

Glossary of Terms and Definitions

In Alphabetical Order

Area Median Income (AMI) – HUD estimates the median family income for an area in the current year adjusts that amount for different family sizes so that family incomes may be expressed as a percentage of the area median income. The 100% AMI divides the income distribution into two equal parts: one-half of the cases falling below the median income and one-half above the median.

The HUD 2014 100% AMI for the City & County of Honolulu for a family of four is \$82,600. A rookie police officer (\$52,000/year) and a public school teacher [(w/o teaching credentials)(\$33,000/year)] with two children is an example of a family of four at the 100% AMI level.

AMI Indexing Technique – A resale methodology that maintains the affordability of reserved housing in perpetuity by linking resale prices to the current area median income.

Capital Stack to Construct Low-Income Housing Rental Housing – The capital stack or *Total Development Cost* is defined as the financing plan for constructing low-income rental housing. The typical components of the capital stack include:

- *Hard Debt* – is the bank's loan, normally constrained by a loan-to-value (LTV) ceiling (value = the mortgagable value of the expected rental income)(to increase affordability of a project government might provide favorable terms to lower the cost of capital to the developer – allowing higher leveraging, cheap interest rates);
- *Soft Debt* – is sandwiched in between hard debt and hard equity. Soft debt is typically paid after the hard debt and before the hard equity [(to increase affordability, government offers programs such as the Urban Development Action Grants (competitive federal grant program to cities and urban counties which are experiencing economic distress to help stimulate economic development activity needed to aid in economic recovery)];
- *Hard Equity* – is the developer's/owner's down payment and the owner's appreciation (to increase affordability, government typically offers financial grants and down payment assistance);

- *Soft Equity* – The LIHTC is an example of a program that creates a public-private partnership (P3) that stimulates private investment in a project.

The Capital Stack or Financing Plan for a LIHTC development such as Halekauwila Place (Total Development Cost - \$64,618,250) includes:

- A low cost (\$1/year for 75 years) lease for the parcel of land issued by the HHFDC (*Hard Equity*);
- LIHTC Equity (*Soft Equity*) = \$26,118,250;
- A permanent loan (*Hard Debt*) = \$18,500,000
- HCDA Financing (*Soft Debt*) = \$17,000,000
- Deferred Developer Fee (*Hard Equity*) = \$3,000,000

Community Development Block Grant (CDBG) Program – Annual grant given by HUD to cities and urban counties to develop viable communities by providing decent housing, a suitable living environment, and opportunities to expand economic opportunities, principally for low and moderate income persons.

Department of Community Services/City & County of Honolulu – The department is a cabinet level agency of the City & County of Honolulu that oversees management of \$100 million in State and federal funds to provide services for low-income residents, seniors, homeless, job training, community development, and Section 8 housing vouchers. Also administers the Housing First Program, special needs housing and special projects.

HHFDC **Dwelling Unit Revolving Fund (DURF)** – The DURF uses General Obligation Bonds proceeds for the acquisition of real property, development and construction of residential, commercial and industrial properties; interim and permanent loans to developers; and any and all things necessary to carry out the purposes of the Housing Development Program.

State of Hawaii **Employees' Retirement System (ERS)** – The ERS provides retirement, disability, survivor, and other benefits to more than 115,000 members. Membership is comprised of retirees, beneficiaries, inactive vested members and active public employees working for the State and Counties of Hawaii. In FY 2012, the ERS reported net assets of ≈ \$11.3 Billion. The ERS seeks to realize returns on investments of ≈ 7.75%.

Extremely Low Income According to HUD – Defined as $\leq 30\%$ of the Area Median Income (AMI) for a family.

Hawaii Community Development Authority (HCDA) – The HCDA is a corporate instrumentality of the State of Hawaii that is charged with the redevelopment of those districts designated by the State Legislature. The three major functions of the HCDA include:

1. Establishes and administers zoning/community development rules for districts identified by the State Legislature;
2. Develops and implements community development and community infrastructure plans; and
3. Stewards assets assigned to the agency.

Hawaii Housing Finance and Development Corporation (HHFDC) – The HHFDC is tasked with developing and financing low- and moderate-income housing projects and administering home ownership programs.

Hawaii Public Housing Authority (HPHA) – The HPHA helps to provide Hawaii residents with affordable housing and shelter without discrimination. The HPHA focuses on developing affordable rental and supportive housing, public housing and the efficient and fair delivery of housing services to the people of Hawaii.

On Oahu, the income qualifications for federal public housing

- Household of 1 = \$54,850
- Household of 2 = \$62,650
- Household of 3 = \$70,500
- Household of 4 = \$78,300

Federal **Home Investments Partnerships Program (HOME) Program** – The HOME program is a type of assistance provided by HUD to provide decent and affordable housing to low- and very low-income Americans. It is the largest block grant to states and local government designed exclusively to create affordable housing for low-income families. The program provides approximately \$2 Billion/year. The HOME program is administered by the HHFDC, who provides an annual allocation to the City & County of Honolulu.

