

Information and Discussion re: Amendment of Kakaako Reserved Housing Rules.

Staff Report

September 2, 2015

Background: In March of 2015, the Hawaii Community Development Authority (“HCDA”) published a Part of the Solution Report (“POTS Report”) on the status of affordable housing within the Kakaako Community Development District (“KCDD”) and provided several recommendations. In June of 2015, the Authority established development and retention of affordable housing in the KCDD as one of its priority for the year.

Discussion: The POTS Report provides recommendations on the following aspect of the HCDA’s reserved housing program:

- Financing Techniques,
- Producing More Low-Income Rental Units,
- Building More Moderate-Income Units (Rental or For-Sale),
- Preserving Existing and Future Reserved For-Sale Housing Stock, and
- Reducing Development Costs for Reserved Housing and Low-Income Housing Tax Credit (LIHTC) Rental Unit Projects.

Some of the recommendations require continual dialogue and working together with elected officials and other State agencies for implementation. However, there are several recommendations that can be implemented by amending the current reserved housing rules for the KCDD. A brief presentation on aspects of these recommendations is provided as Exhibit A. In October of 2014, the Authority authorized the Executive Director to begin the process of amending the Mauka Area Rules and the Kakaako Reserved Housing Rules. The rule amendment process involves extensive consultation with KCDD landowners, developers, State agencies, and other stakeholders in addition to two public hearings required by Hawaii Revised Statutes, Section 206E-5.6. Staff estimates that the process may take approximately one year.

Attachment: Exhibit A – Part of the Solution Presentation

PART OF THE SOLUTION

- **Recommendation by Authority Reserved Housing Committee related to HCDA Reserved Housing Program**

- Financing Techniques
- Producing More Low-Income Rental Units
- Building More Moderate-Income Units (Rental or For-Sale)
- Preserving Existing and Future Reserved For-Sale Housing Stock
- Reducing Development Costs for Reserved Housing and LIHTC Rental Unit Projects

- **Financing Techniques**

- Request Congress to Increase Its Annual Allocation for the federal LIHTC Program in Hawaii
- Identify a pool of corporations with an appetite for the LIHTC
- Identify specific LIHTC housing developments and costs. Have the Legislature appropriate necessary funds (via tax exempt bonds) for these projects to be constructed
- Secure Congressional Approval to Increase the HOME allocation to the State of Hawaii
- Work with the State Employees Retirement System (ERS) to provide gap financing for LIHTC developments that can provide a return appropriate for the ERS
- Work with the C&C of Honolulu to establish Tax Increment Financing (TIF) or Community Facility District mechanism to provide gap financing for specific LIHTC developments in Kakaako

- **Producing More Low Income Rental Units**

- Encourage HHFDC to amend its Qualified Allocation Program (QAP) to allow LIHTC developments to allow up to 10% of the units to be occupied by households with incomes at 80% AMI or less
- Coordinate all rule changes with the HHFDC to ensure continuity and consistency in all qualified income housing programs
- HCDA and the C&C of Honolulu to coordinate rule and ordinance to allow bicycle and mechanized/robotic parking to substitute for required on-site/off-site parking requirements for LIHTC developments

- **Building More Moderate-Income Units (Rental or For-Sale)**

- Amend rules to allow developers flexibility to provide either rental or for-sale units as market conditions dictate
- Amend rules to specify that its Reserved Housing Moderate income households earn between 80% and 120% AMI
- Amend rules to specify that its Reserved Housing rules will correspond with the proposed C&C policy that any project with 10 or more residential units are subject to providing qualified income units
- Amend rules to establish incentives for Reserved Housing developers to provide larger units

- **Preserving Existing and Future Reserved for-sale Housing Stock**
 - HCDA to amend its rules to extend buy-back period for Reserved Housing for-sale units from 5 to 30 years
 - HCDA to work with ERS to establish investment pool to buy back and sell reserved housing units
 - HCDA to amend its rules to specify that the regulated period for its Reserved Housing Rental Units is increased from 15 to 30 years
 - HCDA to utilize AMI Indexing Technique to set resale pricing for all units that are bought back by the agency during the regulated period
 - HCDA to have rental housing management agent verify tenant qualifications at least once a year

- **Reducing Development Costs for Reserved Housing and LIHTC Rental Unit Projects**

Allow HCDA Reserved Housing and LIHTC Rental projects to automatically qualify for 201H HRS Fast Track Processing

HCDA and the C&C of Honolulu to allow parking to be unbundled from HCDA Reserved Housing and LIHTC rental projects located within a half mile or 15 minute walk for a transit or bus station

HCDA, the Department of Education and the C&C of Honolulu to provide exemptions for HCDA Reserved Housing and LIHTC rental housing developments from impact fees relating to the provision of public school facilities or public facility dedication fees

HCDA, the State Department of Taxation, the C&C of Honolulu and the State Legislature to amend requirements for HCDA Reserved Housing Rental Units from real property taxes and general excise tax until certificates of occupancy are issued

