A Preliminary Study of a Proposed Department of Housing

A Report to the Governor and the Legislature of the State of Hawai‘i

Report No. 95-7
February 1995

THE AUDITOR
STATE OF HAWAI‘I

Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawai‘i State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. Financial audits attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.

2. Management audits, which are also referred to as performance audits, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called program audits, when they focus on whether programs are attaining the objectives and results expected of them, and operations audits, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.

3. Sunset evaluations evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.

4. Sunrise analyses are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.

5. Health insurance analyses examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.

6. Analyses of proposed special funds and existing trust and revolving funds determine if proposals to establish these funds are existing funds meet legislative criteria.

7. Procurement compliance audits and other procurement-related monitoring assist the Legislature in overseeing government procurement practices.

8. Fiscal accountability reports analyze expenditures by the state Department of Education in various areas.

9. Special studies respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawai‘i’s laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.

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OVERVIEW

THE AUDITOR
STATE OF HAWAII

A Preliminary Study of a Proposed Department of Housing

House Concurrent Resolution 107, 1994 Regular Session, 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 (HHA), the Housing and Finance Development Corporation (HFDC), and the Hawaii Community Development Authority (HCDA) into a single housing department. This report is the first of a two phase report in response to the legislative request.

Summary

The State recognizes that there is a critical shortage of affordable rental and for-sale housing in Hawaii. Since 1987, the State has promoted a wide range of housing programs that encompass the development of rental and for-sale housing, supporting infrastructure, various financing programs, grants, and social services to address the shortage. These programs have been implemented through the efforts of three principal agencies—HHA, HFDC, and HCDA.

HHA is the oldest agency, created in 1935 to receive federal funds for purposes of slum clearance and low income housing construction. From 1935 through 1976, HHA was the only state housing agency authorized to develop and manage low income housing projects that included the elderly. HHA also operates rent supplements and rental assistance programs using state and federal funds. In 1970, HHA's role expanded to include development, increased mortgage financing capacity, and a broader target population that included the moderate income group.

HCDA was created in 1976 to guide the revitalization of Honolulu's Kakaako district. HCDA's responsibilities include planning the installation of infrastructure, and planning and regulating development in the district. A specific mission of HCDA is to increase the amount of low income housing in Kakaako.

HFDC was created in 1987 to assume housing development and financing functions from HHA in order to expedite the supply of affordable rental and for-sale housing for low to moderate income persons.

Today, the three agencies operate multimillion dollar programs that develop urban and rural infrastructure and construct rentals, for-sale units, and shelters for low to moderate income and homeless persons. The agencies provide tax credits for homebuyers; tax exemptions, tax credits, and low interest construction loans for developers; low interest mortgage financing for homebuyers and developers; and rental assistance/supplements for low income persons. The State has spent almost *$3 billion* for these programs through the three agencies during the past seven years.

Between FY1987-88 through FY1993-94, the three agencies received appropriations, revenues and other receipts totaling $3.030 billion. Expenditures and other uses of funds totaled $2.909 billion.

	Revenues	Expenses
HFDC	$ 2,449,895,369	$ 2,330,012,746
HCDA	$ 203,331,688	$ 168,818,268
HHA	$ 376,913,049	$ 409,77,801
Totals	$ 3,030,140,106	$ 2,908,608,815

HFDC's development and financing programs account for 80 percent of these totals. To date, HFDC has completed development of over 4,460 units and made 1,800 mortgage loans for persons of low to moderate income levels.

During this same period HHA expended about $377 million, most of which was for rental housing assistance and maintenance costs. Today HHA manages and maintains over 8,960 units for about 26,000 persons who range from homeless to very low income.

For the same period, HCDA expended most of its $203 million on infrastructure development within the Kakaako district to support commercial and housing development in the area. HCDA requires that private residential developers in Kakaako set aside 20 percent of the total units for low income persons or make in lieu cash payments. To date, HCDA has assisted in developing over 800 low income units and received over $6 million of in lieu cash payments.

Hawaii's three housing agencies perform certain *overlapping functions*, although for somewhat different target groups. All three agencies develop housing jointly and independently of one another for persons ranging from homeless to moderate income groups. The agencies perform similar functions such as meeting zoning requirements, getting approvals for environmental assessment statements, water allocation and building permits, and conducting public hearings and final inspections.

Other areas are noted as duplicative. Both HHA and HFDC have rental assistance and property management functions. In addition, HCDA's planning and regulatory functions are described as similar to that of the City and County of Honolulu.

Housing organizations in other states demonstrate that no one model exists. Other states have varied programs and levels of involvement in housing. In light of the State's austere financial outlook and before a decision is made on how housing efforts should be organized, it may be more appropriate to reconsider which target groups the State could best serve, what housing goals should be met and what strategy would best accomplish these goals.

Agencies Responses

A draft of this report was transmitted to HHA, HCDA, and HFDC. HHA generally agreed with our overall conclusion. HCDA responded that the report did not adequately or accurately describe the comprehensive nature of HCDA. HCDA included several clarifications which we incorporated in the report. HFDC's response provided additional information.

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Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 95-7
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Foreword

This report was prepared in response to House Concurrent Resolution 107, Regular Session of 1994, that requested the State Auditor to examine the feasibility of establishing a department of housing. This new department would consolidate three separate agencies with their various housing functions under a single agency at the cabinet level. This report is the first of a two phase report in response to the legislative request.

We wish to express our appreciation for the cooperation and assistance extended to us during the course of our study by directors and staff of the Hawaii Housing Authority, the Hawaii Community Development Authority, and the Housing Finance and Development Corporation.

Marion M. Higa
State Auditor

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Chapter 1
Introduction

This preliminary study was conducted pursuant to House Concurrent Resolution 107, 1994 legislative session, that requested the State Auditor to examine the feasibility of establishing a department of housing. The proposed department would combine various state housing functions under a single agency at the cabinet level.

In this preliminary report, we review the missions, functions, powers, and duties of the three Hawaii agencies involved in housing: the Hawaii Housing Authority (HHA), Housing Finance and Development Corporation (HFDC), and Hawaii Community Development Authority (HCDA). We also review how other states are organized to carry out their housing functions. In a subsequent report, we expect to explore the feasibility of a single department of housing.

Brief History of Housing Efforts

Hawaii's housing programs date back to 1935 when HHA was established to clear slums and build safe and sanitary housing for low income persons. Subsequently, the Legislature created two additional agencies to build housing and to rehabilitate or develop new communities—HCDA in 1976 and HFDC in 1987.

Today, the three agencies operate multimillion dollar programs that encompass the development of urban and rural infrastructure, construction of rentals and for-sale units for low to moderate income families, construction of shelters for homeless persons, tax credits for first time homebuyers, tax exemptions, tax credits, and low interest construction loans for developers, low interest mortgage financing for homebuyers and developers, and rental assistance and rent supplements for low income persons. A brief description of each of the three agencies follows.

