

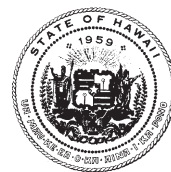
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# A Study of a Proposed Department of Housing — Final Phase

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

Report No. 96-7  
February 1996



**THE AUDITOR**  
STATE OF HAWAII

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## 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.



### THE AUDITOR

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# 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.

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## 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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Submitted by

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## Foreword

This report was prepared in response to House Concurrent Resolution No. 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 existing agencies under a single cabinet level agency. In response to the legislative request, we conducted a two-phase study. The first phase, *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.

We wish to express our appreciation for the cooperation and assistance extended to us by the board/commission members, directors and staff of the Hawaii Housing Authority, the Hawaii Community Development Authority, and the Housing Finance and Development Corporation. We also wish to acknowledge the cooperation and assistance of the officials and staff of the Department of Hawaiian Home Lands; the Office of Hawaiian Affairs; the Department of Land and Natural Resources; the Office of State Planning; the Land Use Commission; the City and County of Honolulu; the Counties of Hawaii, Kauai, and Maui; and the U.S. Department of Housing and Urban Development. Lastly, we wish to acknowledge the cooperation and assistance of the members of the housing industry we contacted during the course of this study.

Marion M. Higa  
State Auditor

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# Chapter 1

## Introduction

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### Background

Hawaii's direct involvement with housing began in 1935 with the creation of the Hawaii Housing Authority to implement slum clearance and public housing projects. Since that time, the State has initiated far-reaching housing programs. These include: the construction of new or improved rental and for-sale housing units; the development of major infrastructure projects; finance assistance for both owners and renters; and housing or shelter for special needs persons such as the homeless and very low income families. These programs are primarily implemented by three agencies—the Hawaii Housing Authority, the Housing Finance and Development Corporation, and the Hawaii Community Development Authority.

House Concurrent Resolution No. 107, 1994 legislative session, requested the Auditor to conduct a study to determine the potential advantages and disadvantages of creating a cabinet level department of housing that would assume the housing functions of these three agencies. The resolution also requested the Auditor to examine the agencies' housing functions and specifically:

- Review the three agencies' housing functions, powers, and duties to determine any duplication of functions, powers, or duties;
- Identify the potential advantages, disadvantages, and benefits of a single department of housing; and
- Review how other states perform housing functions.

To address these issues a two phase study was undertaken. This study is the second phase.

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### Preliminary Study of a Proposed Department of Housing

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. The report reviewed the histories of the Hawaii Housing Authority, the Housing Finance and Development Corporation, and the Hawaii Community Development Authority and examined their housing functions, powers, and duties. We noted that the agencies had certain overlapping functions. For example, all three agencies engaged in development activities; the Hawaii Housing Authority and the Housing Finance and Development Corporation provided rental assistance and property management functions; and the Hawaii Community Development

Authority and the counties performed planning and land use regulatory functions. Although there are some overlapping functions, the three agencies have different target groups.

Report 95-7 also reviewed housing activities in other states, finding no predominant organizational model for a comprehensive state housing program. However, many states offered finance programs, such as mortgage and other financing, construction financing, low-income rent subsidies, and assistance to homeless, senior citizen, and other special need groups.

In light of the State's austere financial outlook, our report concluded that several issues must be considered prior to deciding how to organize housing efforts. These issues include a reconsideration of which target groups the State should serve, what housing goals should be met, and what strategy would best accomplish these goals. During our fieldwork for the second and final phase of our study, we noted that agencies were reviewing their program goals and requirements due to the current downturn in economic conditions.

This report builds upon the preliminary report and discusses, more in depth, some considerations in establishing a cabinet level department of housing.

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## Objectives of the Study

1. Identify and discuss policy issues affecting the State's role in housing.
2. Identify and discuss issues regarding the proposed department of housing.

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## Scope and Methodology

For this phase of the study, we reviewed the State's housing policy and functional plans. We reviewed the three agencies' missions, functions, and programs in relation to the State's policy and functional plans. We interviewed executive directors, members of the governing boards, and staff of the three agencies to: 1) clarify functions and programs, 2) identify external factors affecting each agency's policies and programs, 3) discuss the State's role in housing, and 4) determine the effects of a merged department of housing.

We also reviewed housing-related programs of other Hawaii governmental agencies. We met with private sector representatives to obtain their perspectives on the State's role in Hawaii's housing market. We conducted additional research to specifically examine comparative housing departments in other states. Finally, we reviewed the effects of potential changes in federal funding.