Housing and Urban Development (HUD) Agency – Federal cabinet level agency whose mission is to: Strengthen the Nation’s Housing Market to Bolster the Economy and Protect Consumers; Meet the Need for Quality Affordable Rental Homes; Utilize Housing as a Platform for Improving Quality of Life; Build Inclusive and Sustainable Communities Free From Discrimination; and Transform the Way HUD Does Business.

Low Income According to HUD – Defined as $\leq 80\%$ of the Area Median Income (AMI) for a family.

Low Income Housing Tax Credit (LIHTC) Program – Created by the Tax Reform Act of 1986, the LIHTC program gives State and local LIHTC-allocating agencies the equivalent of nearly \$8 Billion in annual budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted at low-income households. The LIHTC program gives incentives for private equity to be used in the development of affordable housing aimed at low-income households. The LIHTC program qualifies as a “public-private partnership.”

The LIHTC program accounts for approximately 90% of all affordable rental housing created in the United State. In Hawaii, the Hawaii Housing Finance and Development Corporation (HHFDC) administers the LIHTC program.

How LIHTC Works

1. A developer proposes and wins a competitive allotment of tax credits for a project from the HHFDC.
2. The developer completes the project, certifies the cost and rents the project to low-income tenants.
3. Investors are found that will make a capital contribution to the developer in exchange for being allocated the LIHTC over a ten-year period.

Mayor's Office of Housing City & County of Honolulu – Oversees, coordinates and direct the development, preparation, and implementation of plans and programs relating to affordable housing, senior housing, special needs housing and homelessness.

Moderate Income According to the HUD Community Development Block Grant (CDBG) Program – A household whose income does not exceed 140% of the Area Median Income (AMI). There is generally no tax credit or government subsidy program such as the LIHTC that targets moderate income families.

Definition and Qualification for **Public Housing** – Public Housing was established to provide decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities. The formula for determining the Total Tenant Payment is the highest of the following:

1. 30% of the monthly adjusted income;
2. 10% of the monthly income;
3. Welfare Rent, if applicable;
4. A \$25 minimum rent or higher amount (up to \$50) set by the Housing Authority.

HHFDC **Qualified Allocation Plan (QAP)** – The QAP sets forth the criteria to evaluate and allocate LIHTC tax credits to projects which best meet the housing needs of the State and the preferences required by Section 42 IRC, and the procedure to monitor for compliance with the revisions of the LIHTC program.

HHFDC **Rental Housing Trust Fund (RHTF)** – The Rental Housing Trust Fund provides “Equity Gap” low-interest loans or grants to qualified owners and developers constructing affordable housing units. Funds may be used to provide a loan or a grant for the development, pre-development, construction, acquisition, preservation, and substantial rehabilitation of rental housing units.

HCDA **Reserved Housing** – Residential Developers on lots $\geq 20,000$ sf in the Kakaako Community Development District are required to produce qualified income for-sale or rental units equal to 20% of the development's residential floor area.

For-Sale Units. Only households with income between 100 to 140% of the AMI are qualified to purchase these units. The price of the unit is determined by factoring in: mortgage interest rates; property tax; mortgage insurance premiums; and the monthly association of apartment owners (AOAO) fees.

Rental Units. Only households making $\leq 100\%$ AMI qualify to occupy the units. Rents must be set such that the qualifying household shall pay no more than 30% of their gross income for the monthly rent.

Section 8 Housing Vouchers – Section 8 of the Housing Act of 1937 authorizes the payment of rental housing assistance to private landlords on behalf of low income households in the United States. The program also allows individuals to apply their monthly vouchers towards the purchase of a home. The maximum allowed voucher is \$2,200/month.

Section 8 Project Based Rental Assistance Program – Owner of a housing development reserves some or all of the units in a building for low income tenants, in return for a federal guarantee to make up the difference between the tenant's contribution and the rent in the owner's contract with the federal government.

Tax Credit vs Tax Deduction – Provide a dollar-for-dollar reduction in the taxpayer's federal income tax whereas a tax deduction only provides for a reduction in taxable income.

Very Low Income According to HUD – defined as $\leq 50\%$ of the area median income (AMI) for a family.

Veterans Affairs Supportive Housing (VASH) Program – HUD makes available $\approx 10,000$ vouchers/year at a cost of \$75 million/year to eligible homeless and otherwise vulnerable armed forces veterans.

4% LIHTC Credit/Hula Mae Multi-Family Revenue Bond Program

– This credit is generally claimed for rehabilitated housing and new construction that is financed with tax-exempt bonds. The credit is typically claimed over a 10 year credit period. In Hawaii, this credit is typically non-competitive, subject to the availability of the federal tax credit and awarded with tax-exempt bond financing.

9% LIHTC Credit – This credit is applied against the State’s annual LIHTC allocation and generally reserved for new construction. Each year for 10 years a credit equal to $\approx 9\%$ of a project’s qualified basis (cost of construction) may be claimed. In Hawaii, this credit is allocated on a competitive basis and may offer an award from the State’s Rental Housing Trust Fund (RHTF).