Hawaii Housing Authority

Between 1935 and 1976, HHA was the only housing agency for developing and managing housing projects for low income populations including the elderly. HHA's responsibilities expanded later to include a rent supplement program using state and federal funds. HHA also expanded its housing development and provided state funds for mortgage financing to a broadened population which included the moderate income as well as the low income group. Recently, HHA was made responsible for state homeless programs.

HHA is governed by an eight member commission. Members are appointed by the governor with the advice and consent of the Senate. Members represent the public, each of the four counties, and differing political parties. Members serve without pay except for necessary travel expenses.[1]

The agency is administratively attached to the Department of Human Services. The director of human services and the governor's special assistant for housing are ex-officio voting members. The commission selects a chair and a vice chair from its members, employs an executive director and civil service staff, and may hire persons on a contractual basis.

Today HHA has about 330 positions in four major program areas: administrative and engineering services, housing management and maintenance, rental housing assistance and rent supplement, and homeless programs. HHA is empowered to contract with the federal government for aid in housing projects, to issue bonds, and to establish a revolving fund with sufficient reserves to preserve the principal sum.[2]

Hawaii Community Development Authority

HCDA was established in 1976 to revitalize the Kakaako district. It is empowered to plan and develop infrastructure and approve commercial and residential development for Kakaako. HCDA receives state appropriations and is authorized to issue bonds to finance public facilities.[3]

HCDA is governed by eleven authority members who are comprised of private and public sector representatives. Public sector members include the directors of the Departments of Business, Economic Development and Tourism; Budget and Finance; Accounting and General Services; and Transportation. Seven other members are appointed by the governor and three members must represent the county under development. Members serve four year terms without compensation, appoint an executive director, set salary, and annually elect a chair and vice chair from among themselves.

HCDA has jurisdiction over the Kakaako Community Development District—an area bounded by King Street to Ala Moana Boulevard, Piikoi to Punchbowl Streets. These boundaries were changed in 1988 and 1990 to add and clarify waterfront areas makai of Ala Moana Boulevard, from Kewalo Basin to Pier 4. In 1993, the Legislature added the Hamakua Community Development District on the island of Hawaii to HCDA's jurisdiction to promote economic stability and employment opportunities in that district.[4] HCDA has the authority to acquire and condemn lands, enter into construction contracts and cooperative agreements, and require dedication of reserved housing and public facilities as a condition of development.

HCDA is attached administratively to the Department of Business, Economic Development and Tourism. It has a staff of about 30.

Housing Finance and Development Corporation

In 1987, HFDC was established to assume the land reform, housing development, and financing functions transferred from HHA. HFDC was placed initially under the Department of Planning and Economic Development for administrative purposes, but in 1989, it was reassigned to the Department of Budget and Finance. HFDC is headed by a nine member board of directors. The director of finance; the director of business, economic development and tourism; and the governor's special assistant for housing are ex-officio voting members. The governor selects the chair and vice chair from among the public members, and the board employs the executive director. HFDC employs a staff of about 120 in three major program areas: housing finance, housing development, and land programs.

HFDC's mission is to expedite the supply of affordable rental or for-sale housing to qualified residents through its development authority. It does this by financing infrastructure development, housing construction loans, mortgage loans, taxable mortgage securities, rental assistance, housing rehabilitation and alterations.

Objectives of the Study

The objectives of the study were:

1. To describe the housing missions, functions and programs at HHA, HCDA, and HFDC.
2. To assess whether the housing functions, powers, and duties are duplicative.
3. To examine how other states are organized to perform their housing functions.

Scope and Methodology

This preliminary study reviewed the missions, functions, programs, expenditures, and outcomes of the three agencies. We reviewed the agencies during different time periods. We reviewed HHA from 1985, when it was still authorized to develop housing and provide mortgage financing for eligible homebuyers, to the present day. We reviewed HCDA from 1976, the date of its establishment to the present. We also reviewed HFDC from its start in 1987 to the present.

We researched and analyzed information from legislative materials, annual reports, budget documents, and financial audits. We reviewed agency programs including their purposes, activity levels, staffing, funding and expenditures, and other pertinent information relating to programs and functions. We relied on research from the National Conference of State Legislatures for information on housing programs administered in other states.

Our study was performed from July through December 1994 in accordance with generally accepted government auditing standards.

Chapter 2

Review of State Housing Related Agencies

In this chapter, we present information on the programs and operations of the Hawaii Housing Authority (HHA), the Hawaii Community Development Authority (HCDA), and Housing Finance and Development Corporation (HFDC). We also identify areas of overlap among the three agencies. In addition, we describe how other states are organized to carry out housing functions. Overall, the State has authorized expenditures of almost $3 billion since 1987 to improve infrastructure and housing conditions. The main policy issue before the Legislature, however, is the direction state housing efforts should take in the future and not just how these efforts are organized.

Programs of the Three Agencies

The programs of the three agencies are described below. Each agency targets its programs at a slightly different population group. They generally follow income guidelines of the federal Department of Housing and Urban Development. The 1994 income levels by counties for a family of four are as follows:

	Very Low	Low	Moderate
Oahu	$31,500	$37,380	$74,200
Hawaii	22,050	26,460	54,320
Kauai	30,800	36,960	66,220
Maui	32,350	38,820	69,020

HHA programs serve the very low income household—those whose annual incomes were about $22,000 to $32,000 for a family of four in 1994. HCDA housing programs are targeted primarily at persons with low to moderate incomes. HCDA requires private developers to reserve 20 percent of the total number of units in a project for low to moderate income persons or to make a cash payment to HCDA in lieu of reserved units. HFDC housing programs serve persons with low to moderate incomes of $37,380 to $74,200 for a family of four on Oahu, or about 60 percent to 140 percent of the State's median income of $53,000. HFDC provides construction financing for rentals and for-sale units for low, moderate, and above income persons. HFDC also offers low interest mortgage financing loans to first time home buyers.

HHA programs

HHA focuses on rental housing and rent supplements for those in the very low income and below category, including eligible elderly and homeless populations. It repairs and rehabilitates low income public housing and modernizes HUD and other existing projects. For its recently acquired projects, HHA hires private property management firms.

HHA also provides management services for its tenants, from screening and selecting eligible renters to rental collections and tenant counseling.

HHA also administers state and federal rent subsidy programs. Subsidies are paid to both rental property owners and low income renters. To maintain low rents, owners of private rental housing receive rental assistance. To augment insufficient income for housing, renters who meet certain criteria receive rent supplements.

Finally, HHA is responsible for the State's homeless programs. Using both state and federal funds, HHA develops, administers, and maintains homeless shelters. In conjunction with the shelters, HHA also administers stipends, loans, and outreach services for the homeless.