This phase of the study was performed from January 1995 through June 1995 in accordance with generally accepted government auditing standards.

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# Chapter 2

## Hawaii's Housing Policy and Programs

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The State needs a better grasp of its role in housing in order to determine whether a cabinet level housing department is necessary. About \$3 billion has already been expended by the housing-related agencies since 1987 and further spending at this level probably cannot continue. Scarce resources make it critical for the State to assess its current housing policies and goals prior to evaluating whether programs would be more functionally efficient under one department. In this chapter, we review the State's housing policy and functional plans; each housing-related agency's role and programs, including other state agencies and the four counties; and housing needs by target groups. We conclude the chapter with a discussion of issues that affect housing development.

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### The State Housing Policy Is Broad

The State's housing policy is broadly stated in statute. The Hawaii State Planning Act, enacted in 1978, reflects the Legislature's attempt to improve the planning process in the state and increase the effectiveness of government and private actions. The Hawaii State Plan, the document that resulted from the mandated planning activities, provides a basis for setting priorities and allocating resources. The objectives and policies for housing are first expressed in the State Plan, then described further in the Housing Functional Plan.

### *The State Plan Housing Policy*

The State's housing policy is specified in Section 226-19, Hawaii Revised Statutes (HRS). The housing policy is one of the State's policies for the socio-cultural advancement of its people. The policy reads:

- a. Planning for the State's socio-cultural advancement with regard to housing shall be directed toward the achievement of the following objectives:
  1. Greater opportunities for Hawaii's people to secure reasonably priced, safe, sanitary, and livable homes, located in suitable environments that satisfactorily accommodate the needs and desires of families and individuals, through collaboration and cooperation between government and nonprofit and for-profit developers to ensure that more affordable housing is made available to very low-, low- and moderate-income segments of Hawaii's population.
  2. The orderly development of residential areas sensitive to community needs and other land uses.

3. The development and provision of affordable rental housing by the State to meet the housing needs of Hawaii's people.
- b. To achieve the housing objectives, it shall be the policy of this State to:
  1. Effectively accommodate the housing needs of Hawaii's people.
  2. Stimulate and promote feasible approaches that increase housing choices for low-income, moderate-income, and gap-group households.
  3. Increase homeownership and rental opportunities and choices in terms of quality, location, cost, densities, style, and size of housing.
  4. Promote appropriate improvement, rehabilitation, and maintenance of existing housing units and residential areas.
  5. Promote design and location of housing developments taking into account the physical setting, accessibility to public facilities and services, and other concerns of existing communities and surrounding areas.
  6. Facilitate the use of available vacant, developable, and underutilized urban lands for housing.
  7. Foster a variety of lifestyles traditional to Hawaii through the design and maintenance of neighborhoods that reflect the culture and values of the community.
  8. Promote research development of methods to reduce the cost of housing construction in Hawaii.<sup>1</sup>

***The Housing Functional Plan***

To implement the State Housing Plan, the State established more specific housing objectives in the State Housing Functional Plan. These objectives are:

Homeownership:

Homeownership for at least 60 percent, or roughly 248,500 households by the year 2000.

Rental Housing:

Sufficient amount of affordable rental housing units by the year 2000 to increase the state's rental vacancy rate to at least three percent with priority given to increasing the supply of units affordable to very low and lower income households.

Rental Housing for the Elderly and Other Special Need Groups:

Increased development of rental housing units for the elderly and other special need groups to afford them an equal access to housing.

Preservation of Housing Stock:

Preservation of existing public and private housing stock.

Land Acquisition for Affordable Housing Development:

Acquire and designate lands suitable for housing development in sufficient amount to locate the deficit in housing units by the year 2000.

Housing Information System:

Maintain a statewide housing data system for use by public and private agencies engaged in the provision of housing.<sup>2</sup>

These objectives identify the State's general orientation toward housing but they do not specify what actions the State will take to reach them. Additionally, they do not specify the role of the State in relation to the private sector and the counties. More specific information is found primarily in the functions and programs of the Hawaii Housing Authority (HHA), the Hawaii Community Development Authority (HCDA), and the Housing Finance and Development Corporation (HFDC).