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

Summary of Current Kakaako Reserved Housing Rules

- Applicable to multi-family dwelling unit project on a development of greater than 20,000 SF
- Qualifying household income <140% of Area Median Income (AMI)
- Pricing based on qualifying household income of <140% AMI
- Regulated Term-5 year for for-sale units, 15 year for rental units
- Buy back provision-5 year
- Shared Equity-at the 1st resale

Proposed Changes to Kakaako Reserved Housing Rule Changes: For Discussion Only

- Expanding the Source of Reserved Housing
 - Require multi-family residential project with 10 or more units??
 - 20% of the units to be RH
 - Require non-residential projects to provide reserved housing??
 - No current requirement
 - Proposed Draft TOD plan anticipates hotel use in KCDD
 - Cash-in-lieu
- Preserving Reserved Housing Stock
 - Rental RH unit regulated for 30 years
 - Buy back provision for for-sale RH at each subsequent resale
 - RH sale price indexed to AMI or CPI
 - Shared Equity provision if HCDA waives buy back

- Reaching Deeper Affordability
 - Rental RH target 80% or less of AMI
 - For-Sale RH target AMI of 120% or less
 - For-Sale RH Schedule

Area Median Income	Percentage of RH Provided
Less than 80%	20
80%-110%	60
More than 110%-120%	20

- Incentive for Providing Larger Units

Unit Type	0BR/1BA	1BR/1BA	2BR/1BA	2BR/1.5BA	2BR/2BA	3BR/1.5BA	3BR/2BA	3+BR/2+BR
Factor	0.68	0.81	0.92	1.0	1.08	1.16	1.28	1.44

- Maximizing the # of Household Benefiting

Unit Type	Household Size	
	Min (Person)	Max (Persons)
Studio	1	2
1 Bedroom	1	3
2 Bedroom	2	5
3 Bedroom	3	7
4 Bedroom	4	9

For-Sale Reserved Housing Pricing

- Factors to be used
 - 10% down payment
 - Total housing cost no more than 33% of target AMI
 - Mortgage (interest + principal)
 - Real property tax
 - Mortgage insurance premium
 - Maintenance fee
 - 30-year mortgage interest rate
 - Average of 6 consecutive months published by Freddie Mac
 - Unit type factor

Example

- Start with AMI
 - 100% AMI for a household of 4 for Year 2014=\$86,900
 - 33% of AMI can go towards housing cost= $\$86,900 \times 0.33 = \$28,677 = \$2,390/\text{mo}$
- Calculate housing cost
 - Housing Cost=Mortgage (interest + principal)+RPT+MIP+Maintenance Fee
 - Estimate RPT/MIP/Maintenance Fee
 - RPT=\$170
 - MIP-\$200
 - Maintenance Fee=\$400
- Calculate Mortgage Payment
 - Mortgage Payment = $\$2,390 - (\$170 + \$200 + \$400) = \$1,620$
- Obtain 30-year mortgage rate from Freddie Mac
 - <http://www.freddiemac.com/pmms/pmms30.htm>
 - Interest Rate= 6 month average=3.84

- Set the # on Mortgage Payments = $12 \times 30 = 360$
- Calculate Present Value of stream of mortgage payments (\$1,620) for 360 payments at an Interest Rate of 3.84%
 - Present Value = \$345,978
- Divide Present Value by 0.90
 - $\$345,978 / 0.90 = \$384,420$
 - This is the maximum unadjusted sale price for the unit
- Adjust sale price for Unit Type
 - 2 BR/2 BA Unit
 - Unit Type Factor = 1.08
- Maximum allowable sale price for Unit = $\$384,420 \times 1.08 = \$415,174$

Other Provisions

- Shared Equity
 - Calculate as a % of market price
- Transfer of RH
 - Transfer by other than sale
 - Income Qualification Requirement
- Refinancing/Home Equity Line of Credit
 - Requiring Authority approval
- Cash-in-lieu Provision
 - Land dedication or cash payment
 - 4% of gross revenue of market project

Applicability

- Should the new RH rules be made applicable to Master Plan Permits granted under Chapter 22 Mauka Area Rules??
 - For projects that have not yet received development permit
 - For projects under TOD overlay (If the Authority adopts TOD rules)

Workforce Housing

- Sales price indexed to AMI of 120% or less
- Qualifying household income of 120% or less
- Buyback provision at each successive resale
- Buyback price indexed to AMI or CPI
- Floor Area Bonus
- Consider exemption from some provisions of the Mauka Area Rules

Incentives

- RH Floor Area exempted from Floor Area Calculation
- Unbundled Parking
- Exemption from Public Facilities Dedication Fee Requirement
- Floor Area Bonus for providing additional RH
- Exemption from some provisions of Mauka Area Rules for providing additional RH
- Allow use of funding sources available through HHFDC for providing additional RH or longer regulated term for rental RH
- Incentive Based TOD zoning