HCDA programs

HCDA was initially created to improve and redevelop the Kakaako district in downtown Honolulu. HCDA was to plan and develop the district, relocate residents and commercial businesses, and increase the low income housing inventory.

To accomplish this, HCDA's major functions were to:

1. ***Prepare the Kakaako District Development Plan*** that went into effect in February 1982 after three and a half years of preparation. In 1990, it was amended and identified as the mauka plan in contrast to the added makai area.

2. ***Regulate planning, use, zoning, and development of land*** including establishing requirements and restrictions for building heights, density, set backs, front yards, open space, view corridors, streetscapes, landscapes and tower footprints. Plans for transportation, open space and recreation, public facilities, infrastructure and relocation were also included.

3. ***Oversee planning, engineering, and construction of infrastructure*** improvements, such as installing water and major sewer and drainage lines; widening roadways; constructing curbs, gutters and sidewalks; and undergrounding electrical and telephone lines. About 80 percent of infrastructure cost is borne by government since a substantial portion of the improvements benefit the general public. Kakaako property owners and the public utility companies share the remaining costs.

4. ***Develop affordable housing and other public facilities.*** The reserved housing program requires 20 percent of a project's total residential units to be set aside as affordable units or a payment of cash be made in-lieu. Affordable units are for families who earn from 65 to 140 percent of the median income which is considered low to moderate income.

5. ***Redevelop the Kakaako waterfront*** as part of the State's plan to improve the six mile coast from Ala Wai Canal to the Honolulu International Airport.

Since its inception, HCDA has spent considerable time and money on infrastructure in Kakaako to support commercial and residential development. Four private condominium and office projects have been completed by developers under HCDA's development guidelines.

In its 1982 ***Kakaako District Development Plan*** housing objectives, HCDA identified four income groups on Oahu: (1) very low and low moderate whose incomes range from 20 to 50 percent below the median income, (2) Hula Mae Mortgage Financing eligibles whose incomes range from 20 percent above and below the median income, (3) upper middle income population, and (4) unassisted upper quartile.

HCDA intended to meet the needs of all these groups, but it would direct its efforts towards the low middle and upper middle income groups. HCDA expected to increase the housing inventory by about 630 to 760 units per year, or 19,000 units over a 25 to 30 year time period.[1] HCDA also stated that it would assist other government and nonprofit housing agencies to assist lower middle income groups. The authority planned to provide low interest mortgage financing using revenue bond funds and explore graduated and shared appreciation mortgages.

HFDC programs

HFDC was established to increase the supply of affordable rental or for-sale housing to qualified residents. It is responsible for most of the state's housing related activities focusing mainly on housing development and finance. HFDC is also responsible for the State's lease-to-fee-simple land conversion program. HFDC is organized into three branches:

1. Housing Finance Branch administers mortgage programs for rental and for-sale projects, tax credits for buyers, tax exemptions and tax credits for developers, rental assistance, rental construction loans, and housing alterations loans. This branch administers a number of funds including the Hula Mae single family mortgage loan program and the Rental Assistance Program.

2. Housing Development Branch oversees development functions including planning, construction, inspection, and marketing of for-sale and rental units in master planned communities and smaller projects.

3. Land Programs Branch administers the land reform program (converting leasehold to fee simple), lease rent renegotiation, and relocation. The program is financed by the Fee Simple Residential Revolving Loan Fund.

Administrative offices formulate personnel policies and provide administrative and planning services.

HFDC has placed its main effort on developing master planned communities and a limited number of housing units in existing communities. It has become a master land developer, planning and building socio-economically integrated communities complete with amenities such as parks, schools, golf courses and community centers. HFDC has planned four master planned communities. It has also planned housing for the elderly and special need groups.

Program Expenditures and Outcomes

This section describes the expenditures of major programs at each agency and their outcomes in terms of number of housing units built or managed and related financing and grants programs.

Program costs

Since 1987, the State has spent almost *$3 billion* on housing and infrastructure through the three agencies. A financial summary is presented in Exhibit 2.1. In the seven years from FY1987-88 to FY1993-94, appropriations, revenues, and other receipts totaled $3.030 billion. Expenditures and other uses of funds totalled $2.909 billion. Exhibits 2.2, 2.3, and 2.4 show the sources and uses of funds for HHA, HCDA, and HFDC respectively for the same seven-year period.

Exhibit 2.1
Financial Summary for Three Housing Agencies
FY1987-88 through FY1993-94

	Appropriations, Delegations, Revenues, and Other Receipts	Expenditures, Expenses, and Other Uses
HFDC	$ 2,449,895,369	$ 2,330,012,746
HCDA	203,331,688	168,818,268
HHA	376,913,049	409,777,801
	$ 3,030,140,106	$ 2,908,608,815

Since 1987, HHA has received a total of about $377 million. The largest portion of these funds was from the federal Department of Housing and Urban Development. Most of its expenditures were for rental assistance and maintenance of its rental properties. Appropriations including federal funds to HHA for FY1994-95 were more than $50 million.

HCDA has received more than $203 million since 1988. It has spent about $169 million of that amount. For 1994-95, HCDA was appropriated about $15 million.

Since 1987, HFDC has received a total of about $2.5 billion—much of it from revenue bond funds. It has issued $777 million in revenue bonds. HFDC reported spending a total of $2.33 billion. As of June 30, 1994, it has a cash balance of $123,411,858. Appropriations to HFDC in FY1994-95 were about $8.2 million.

HHA outcomes

HHA manages and maintains over 8,967 units statewide for 26,000 families at very low income, elderly, handicapped, and homeless. Since 1990, HHA has developed 108 units on Kauai and Molokai with state and HUD funds. In addition, it provides about 2,700 families with federal Section 8 rent subsidies and about 1,300 persons with up to $160 a month in state rent supplements.

For its homeless program, HHA funds emergency shelters on Maui, Hawaii, and Oahu with nightly capacities of about 330 beds—250 of these beds are at Honolulu's Institute for Human Services. Emergency shelters received $1.23 million from the State during FY1993-94.

HHA has also built five projects for the homeless totaling 254 rooms. These projects consist of units ranging from studios to three bedrooms and serve as transitional shelters for up to two years. During FY1993-94, HHA serviced over 3,000 homeless persons at these transitional shelters. In addition, 2,074 homeless persons were served by grantees receiving funds from HHA. HHA also contracted for health and social services for over 10,000 homeless persons.

HCDA outcomes

In its 18 years of existence, HCDA reports a total of about 2,000 public and privately developed units, of which 830 are affordable units and 28 are reserved as affordable units. HCDA also collected $6.3 million in fees from private developers in lieu of affordable units. About 1,000 units are market priced.[2] The 830 affordable units, located in four public projects, are designed for elderly or low- to moderate-income persons. HFDC has assisted in developing two projects using fees that HCDA has collected.