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## State Housing Programs — A Public Sector Role

Traditionally, housing development has been a function of the private sector. Public sector involvement has generally been limited to meeting special needs or conditions that the private sector has not met. When the public sector intervenes, various forms of federal, state, and local level programs are instituted. Federal and state programs generally focus on broad regulatory and financing actions while local governments focus on specific actions such as zoning and permitting for housing development. Recently, the public sector involvement in housing has increased, especially at the State level. In 1993 and 1994, Hawaii's state and county governments assisted in the building of over 35 percent of the new single family homes on Oahu.

The State's housing plan is carried out primarily through programs of the Hawaii Housing Authority, the Hawaii Community Development Authority, and the Housing Finance and Development Corporation. The

four counties also have housing objectives and programs. Exhibit 2.1 summarizes state and county housing programs grouped under headings of homeownership, rental housing, community development, special needs, and others.

The first three categories follow the State Housing Functional Plan. The fourth category, "community development," includes housing stock preservation and land acquisition. The fifth category, "others," includes the housing information system. A more complete description of each state agency's program is contained in Appendix 1. However, to better understand the State's housing involvement, it is necessary to understand the mission and orientation of the housing-related agencies.

### ***Hawaii Housing Authority's mission and programs***

The Hawaii Housing Authority is the oldest of the state housing agencies. It is administratively attached to the Department of Human Services and is governed by an eight member commission. The authority provides decent, safe and sanitary housing for families and individuals of low income and below, including the elderly, handicapped, and homeless populations. The Hawaii Housing Authority's major services include:

- Providing rental housing at reasonable rates for eligible families and individuals through public housing programs;
- Modernizing and maintaining state and federal public housing stock;
- Providing management services for its tenants, from screening and selecting eligible renters, rental collections, tenant counseling;
- Administering state and federal rent subsidy programs;
- Developing, administering, and maintaining homeless shelters with on-site social services including needs assessment, goal identification, skills training, and education; and
- Overseeing pilot programs focusing on outreach services, shelter services, and emergency grants.<sup>3</sup>

The majority of the housing authority's programs provide rental housing assistance to families and individuals. These programs include: Federal Low Rent Program (families and elderly), State Low Rent Program (families and elderly), Section 8 Rent Subsidy, State Rent Supplement Program, and Teacher Housing Rental. Other programs include: Homeless Services, Public Housing Drug Elimination Program, and Gateway Grant Program. (See Appendix 1 for classifications.) Until 1987, the authority was also responsible for leasehold-to-fee land reform, housing development, and financing programs.



***Hawaii Community  
Development  
Authority's mission and  
programs***

The Hawaii Community Development Authority was established in 1976 as a comprehensive agency for community development in blighted urban or underdeveloped areas. Administratively attached to the Department of Business, Economic Development, and Tourism, the development authority is governed by an eleven member commission. Its initial mission was to redevelop the Kakaako District of Honolulu into an economically and socially viable community of residents and businesses. In 1993, the Legislature also placed the Hamakua Community Development District on the island of Hawaii under the authority's jurisdiction. However, the authority has not instituted any actions for the Hamakua district.

Hawaii Community Development Authority's major responsibilities are to:

- Implement and update the Kakaako Community Development District plan;
- Regulate development in Kakaako;
- Undertake planning, design, construction and financing of improvements to roadway, sewer, drainage, water, and other utility and communication systems;
- Undertake the development and financing of major public facilities such as parks, schools, housing, etc.
- Implement policies requiring private sector participation in the delivery of affordable housing;
- Facilitate private sector development of industrial, residential, and commercial uses;
- Formulate and implement a development strategy for the Kakaako waterfront area;
- Manage and develop lands owned by Hawaii Community Development Authority and coordinate development of other state owned lands in the District; and
- Administer a relocation program.<sup>4</sup>

The development authority has improved the infrastructure in Kakaako including roads, sewers, drainage and utilities; has developed parks, community centers, and other facilities; and promoted housing and commercial development.

**Exhibit 2.1  
Agency Programs**

**HOMEOWNERSHIP**

HFDC	HHA	HCDA	Counties
Fee Simple Residential Dwelling Unit Revolving Fund Hawaii Dev. Revolving Fund Single Family Fund Home Mortgage Fund Special Assistance Fund Mortgage Credit Certificate Program Homes Revolving Fund	None	Reserved Housing Program	<u>Hawaii</u> HOME Invest. Partnership (HOME)* Homeownership and Opportunity for People Everywhere (HOPE)  <u>Honolulu</u> Leasehold Conversion Program Federal HOME Prog. Comm. Hsg. Dev. Org. (CHDO) Set-Aside Prog. Rehab. Loan Prog. Housing Buy-Back Program Financing Programs  <u>Kauai</u> Residential Iniki Rebuild Prog. Residential Rehab. Loan Prog. HOME Invest. Partnership (HOME)*  <u>MauI</u> HOME Invest. Partnership (HOME)* Housing Development Program Housing Sales & Counseling Prog.

