

OVERVIEW

THE AUDITOR
STATE OF HAWAII

A Study of a Proposed Department of Housing — Final Phase

House Concurrent Resolution No. 107, Regular Session of 1994, directed the State Auditor to conduct a study of the potential advantages and disadvantages of incorporating state housing programs under a single cabinet level Department of Housing. The resolution also directed the Auditor to discuss the impact of combining the Hawaii Housing Authority, the Hawaii Community Development Authority, and the Housing Finance and Development Corporation into a single housing department. The first phase of this study, *A Preliminary Study of a Proposed Department of Housing*, Report No. 95-7, was submitted to the 1995 Legislature. This report is the second and final phase of the study in response to the legislative request.

Summary

The State needs a clearer view of its housing role in order to determine whether a cabinet level housing department is needed. The State's objectives and policies for housing are broadly expressed in the State Plan in Section 226-19, Hawaii Revised Statutes, and described further in the Housing Functional Plan. These objectives identify the State's general orientation toward housing but they do not specify what actions the State will take to reach them. Nor do they specify the role of the State in relation to the private sector and the counties.

We found the missions and programs of the three housing related agencies conformed with the broad state housing policy but with some duplication between the state's and the counties' programs. Private sector representatives felt that some state programs compete with or hinder projects of the private sector and that the State should instead facilitate housing development. Although all target groups need affordable housing, the public sector should intervene in housing only when the private sector cannot operate effectively. We concluded that public intervention is needed in the low-income rental market because the general characteristics of that income group homeownership difficult. In addition, low-income rental units are difficult for the private sector to produce economically. Public intervention may be needed in the infrastructure area as well.

In dealing with housing policy issues, the State will also need to consider the roles of the Department of Hawaiian Home Lands and the Office of Hawaiian Affairs; the diminishing funds for housing programs (federal funding, state funding, and debt-financing); the high cost and limited supply of urban lands; and the limitations



of development on ceded land. Consolidation of the three state agencies has the potential to improve the effectiveness and efficiency of the State's efforts to achieve its housing policy goals. However, simply merging the agencies will not guarantee such benefit. To ensure that coordination under a single department can result in operational efficiencies, the State must carefully evaluate of the State's housing policies and goals in conjunction with a realistic assessment of the housing market. The State must also be sure it will complement and not compete with the efforts of other players in the housing market—counties and private sector.

Before a merged department of housing is implemented, the governance and operations of the new entity must be clearly determined and the transition must be well planned. A thoughtful transition should address the housing programs and services during the merger period, reclassification of personnel, and determine if any legislation is needed to restructure funding authorization and structure.

Agency Responses

A draft of this report was transmitted to the Hawaii Housing Authority (HHA), Hawaii Community Development Authority (HCDA), and Housing Finance and Development Corporation (HFDC). HHA had no specific concerns with the draft report and generally agreed with our conclusions. HHA expressed no preference in the structure of the State's housing efforts and further noted that as long as the powers and functions of HHA are left intact, the State and counties can continue to receive federal dollars from the U.S. Department of Housing and Urban Development (HUD). HCDA agreed that consolidation would make sense only if the goals and target groups were narrowed. HFDC concurred with our conclusions and point out that the governor has initiated an evaluation of the state's housing goals and objectives. HCDA and HFDC provided additional information, some of which we have incorporated in our report.

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