Exhibit 2.2
HHA-Sources and Uses of Funds, FY1987-88 through FY1993-94

Revenues		
HUD contributions	$	145,322,320
Rents		113,498,982
Appropriations		86,892,841
Interest		4,535,632
Other contributions		1,808,719
Other		4,267,530
Insurance proceeds - Iniki		20,587,025
	$	376,913,049
Expenses and Capital Outlays		
Housing assistance	$	98,006,779
Utilities		54,245,156
Personal services		57,603,411
Depreciation		45,604,082
Interest		39,212,102
Repairs and maintenance		26,566,335
Capital outlays		27,022,922
Payments in lieu of taxes		5,380,084
Administration		5,618,627
Homeless services		8,103,493
Insurance		4,773,775
Security		3,446,345
Other		12,554,451
Hurricane Iniki damages		20,640,239
	$	409,777,801

Source: HHA Annual Reports.

Exhibit 2.3
HCDA-Sources and Uses of Funds, FY1987-88 through FY1993-94

Sources of Funds		
Appropriations		
for operating expenses	$	1,799,306
for capital improvement projects		146,861,000
Total appropriations	$	148,660,306
Fees	$	42,890,198
Other		11,781,184
Total Sources	$	203,331,688
Uses of Funds		
Personal services	$	9,682,547
Other current expenses		158,801,372
Equipment		334,439
Total Uses	$	168,818,268

Source: HCDA Annual Reports.

Exhibit 2.4
HFDC-Sources and Uses of Funds, FY1987-88 through FY1993-94

Sources of Funds		
Contribution from State-GF	$	50,103,157
Contribution from State-GO Bonds		120,000,000
Contribution from State-GF/CIP		57,649,248
Contribution from State-Bond/CIP		150,542,611
Revenue Bonds Issued		777,022,846
Interest on Investments		201,383,300
Interest on Mortgages		157,379,460
Escrow-Sale of Homes		233,302,371
Escrow-Repay Interim Loans		141,394,749
Repayment on Loans		272,952,478
Rental Income		39,220,789
Decrease in Investments		177,449,649
Other Income		71,494,711
Total	$	2,449,895,369
Uses of Funds		
Interest on Debt Service	$	293,945,864
Bond Redemption		573,746,832
Advance on Interim Loans		164,188,761
Subsidy Payment		6,147,755
Loans Purchased		152,381,223
Development in Progress		465,493,670
Acquisition-Building		104,870,511
Personal Services		28,942,920
Administrative Expenses		7,582,771
Increase in Investments		454,058,518
Other Expenses		68,853,921
Transfer to DLNR		9,800,000
Total	$	2,330,012,746
Cash Balance, June 30, 1994	$	123,411,258
Outstanding Revenue Bonds, June 30, 1994	$	614,375,712

Sources: Act 252, 94 SLH; HFDC, Statement of Sources and Uses of Funds, Fiscal Years 1987-88 through 1993-94.

Other HCDA projects were major underground infrastructure improvement projects, the 4 acre Kewalo Basin Park, and the 30 acre Waterfront Park. HCDA plans to develop 87 acres of new public parks and 7.5 million square feet of commercial space. Planned activities include a Heritage Education Center by Historic Hawaii Foundation; a Children's Museum of Arts, Culture, Science and Technology; a softball/soccer park; an amphitheater; Fort Armstrong beach park; and a performing arts center.[3]

HFDC outcomes

The mortgage financing program has provided over 6,300 loans since its inception in 1979. Since 1987, HFDC has made about 1,790 loans. HFDC has developed 4,461 units, of which 57 percent, or 2,565, are rental units. HFDC reports that most of the 1,896 for-sale units have been sold, with 83 units not sold.[4] About 21 rental units in Hawaii county are not filled.

Exhibit 2.5 shows the progress of HFDC's four large planned communities as of July 1994.

Exhibit 2.5
Status of Planned Communities

	Units Planned	Units Completed
Villages of Kapolei, Oahu	4,002	903
Villages of Leiali'i, Maui	4,813	0*
Villages of La'i'opua, Hawaii	4,113	0*
Kauai - no site determined		

*HFDC notes that these projects are at infrastructure development stage.

Overlapping Functions

The three agencies perform certain overlapping functions, albeit for somewhat different target groups. All three agencies develop housing. They plan projects, prepare construction plans and specifications, award construction contracts, and oversee and inspect construction. In addition, certain of HCDA's functions overlap with those of county governments.

Overlapping development functions

The three agencies develop housing jointly and independently of one another. HFDC assisted HHA with the Palama Elderly project and assisted HCDA with the elderly and moderate income family projects in Kakaako. On its own, HHA has developed low income HUD funded housing on Kauai and Molokai, and HCDA has developed low to moderate income projects together with commercial banking institutions.

In carrying out the development process, the agencies perform such similar functions as meeting zoning requirements, getting approvals for environmental assessment statements, water allocation and building permits; and conducting community public hearings and final inspections.

Overlapping HHA and HFDC functions

HHA and HFDC both have rental assistance and property management functions. HHA determines tenant eligibility and provides social service referrals for its tenants. HFDC also determines tenant eligibility for its rental assistance program, but for persons with higher income levels. HHA annually verifies tenants' income levels to see if continued assistance is needed.

Both HHA and HFDC also have property management functions. HHA manages over 4,413 units statewide and contracts with private firms to manage its other units. HFDC has turned over some projects to HHA to manage but it has contracts for private management for 14 HFDC owned or assisted projects.

Overlapping HCDA and county functions

HCDA's planning and regulatory functions have been historically criticized as being duplicative of those of the City and County of Honolulu. They have been described as the same as those of Honolulu's Department of Land Utilization and Department of General Planning. HCDA and the city and county both process development permits. Because of the similarities, the issue of transferring HCDA to Honolulu has been raised several times at the Legislature.

In 1978, Honolulu's planning chief suggested that the Legislature assist the city's more comprehensive planning program instead of establishing another agency.[5] Legislators were also concerned that a non-elected body (HCDA board), unrestricted by county ordinances and general plans, would not be accountable through traditional checks and balances (as would be an elected city council).

In 1982, when the Kakaako District Development Plan was completed and approved, one senator suggested in a floor speech that the plan be handed over to the city under a working agreement and relationship.[6]

In 1990, the state administration proposed a transfer of the district's mauka area to Honolulu county but the legislation did not pass. Both the city and HCDA supported the transfer, but private landowners wanted assurances on their investments.

Housing Organizations In Other States

In this section, we describe what other states have done in the area of housing, particularly with development and mortgage financing programs.