**RENTAL HOUSING**

HFDC	HHA	HCDA	Counties
Hula Mae Multi-Family Program Low Income Hsg. Tax Credit Program Rental Assistance Fund Rental Hsg. System & State Affordable Rental Hsg. Program Homes Revolving Fund  Note: The Rental Housing Trust Fund (RHTF) is administratively attached to B&F. HFDC provides technical and support services to RHTF's commission.	Federal Low Rent Rental (Families & Elderly) State Low Rent Rental (Families & Elderly) Teacher Housing Rental Rental Assistance Services: Section B Rent Subsidy State Rent Supplement Program	Reserved Housing Program	<u>Hawaii</u> Section 8 Program HOME*  <u>Honolulu</u> City Rental Assistance Program Section 8 Rental Assistance Program Financing Program - Multi-Family Rental Housing Program Property Management Program  <u>Kauai</u> Rental Rehabilitation Loan Program HOME* Paku'i Housing Program Section 8 Housing Assistance Payments Program  <u>MauI</u> Housing Development Program Section 8 Housing Assistance Payments Program Housing Management Program HOME*

\* Funds administered by HFDC.

Note: HFDC administratively attached to B&F, HHA administratively attached to DHS, and HCDA administratively attached to DBEDT.

COMMUNITY DEVELOPMENT

HFDC	HHA	HCDA	Counties
Project Fund Homes Revolving Fund	None	Kakaako Redevelopment (includes infrastructure, community facilities, parks, relocation program (housing and residents), regulation of zoning in district)	<u>Hawaii</u> Community Dev. Block Grants (CDBG) HOME*  <u>Honolulu</u> Revitalization Programs for Declining Neighborhoods  <u>Kauai</u> Community Dev. Block Grants (CDBG) HOME*  <u>Maui</u> Employee/Affordable Housing Program HOME*

SPECIAL NEEDS

HFDC	HHA	HCDA	Counties
Loan Program for Kalapana Disaster Victims Kahana Valley Loan Program Housing Alteration Fund	Homeless Programs	None	<u>Hawaii</u> McKinney Act Homeless Programs Emergency Shelter Grants Prog. (ESGP)  <u>Honolulu</u> Emergency Shelter Grants Prog.  <u>Kauai</u> Ho'omaka Program Shared Housing Program Family Self-Sufficiency Prog.(FSS) Temp. Disaster Allocation Prog. Hokulei Estates "Self-Help" Homes Emergency Shelter Grants Prog. (ESGP) Supplemental Assist. for Facilities to Assist Homeless (SARAH) Supportive Housing Demonstration Program (SHD)  <u>Maui</u> Housing Opportunities for Persons with AIDS (HOPWA) Prog.

OTHER

HFDC	HHA	HCDA	Counties
Federal Fund Disbursing Fund Grant-In-Aid Fund	Grants: - PH Drug Elimination Program - Gateway Grant Program - Family Investment Center - Youth Sports Program - Tenant Opportunities Program - Neighborhood Improvement Grant  Note: Housing Assistance Administration supports all HHA programs	None	<u>Hawaii</u> Fair Housing Program  <u>Honolulu</u> Fair Housing Program Relocation Program

\* Funds administered by HFDC.

Note: HFDC administratively attached to B&F, HHA administratively attached to DHS, and HCDA administratively attached to DBEOT.

Providing housing in Kakaako through land use regulation is an integral part of the development authority's community development objective. Under the authority's Reserved Housing Program, private residential developers in Kakaako must either reserve 20 percent of the total number of units in a residential project for low to moderate income persons or make a cash payment in lieu of the reserved units. At the time of our study, this requirement was under review to determine if it was realistic given the current weak market conditions. See Appendix 1 for authority's classifications of its projects.

