments with a requirement to construct Reserved Housing units the flexibility to produce either Rental (≤ 100% of AMI) or For-Sale Moderate Income (100-140% AMI or as otherwise specified by HCDA rules) units as the market dictates and without the developer having to secure a permit amendment from the Authority.

Technique *– HCDA to amend their administrative rules accordingly.*

Action C2 – HCDA to amend its rules to modify its Moderate Income Qualifying levels to include households making between 80 and 120% of AMI. HCDA rules currently define the qualifying income/price point as for families earning between 100 to 140% of AMI. The amended rule would require that the developer must produce units according to the following schedule:

- 25% of the units at 81-100% AMI;
- 50% of the units at 101-110% AMI; and
- 25% of the units at 111-120%.

While this amendment will not necessarily enhance production, it will ensure that whatever units are produced will be at a lower average price point.

Technique *– HCDA to amend their administrative rules accordingly.*

Action C3 – HCDA to amend their administrative rule to provide that the Reserved Housing Requirement kick in for any residential project with 10 or more residential units. The Reserved Housing Requirement is currently triggered by development on lot (>20,000 sf).

Technique *– HCDA to amend their administrative rules accordingly. This is consistent with proposals advanced by the C&C of Honolulu.*

Action C4 – HCDA to amend their administrative rule to establish an incentive for Reserved Housing developers to produce larger units. The multiplier factor may operate on the following suggested schedule.

1. Studio units will be awarded 0.68 reserved housing credit
2. 1 bdrm/1 bath units will be awarded 0.81 reserved housing credit
3. 2 bdrm/1 bath units will be awarded 0.92 reserved housing credit
4. 2 bdrm/2 bath units will be awarded 1.2 reserved housing credit
5. 3 bdrm/1.5 bath units will be awarded 1.3 reserved housing credit
6. 3 bdrm/2 bath units or larger will be awarded 1.5 reserved housing credit

Technique *– HCDA to amend their administrative rules accordingly.*

Preserving Existing and Future HCDA Reserved Housing Units

Action D1 – HCDA to extend Buyback period for Reserved Housing Units from 15 to 30 years.

Technique – *HCDA to amend its administrative rules (HAR).*

Action D2 – HCDA to work with ERS to establish investment pool of funds to buy back reserved housing units. Reserved Housing Units promising a return of at least 7.5% to be bought back with ERS funds, with all proceeds and profit being paid to the ERS.

Technique – *HCDA and ERS to establish appropriate MOU and rules to implement action.*

Action D3 – HCDA to amend its administrative rules (HAR) to specify that the regulated period for its Reserved Housing Rental Units is increased from 15 to 30 years.

Technique – *HCDA to amend its rules (HAR) accordingly.*

Action D4 – HCDA to utilize AMI Indexing Technique to set resale pricing for all Reserved Housing Units that are subject to its Reserved Housing Buy Back Program. Utilizing the AMI Indexing Technique instead of the current Shared Equity Technique will allow for the pricing of re-sold Reserved Housing Units to be maintained at lower price points.

Technique – *HCDA to amend its rules (HAR) accordingly.*

Action D5 – HCDA to have rental housing management agent verify tenant qualifications at least once a year. Enforcement of income qualification will ensure that tenants of LIHTC Rental Housing units continue to qualify for the unit.

Technique – *HCDA to work with rental housing management agents to establish an enforcement/monitoring database program for each rental housing development.*

Reduce Development Costs for Qualified HCDA Reserved Housing Rental Units and LIHTC Rental Housing Developments

Action E1 – Allow HCDA Reserved Housing Units and qualified LIHTC Rental Housing Developments to automatically qualify to use the 201H (fast track entitlements and processing) program. By fast tracking the entitlement process for these types of rental housing projects, the developers saves both time and cost in producing these types of units. As time (and certainty) equals money and opportunity for developers, this will allow for qualified units to be produced more efficiently and quickly.

Technique – *The State Legislature must authorize appropriate changes to statute (201H HRS) and the HHFDC must amend the appropriate sections of the Hawaii Administrative Rules (HAR).*

Action E2 – The HCDA and the City & County of Honolulu shall update appropriate rule (HAR) and land use ordinance to allow for parking requirements to be unbundled from qualified reserved housing and LIHTC rental housing developments located in transit-oriented development zones (within a half-mile or 15 minute walk from a transit or bus station). The HCDA and the City & County of Honolulu shall determine whether the required parking is 62% of the one bedroom and larger units or eliminated entirely. This policy and zoning change will allow developers to let the market determine what level of parking is needed to service qualified income studio, one to three bedroom units. As parking stalls in a structure can cost as much as $40,000/stall, this can greatly reduce the cost of development, especially on a lot as small as 10,000 sf.

Technique – *The HCDA and the City & County of Honolulu to amend their zoning and building code to allow for this change in parking policy.*

Action E3 - The HCDA, the Department of Education and the City & County of Honolulu shall update statutory provisions (HRS), appropriate rule (HAR), applicable land use ordinance and subdivision rule to provide exemptions for developers of HCDA Reserved Housing rental units and LIHTC rental housing developments from any impact fees relating to the provision of public school facilities or public facility dedication fees. This change would provide incentive and relief for developers of qualified income rental housing units to produce more units.

Technique – *The HCDA, the Department of Education, City & County of Honolulu and State Legislature to amend their statute, rule, ordinance or code to allow for the exemption from school and public facility dedication fees for qualified rental housing projects.*

Action E4 – The HCDA, the State Department of Taxation, the City & County of Honolulu and the State Legislature shall amend their statute, rule, ordinance or code to automatically provide exemption for HCDA Reserved Housing Rental Unit developments from real property tax and general excise tax until certificates of occupancy are issued for the development. Such exemption will reduce carrying costs incurred during construction of the project and save the developer from added costs.

Technique – *The HCDA, the State Department of Taxation, the City & County of Honolulu and the State Legislature shall amend their statute, rule, ordinance or code to automatically provide exemption from these costs for developers of qualified rental housing projects.*

Action E5 – The State Legislature to establish statute creating tax credit or deductions for developers achieving LEED silver or higher Energy or Development Status when constructing LIHTC Rental Housing Developments. Establishing tax credit or incentive for achieving LEED silver or better status for Energy or Project status will provide encouragement and opportunity for the developer of a qualified LIHTC Rental Housing Development to offset some of their development cost and produce a more sustainable project. A more sustainable project means that the project can be expected to be operated more efficiently and with less cost.

Technique – *The State Legislature to enact necessary changes to the state's tax code.*