The National Council of State Housing Agencies estimates that more than 50 housing entities now administer 600 affordable housing programs in every region, nationwide. With their ability to use tax exempt capital, state housing agencies participate with other public, private, and nonprofit housing agencies to finance developments for single and multi-family units and make loans to first time homebuyers and to lenders.[7] No one model for a state housing agency exists, but states report various kinds of activities and levels of involvement in housing. Hawaii appears unique in being an actual developer of projects.

Like Hawaii, other states use revolving, trust, and general funds to make grants and loans for mortgage financing and construction. Generally, government involvement falls into three broad categories: (1) regulation, not only of construction and building conditions, but also to protect against discrimination; (2) mortgage lending; and (3) loans and other forms of assistance through the private market.

In the area of mortgage lending programs, many states created housing finance agencies (HFAs) in the 1970s. Mortgage loans were usually restricted to first time buyers with established limits on sales prices. Many states, including Hawaii, have loan programs for rental housing development, lending funds from tax exempt bonds to private sector developers for low income rental development. Historically HFAs combine tax exempt financing with federal subsidies through federal Section 236 interest subsidies and Section 8 rent assistance.

In the area of housing development, some states distribute their funds to nonprofit organizations. Community based development corporations, or CBDCs, are nonprofit developers of affordable housing who compete for funds from state and local governments. Other states limit their risks by requiring leveraged funds from other sources, restricting loans for redevelopment costs only.

At least 11 states offer financial assistance for land acquisition or pre-development costs for low and moderate income housing. Many state housing departments use housing trust funds or revolving loan funds to finance programs. Trust funds pool money from private sources such as real estate escrow deposits, tenant security deposits, and utility deposits combined with public funds, title transfer taxes, and bond reserve funds. Revolving loan funds rely on interest income, surcharges, and initial general fund appropriations.

At least 23 states use state funds to construct and rehabilitate affordable housing, special needs population housing (elderly and handicapped), and to provide homeownership assistance.

Programs in other states include the following:

- **Florida's** Community Development Corporation Support and Assistance Program provides grants and loans to community development corporations who have met criteria and are deemed in good standing.

- **Delaware's** Housing Authority administers revenue bonds that finance acquisition, construction, or rehabilitation of apartment complexes that rent to low and moderate income tenants.

- **Connecticut** offers interest-free loans or grants to housing authorities and nonprofit developers to defray costs such as feasibility studies, local permits, or appraisals.

- **California's** Rental Housing Construction program makes appropriations to housing authorities, private developers, nonprofit developers and individuals for construction of new rental housing units. Since 1980, it has funded 3,580 new rental units.

- **Wisconsin** provides below market financing for rental housing projects for low and moderate income and special needs populations. Wisconsin also offers "blueprint loans" to developers for architectural services, consulting fees, site acquisition and other pre-development costs.

State mortgage financing programs

At least 28 states have programs to assist low and moderate income persons and first time home buyers to purchase homes. ***Iowa's*** Finance Authority makes downpayment grants to eligible applicants as part of a lease-purchase program, under which an applicant must establish a credible payment history and maintain the property for at least one year to be eligible for downpayment. ***Connecticut*** also has a downpayment assistance program funded by general obligation bonds for low and moderate income persons and first time home buyers. ***Wisconsin's*** Housing and Economic Development Authority earmarked about

$490,000 for a lease-purchase program, along with first mortgage loans financed with revenue bonds. Loan amounts are up to 95 percent of purchase price for persons between 90 to 140 percent of the median income. Since its inception, the authority has made 47,495 loans totaling almost $2 billion. In FY1991-92, 4,545 loans totaling almost $204 million were made.[8]

State homeless programs and emergency shelters

A survey by the National Conference of State Legislatures found that almost 25 states fund homeless shelters, and that 20 state legislatures have authorized rent subsidies. ***Massachusetts*** funded $1.1 million for a housing search program under its Department of Public Welfare. Over 12,000 families were placed in permanent housing since 1985. ***Maryland's*** Homeless Services program funds nonprofit organizations for direct services such as shelter, food, transportation, and such homeless prevention activities as rent and mortgage assistance.[9]

Conclusion

Hawaii's three housing agencies have programs that are directed at target populations that are somewhat different although the agencies do have some functions that overlap. Housing organizations in other states demonstrate that no one model exists. They have varied programs and varying levels of involvement in housing. In light of the State's austere financial outlook, it may be more appropriate to reconsider which target groups the State should serve, what housing goals should be met, and what strategy would best accomplish these goals before a decision is made on how housing efforts should be organized.

Notes

Chapter 1

1. Section 356-5, HRS.

2. Sections 356-27, 356-33.5, and 356-34, HRS.

3. Act 153, *Session Laws of Hawaii, Regular Session 1976*, established HCDA; see also Section 206E-1, HRS.

4. Act 311, *Session Laws of Hawaii, Regular Session of 1993*, Honolulu.

Chapter 2

1. Hawaii, Hawaii Community Developent Authority, *1990 Mauka Area Plan*, Honolulu, February 1990, p. 74.

2. Hawaii, HCDA; *An Overview of the Hawaii Community Development Authority*; Honolulu; January 10, 1994; Major Planned Development Projects, Attachment 2.

3. Hawaii, HCDA, *An Overview*, pp. 9, 10.

4. Hawaii, Housing Finance Development Corporation, *HFDC Production Report*, July 2, 1994, p. 6; September 30, 1994, p. 1.

5. Testimony on House Bill 2114, Relating to the Hawaii Community Development Authority, submitted by Ramon Duran, Chief Planning Officer, Department of General Planning, City and County of Honolulu, February 6, 1978.

6. Senator Andy Anderson, *Senate Journal*, 1982 Regular Session, p. 443.

7. Hawaii, Legislative Reference Bureau, *Housing Finance and Development Programs in Other States*, Report No. 10, Honolulu, 1993, p. 7.

8. Wisconsin, Wisconsin Legislative Fiscal Bureau, *State Housing Programs*, January 1993, pp. 2, 3.

9. Dayna Ashley, *Constructing Local Solutions, Affordable Housing*, National Conference of State Legislatures, Denver, April 1991.

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Responses of the Affected Agencies

Comments on Agency Responses

We transmitted a draft of this report to the Hawaii Housing Authority (HHA), the Hawaii Community Development Authority (HCDA), and the Housing Finance and Development Corporation (HFDC), on January 27, 1995. A copy of the transmittal letter to the HHA is included as Attachment 1. Similar letters were sent to HCDA and HFDC. The responses from the agencies are included as Attachments 2, 3, and 4, respectively.

HHA responded that it agreed with our overall conclusion that some housing functions overlap although each agency has different target groups. It also agreed with our suggestion to reconsider target groups and housing goals in light of the State's austere financial situation. In its response, HHA provided information on programs not described in the report.