***Housing Finance and Development Corporation's mission and programs***

The Housing Finance and Development Corporation was established in 1987 to assume the functions transferred from the Hawaii Housing Authority—land reform and housing development and financing. The corporation is administratively attached to the Department of Budget and Finance and is governed by a nine member board of directors. The corporation's mission is to expedite the supply of affordable rental or for-sale housing to qualified residents. The corporation engages in the following activities in pursuit of its mission:

- Facilitate the development of affordable housing;
- Overcome some of the major constraints to the development of affordable housing;
- Encourage private sector development of new rental housing and the rehabilitation of existing rental housing;
- Assist first time homebuyers; and
- Assist in the lease-to-fee conversion of residential homelots.<sup>5</sup>

Currently, the Housing Finance and Development Corporation has 19 major programs. Of these, 12 programs address either homeownership or rental housing. The remaining seven programs address community development, special needs, and other issues. Most programs are special funded, such as the Dwelling Unit Revolving Fund, Single Family Fund, Rental Assistance Fund, Homes Revolving Fund, and Kahana Valley Loan Program. See Appendix 1 for a summary of the corporation's programs.

***Housing roles of the Department of Hawaiian Home Lands and Office of Hawaiian Affairs***

Two other state agencies—the Department of Hawaiian Home Lands and the Office of Hawaiian Affairs—have significant housing responsibilities that will impact statewide housing programs. The beneficiaries of these two agencies' programs are included as a current target group for other housing agencies. Although the two agencies are not a specific part of this study, it is important to understand their role in the housing market.

The Department of Hawaiian Home Lands, created by the Hawaiian Homes Commission Act of 1920, manages the Hawaiian Home Lands Trust and develops and delivers land to native Hawaiians—those who are of at least 50 percent Hawaiian blood. The department provides suitable homes and homestead lots for native Hawaiians on designated trust lands. Our 1993 audit, *Management and Financial Audit of the Department of Hawaiian Home Lands*, Report No. 93-22, found that over 24,000 applications for homesteads were pending before the department. The department would like to award 14,000 homesteads to qualified beneficiaries by the year 2000.

If the Department of Hawaiian Home Lands can increase its homestead inventory, it will significantly impact other state housing programs. For example, if the department achieves its housing goals by the year 2000, Hawaii Housing Authority's available rental housing inventory may increase significantly. The authority reported in June 1994 that it assisted about 2,300 Hawaiian families, or 24 percent of all families served. Of this 24 percent, over half, or about 1,300, lived in state public housing. Some of this group are potential homestead recipients. The Housing Finance and Development Corporation may feel a similar impact on its affordable rental units inventory.

The Office of Hawaiian Affairs has a broader focus in contrast to the Department of Hawaiian Home Land's narrower homestead award focus. The office was established after voter approval of a 1978 constitutional amendment and the legislative enactment of Section 10-4, HRS, to better the conditions of *all* Hawaiians. The office created a housing division in 1992 to assist Hawaiians at the very low to low income levels. Housing activities include self-help housing projects and recently initiated native Hawaiian loan programs. The latter programs involve home renovation and downpayment on turnkey houses on lands held by the Department of Hawaiian Home Lands. The Office of Hawaiian Affairs is also planning major housing developments which could impact the three other housing-related agencies' future programs.

### **Obstacles to housing coordination**

The level of housing activities by the Department of Hawaiian Home Lands and the Office of Hawaiian Affairs is reason for coordination among all housing related agencies. However, the missions of both agencies, which serve Hawaiians, present legal and political problems when trying to coordinate or combine activities.

A potential legal problem that limits coordination is the federal fair housing requirement. Fair housing laws restrict discrimination based on ethnicity. Indigenous Native American groups are exempted from these restrictions but Hawaiians are not considered indigenous natives. They are recognized ethnically as a member of the Pacific Islander group.

Without the protection afforded indigenous Native Americans, housing programs for only Hawaiians violate fair housing laws and are ineligible for federal funds. Therefore, attempts to coordinate federally funded programs, such as those of the Hawaii Housing Authority, with the Department of Hawaiian Home Lands could jeopardize funding.

A potential political problem that limits combined activities between the Office of Hawaiian Affairs and the other state agencies is the office's statutory independence. By statute, the Office of Hawaiian Affairs is a public corporate body separate and independent of the executive branch. The office is also limited to programs that benefit only Hawaiians. Thus any coordination between the office and executive branch agencies would be voluntary. While the housing activities of the Department of Hawaiian Home Lands and Office of Hawaiian Affairs have significant roles in the State's overall housing strategy, differences in missions and goals present logistical problems when trying to coordinate or combine activities.