HCDA responded that the report did not describe adequately or accurately the comprehensive nature of HCDA as a "community development" agency whose primary mission is not limited to the development of housing and infrastructure. We note that Chapter 2, pages 6 and 7, presents HCDA's broader responsibilities. HCDA further stated that its mission was not duplicative or overlapping of those of the City and County of Honolulu and in fact replaces those functions of the county. We note that the reference to duplicative functions refers to the similarity of some of HCDA's responsibilities and those of the county and not to the specific regulation and control of Kakaako's development. Finally, HCDA included several clarifications in its response, which we incorporated in the report.

HFDC's response included further information on the agency, and a detailed rationale for focusing on master planned communities. HFDC also provided additional information which was incorporated in the report.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

January 27, 1995

COPY

Mr. Mitsuo Shito
Executive Director
Hawaii Housing Authority
1002 North School Street
Honolulu, Hawaii 96817

Dear Mr. Shito:

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *A Preliminary Study of a Proposed Department of Housing.* We ask that you telephone us by Tuesday, January 31, 1995, on whether or not you intend to comment on our draft. If you wish your comments to be included in the report, please submit them no later than Friday, February 3, 1995.

The Housing Finance and Development Corporation, Hawaii Community Development Authority, Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa

Marion M. Higa
State Auditor

Enclosures

ATTACHMENT 2

BENJAMIN J. CAYETANO
GOVERNOR

MITSUO SHITO
EXECUTIVE DIRECTOR

LEONARD PARESA, JR.
DEPUTY EXECUTIVE DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
HAWAII HOUSING AUTHORITY
P O BOX 17907
HONOLULU, HAWAII 96817

FAX. (808) 832-6030

IN REPLY REFER TO.

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February 1, 1995

Mrs. Marion M. Higa
State Auditor
Office of the Legislative Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813

RECEIVED
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OFC. OF THE AUDITOR
STATE OF HAWAII

Dear Mrs. Higa:

Re: Comments from Hawaii Housing Authority re: "A Preliminary Study of a Proposed Department of Housing: A Report to the Governor and the Legislature of the State of Hawaii (1995)"

Our office has reviewed your draft of your study entitled "A Preliminary Study of a Proposed Department of Housing: A Report to the Governor and the Legislature of the State of Hawaii (1995)" (hereinafter known as "Study"). We appreciate your kindness to allow us to review the draft and comment on it before it is presented in final to the Legislature.

As we understand the purpose of the study, it was requested of your office to examine the feasibility of establishing a department of housing pursuant to House Concurrent Resolution 107, 1994 Legislative Session. This proposed department of housing would combine various state housing functions done by the Hawaii Housing Authority (HHA), Housing Finance and Development Corporation (HFDC), and the Hawaii Community Development Authority (HCDA) into a single State entity.

A. GENERAL COMMENTS

In general, we agree with your overall conclusion that all three housing agencies have programs that are directed at different target populations although they do have some functions that overlap--i.e. HHA has rent supplement programs; HFDC has rent assistance programs, and both have property management functions. Study, p.16 and 13. Also, HHA does determine tenant eligibility and provides social service referrals for its tenants while HFDC determines tenant eligibility but for higher income levels.

HHA Rent Supplement program recently celebrated its silver anniversary.

Study, p. 13. Also, it is true that both HHA and HFDC have property management functions--HHA manages a total of approximately 8,967 units State wide both with private management and with in-house personnel. HHA has had these functions since its inception.

We also believe in your overall assessment of the austere financial situation that is facing the State in 1995. Study, p.16. As Governor Cayetano has stated in his State of the State address, it is a "financial crisis of the magnitude and severity that we face today," that is unprecedented in Hawaii's history. State of the State Address, January 14, 1995.

Therefore, we support your recommendation that it may be more appropriate to reconsider which target groups the State of Hawaii should serve instead of trying to be all things to all people. The Legislative and Executive branches may wish to partner with the private sector, non-profits, and other governmental entities to discuss which target groups the State should serve, what type of housing goals should be met, and what strategies would be best to accomplish these goals before a decision is made as to how best efforts should be organized. Also, our Congressional delegation should be consulted as to how federal cuts and reorganization of HUD is going to affect the federal funds flowing into Hawaii for current and new construction projects.

We at Hawaii Housing Authority, therefore, support your efforts in attempting to outline some of the major issues that face this legislative session in dealing with housing by this preliminary study.

B. SPECIFIC COMMENTS

Some of the specific comments we had on your Study were the following:

1. Page 6--Hawaii Housing Authority also manages the Teacher Housing Program which provides housing for teachers in the rural areas of our State and the Resident Services Branch which provide tenants with organized services in order to better themselves in the community.

2. Page 9--HHA Outcomes have also been the following:

a. Additional projects acquired:

1) Nakolea (100 units; 1990)--for the homeless working individuals

2) Wilikina (119 units)--Section 8 preservation

3) Banyan St (55 units)--Section 8 preservation

b. State Capital Improvement (CIP) Elderly:

1) Hale Po'ai (201 units)--Elderly joint venture in Palama

2) Laiola (108 units)--Elderly joint venture in Wahiawa

c. HHA also receives federal funds for modernization of federal projects. Last year, over $16 million worth of modernization was done by HHA.

d. HHA also received homeless grants in aids for private agencies to provide food and shelter to the homeless and also for construction of homeless villages throughout the islands.

d. HHA also constructs/modernized and manages, Teacher Housing in rural areas of the State.

e. HHA is also providing low-income rental units (New Construction) for the following areas:

1) Waikoloa and Lokahi--44 units

2) Waimanalo--25 units

3) Waianae--50 units

4) Waiehu--25 units

5) Kamehameha Homes--221 units (Redevelopment)

3. HHA is the only Public Housing Authority in the state that is recognized by the U.S. Department of Housing and Urban Development.

C. CONCLUSION

In conclusion, we believe that the overall study done by your office has been comprehensive and fair in the overall assessment of HHA, HFDC, and HCDA. We hope the Legislative and Executive branches will review the report with an open mind and develop innovative strategies that will move this State in developing housing policies, target groups, and goals to meet Hawaii's growing population for both rental and ownership needs in the next decade.

Sincerely,

MITSUO SHITO
EXECUTIVE DIRECTOR

HAWAII COMMUNITY DEVELOPMENT AUTHORITY

KAKAAKO
Where Honolulu Greets The Sea

Benjamin J. Cayetano
Governor

[redacted]

Michael Kawaharada
Chairman

Michael N. Scarfone
Executive Director

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February 7, 1995

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OFC. OF THE AUDITOR
STATE OF HAWAII

Ms. Marion M. Higa
State Auditor
Office of the Auditor
Room 500
465 South King Street
Honolulu, Hawaii 96813

Dear Ms. Higa:

Thank you for the opportunity to comment on your draft report, *A Preliminary Study of a Proposed Department of Housing*. The primary focus of our comments is on clarifying the mission and functions of the Hawaii Community Development Authority (HCDA).

The report does not describe adequately, or accurately, the comprehensive nature of HCDA as a "community development" agency whose primary mission is not limited to the development of housing and infrastructure. As drafted, the report reinforces, incorrectly, the persistent perception held by a number of policymakers that HCDA is a "housing agency". A clear understanding of HCDA's mission which is fundamentally based on the Legislature's intent and purpose in creating HCDA and its associated functions are essential in the Legislature's review of and deliberations on a possible consolidation of HCDA, HFDC and HHA into a Department of Housing. As such, our comments begin with a statement of the agency's mission and description of its functions followed by comments on specific areas in the report.

HCDA's Mission

The HCDA was created by the Legislature in 1976 to plan and implement the timely redevelopment of areas in the State through collaborative efforts with the private sector and agencies at all levels of government. The designation of Kakaako as a Community Development District by the Legislature was made recognizing the area's potential for increased growth and development through more intensive use of the land and its inherent economic importance to Honolulu as well as the State. Moreover, the Legislature determined that the redevelopment of Kakaako offered an opportunity to not only stem further neglect and deterioration of the area but also address the need for more housing, parks, open areas, and new commercial and industrial space in the urban core. Thus, the mission of HCDA is to transform Kakaako into an economically and socially viable community of residents and businesses and to provide a range of public benefits to address critical community needs.

HCDA's Functions

In order to accomplish the legislative mandate, HCDA is empowered with comprehensive planning, development, and financing authority to implement a range of programs to revitalize Kakaako. With this substantial authority to implement the long-term development plans for Kakaako, HCDA is uniquely positioned to simultaneously address the range of issues and concerns associated with the redevelopment of a major community which traditionally has been the responsibility of multiple agencies. HCDA's current major functions are to:

1. Implement and update the Kakaako Community Development District Plan and Rules which were originally adopted in 1982.

2. Regulate development in Kakaako through rules on planning, zoning, land use, health, safety, and building.

3. Undertake planning, design, construction and financing of improvements to roadway, sewer, drainage, water, and other utility and communications systems.

4. Undertake the development and financing of major public facilities such as parks, housing, schools, community centers and parking facilities.

5. Implement policies requiring private sector participation in the delivery of affordable housing.

6. Facilitate private sector development of industrial, residential and commercial uses.

7. Formulate and implement a development strategy for the Kakaako waterfront area.

8 Manage and develop lands owned by HCDA and coordinate development of other State-owned lands in the District.

9. Administer a relocation program to provide assistance to persons and businesses displaced by redevelopment activities in the District.

Chapter 1

Page 1:

The notion that the development of housing is HCDA's primary function begins in the opening paragraphs of "Brief History of Housing Efforts". Since no distinction is made between HCDA and the other two agencies, readers are immediately led to believe that the Legislature created HCDA "...to build housing and...develop new communities". Only the latter is correct. This idea is reinforced in the subsequent paragraph which includes HCDA among "...the three agencies (which) operate...programs that encompass" no less than ten housing programs. The fact is that HCDA operates only two of the ten programs identified. The manner in which these paragraphs attempt to summarize "the history of housing efforts" is clearly misleading, and we recommend these paragraphs be revised to more accurately distinguish HCDA from HHA and HFDC.

Page 2:

The section on HCDA does not provide an adequate description of HCDA's mission.

The paragraph describing the make up of the Authority states that seven members must represent the county under development. This is incorrect. According to Chapter 206E, HRS, three members represent the county in which a community development district is established. Also, the subsequent paragraph does not provide an accurate description of the current boundaries of the Kakaako District. The following would be more appropriate:

"HCDA has jurisdiction over the Kakaako Community Development District--[an] initially the area bounded by King Street to Ala Moana Boulevard, Piikoi to Punchbowl Streets. These boundaries were changed in 1988 and 1990 to add and clarify waterfront areas and presently include the area below Ala Moana Boulevard from Kewalo Basin up to Pier 4, and the Hawaiian Electric Power Plant site in downtown Honolulu."

Page 5:

The report states that HCDA requires private developers to reserve 20% of the total number of units in a project for low income persons. This is incorrect since the target group is low to moderate income.

Chapter 2

Pages 6 and 7:

HCDA programs and functions are not adequately described. Also, Item No. 4 states that a major function is to develop affordable housing and other public facilities through the reserved housing program. "Other public facilities" are not developed under the reserved housing program, but rather through other programs administered by HCDA as part of its overall community development strategy. In this same paragraph 65% to 140% of median income is referred to as "low income." This is incorrect and should be corrected to read low- to moderate-income.

Page 8:

In a summary statement of program costs, the report states that $3 billion has been spent on housing and infrastructure. This statement is incorrect since that figure includes total HCDA expenditures from 1988 to 1994. Approximately 18% of those HCDA expenditures were for housing, 67% for infrastructure, 15% for other activities such as the enforcement of zoning requirements, processing of development permits, development of parks and public parking, and waterfront relocation and acquisition activities. The general manner in which these costs are described and the failure to break out the major cost areas, along with the subsequent description of "HCDA outcomes" which opens with HCDA's housing production and underplays the significance of infrastructure and other public improvements clearly misrepresents where the expenditures were actually made by HCDA.

Page 9:

The report's description of "HCDA outcomes" fails to recognize that of the 830 units, 755 units (or 3 of the 4 affordable housing projects) were jointly developed by HCDA and HFDC leveraging the combined resources of both agencies. This type of venture is both consistent with HCDA's legislative mandate and a prudent and effective means of providing affordable housing in Kakaako in a timely manner. Also, we should note that the HCDA collected $5.8 million of "in-lieu" fees from private developers and not $6.3 million as stated in this section.

Pages 12 and 13:

The report incongruously describes HCDA's planning, regulatory and infrastructure functions as "overlapping" or "duplicative" of county functions based not on any direct evaluation of respective roles and functions, but rather on a 1982 floor speech by one State Senator, and comments offered in 1978 by the county's former Chief Planning Officer. In fact, the land use planning and regulatory activities exercised by the HCDA in Kakaako replace, rather than duplicate or overlap, those formerly undertaken by the county in this area. This is an important distinction and one which, again, requires an understanding of HCDA's broader community development mandate. In directing that these functions be assumed by the HCDA in designated community development districts, the Legislature recognized that timely and necessary State-sponsored redevelopment of areas such as Kakaako cannot be effectively achieved unless the targeted State investments and improvements, mixed-use development policies, and public-private sector mechanisms called for under Chapter 206E, HRS, are guided by an overall community development plan and associated land use regulatory framework that is responsive to statewide interests and objectives as set forth in Chapter 206E, HRS, and not necessary totally reliant on possibly narrower county concerns.

Thank you, again, for the opportunity to review the draft report. We hope the comments we have offered prove useful in providing a broader frame of understanding regarding the role of HCDA vis-a-vis HFDC and HHA as you proceed in your next phase of study.

Very truly yours,

M N Scarfone

Michael N. Scarfone
Executive Director

MNS/LH:ak

ATTACHMENT 4

BENJAMIN J. CAYETANO
[redacted]
GOVERNOR

ROY S. OSHIRO
[redacted]
ACTING EXECUTIVE DIRECTOR

STATE OF HAWAII

DEPARTMENT OF BUDGET AND FINANCE

HOUSING FINANCE AND DEVELOPMENT CORPORATION

677 QUEEN STREET, SUITE 300
HONOLULU, HAWAII 96813
FAX (808) 587-0600

IN REPLY REFER TO:
95:PPE/551

February 3, 1995

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OFC. OF THE AUDITOR
STATE OF HAWAII

The Honorable Marion M. Higa
State Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Ms. Higa:

Re: Draft Report Entitled "A Preliminary Study of a Proposed Department of Housing"

We have reviewed the subject report and offer the following comments.

Brief History of Housing Efforts, page 1
(Source: Overview of Affordable Housing Targets)

The critical shortage of affordable housing serves as the backdrop for the creation of HFDC. From 1980 to 1986, there was an estimated housing shortfall of approximately 20,200 units. By the year 2000, it was estimated that a total of 85,000 housing units would be required to keep pace with projected household growth. Of the total units, approximately 64,000 units were estimated to be needed in the affordable category.

HFDC was created to serve as the State's housing development and financing arm to directly address this persistent housing problem.

As background, the housing shortage is attributable to a number of factors including demographic factors, market forces, cutbacks in federal funding, and changes in federal tax policies. There are also many constraints to the development of affordable housing such as the shortage of developable, urbanized land that is reasonably priced; the lack of major off-site infrastructure; the lengthy and uncertain government approval process; and high financing costs.

HFDC

HFDC serves as a catalyst, providing private developers (for profit and non-profit) and other governmental agencies with the necessary tools and resources to overcome many of the barriers to the development of affordable housing.

Housing Finance and Development Corporation, page 3
(Source: HFDC Annual Report, FY 1994)

HFDC's mission is to expedite the supply of affordable rental and for-sale housing to qualified residents through its development, as well as financing authority. HFDC's mission statement is *"to serve as a catalyst in the provision of quality housing opportunities in a balanced environment to meet the housing needs of Hawaii's residents."*

Major activities undertaken to achieve our mission are as follows:

- **Facilitate the development of affordable housing** by providing tools and resources for private and other governmental entities (e.g., low interest interim construction loans, funding infrastructure development, and expediting the reveiw of State and county land use approvals).

- **Overcome some of the major constraints to the development of affordable housing**. HFDC acquires and master plans large tracts of land, and assumes the risk of obtaining necessary land use and zoning, and developing major off-site infrastructure such as roads, water, sewer, and drainage systems. Private developers are then able to plan, design, construct, market and sell homes in these master planned communities.

- **Encourage the private sector development of new rental housing and the rehabilitation of existing rental housing** through financing programs and tax credits.

- **Assist first-time homebuyers** by providing mortgage financing at below-market interest rates and tax credits.

- **Assist in the lease to fee conversion of residential houselots**, as well as in the renegotiation of ground lease rents for one- and two-family residential lots and cooperative housing corporations.

HFDC Programs, page 9
(Source: Overview of Affordable Housing Targets)

As indicated in the report, the development of master planned communities is a major focus of HFDC. This is because prior to 1986, the State's affordable housing strategy consisted of construction projects of affordable single-family and multi-family units for-sale and subsidized rental housing on "in-fill" sites located within established communities.

With suitable State lands with off-site infrastructure, projects could be developed fairly economically. However, finding suitable lots ready for vertical construction became more and more difficult, especially on Oahu. The acquisition of finished lots from private stock similarly became more and more difficult, with diminishing supply and escalating costs. This piecemeal development process offered scant hope of ever meeting the pent up backlog of demand for affordable housing, let alone accommodating future household growth.

The master planned community concept was formulated in response to the downward trend in the availability of infill sites and, consequently, affordable housing production. Under the concept, the State would acquire large parcels of land, master plan the land uses within the parcel, obtain appropriate land use designations, and develop major off-site infrastructure. Private developers could then develop housing units and support amenities in the planned community.

Once underway, control of these large land developments would enable the State to overcome many of the development barriers which contributed to the housing shortage, namely the lack of developable land, the lack of major off-site infrastructure, and the "not in my backyard" or NIMBY opposition to the development of affordable housing (particularly low rent projects) in existing neighborhoods. Moreover, the State would be able to provide a consistent supply of affordable housing and respond more expeditiously to demand and changing market conditions.

HFDC outcomes, page 12

The report summarizes some of HFDC's outcomes. We would like to point out a few more:

- Under the Land Reform Program, approximately 14,600 leasehold lots have been converted to fee simple since the inception of the program. **8,789 lots were converted since 1987.** (Source: Outcome information transmitted via memo of September 30, 1994)

- HFDC has provided **rental assistance for a total of 1,440 low rent units** since 1987. Under the Rental Assistance Subsidy Program, assistance is committed to a rental project, as opposed to individual renters. This provides project owners with a stable revenue source to supplement the affordable rents collected and assures eligible applicants that a rent subsidy will be available upon occupancy. The monthly subsidy provided is set at a maximum of approximately $175 for individuals and families and $250 for elderly tenants. (Source: Ibid)

- For the master planned community in Lahaina, Maui called the **Villages of Leiali'i**, the Phase 1 backbone infrastructure to service 530 units has been completed. Additionally, the Village Phase I-A sitework was completed and the HFDC Board preliminarily approved the awarding of development rights to a private developer for the development of the 530 units, subject to land acquisition and HFDC's ability to convey the parcel to the developer. (Source: Fact sheet)

- For the **Villages of La'i'opua** in West Hawaii, the Phase 1 backbone infrastructure (segment of the Kealakehe Parkway and associated utility, sewer and water lines) has been completed. The Phase 2-A backbone infrastructure (segment of the Kealakehe Parkway; Roadway D; segments of the Mid-Level Road and Road A; associated utility, sewer and water lines; reservoir; sewer lines through the Kealakehe Golf Center) will be completed in mid-1995. These infrastructure improvements will also service the Kealakehe High School which is scheduled to open in the Fall of 1997. (Source: Fact sheet)

Thank you for the opportunity to comment on the report.

Sincerely,

ROY S. OSHIRO
Acting Executive Director