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## County Housing Programs – A Public Sector Role

Hawaii's four counties also have a part of the public sector role, planning and providing for the housing needs of the state. Nationally, county and local level governments have traditionally played a more substantial role in housing than have state governments. In other states, county governments may be better equipped than state agencies to address local housing conditions. In Hawaii, state agencies have close contact with local issues. Nevertheless, counties still administer significant housing programs.

The counties engage in a variety of programs in cooperation with the private sector. For example, the City and County of Honolulu enters into lease and/or development agreements with private developers using city-owned property. Developer requests for rezoning, zoning variances, or other actions which require county approval may be processed based on unilateral agreements with the county to meet certain county requirements in exchange for project approval.

Many county actions are similar to state initiatives because they address similar functions on behalf of the public's housing needs. For example, both the State and counties develop housing projects on their own lands and meet the same building requirements. Also, both entities administer the Section 8 rental housing programs. However, whether these are duplicative depends on whether the target groups for those programs are also duplicated. The following is an overview of the various county level housing programs offered in Hawaii.

***Hawaii County Housing Programs***

Hawaii County's housing programs are directed by the Office of Housing and Community Development. This office promotes community development by providing decent housing and suitable living environments and by expanding economic opportunities. Programs administered by the office include: the Community Development Block Grant; the Emergency Shelter Grants Program (ESGP); HOME Program; the Steward B. McKinney Act-Homeless Programs; the HOPE I, II, and III programs; the federal Section 8 Program; and the Fair Housing Program.

***Maui County Housing Programs***

Maui County's programs are administered by the Department of Housing and Human Concerns. This department's objective is to increase and maintain existing affordable housing and special needs housing for county residents who fall within 120 percent or less of the county's median income. Programs operated by the Maui county agency include: the Housing Development Program; Housing Sales and Counseling Program; Section 8 Housing Assistance Payments Program; Employee/Affordable Housing Program; Housing Management Program; HOME Program; and the Housing Opportunities for Persons with AIDS Program.

***Kauai County Housing Program***

Kauai County's housing programs are administered by the Kauai County Housing Agency which targets low-income families and the elderly. The agency also participates in the Federal Housing Assistance Payments Program. This housing agency's programs include: the Community Block Development Grants, the HOME Program, the Residential Rehabilitation Loan Program, the Rental Rehabilitation Loan Program, the Steward B. McKinney Act-Homeless Assistance Programs, the Section 8 Rental Assistance Program and several Hurricane Iniki Federal Disaster Programs.

***City and County of Honolulu Housing Programs***

Honolulu's programs are administered by the Department of Housing and Community Development. Like the other counties, this department uses city, state, and federal resources to implement new community development projects as well as redevelop and rehabilitate older communities. The Department of Housing and Community Development also sponsors experimental and demonstration housing projects for low-to-moderate income housing. Programs include: the Section 8 Rental Assistance program; the federal HOME program Community Housing Development Organization; Revitalization Programs for declining neighborhoods; City Rental Assistance Program; Property Management Program; Relocation Assistance Program; the Rehabilitation Loan Program; Leasehold Conversion Program; Housing Buy-back Program; and the city's Fair Housing Program.

See Appendix 1, Public Housing Programs in Hawaii, for descriptions of the programs.

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## Housing Programs Target All Groups

State housing programs address the needs of very diverse target groups. Two basic factors that the state and counties use to determine eligibility for housing programs are client income levels and program requirements. In this section, we describe the various target groups by income eligibility as well as by program categories. We note that affordable housing is needed by all income levels, but that the public sector's role should be limited to servicing groups not addressed by the private sector, and thus not in competition with the same.

### *Most programs are income based*

State housing-related agencies target their programs to groups. Often these target groups are classified according to their percentage of the median family income level (i.e., median income). Median income is defined as the annual income of a family of four as established by the U.S. Department of Housing and Urban Development (HUD). Adjustments based on family size are made to the base number to create median income tables that list eligibility levels for the varying family sizes. Also, median income levels vary from region to region. For FY1994-95, the median income in Hawaii ranged from a high in Honolulu of \$53,600 to a low of \$38,800 for Hawaii County. For example, a program that targets families in the "up to 120 percent of the median income" level allows a family of four to qualify with an annual income of \$64,320 on Oahu versus \$46,560 on the island of Hawaii.

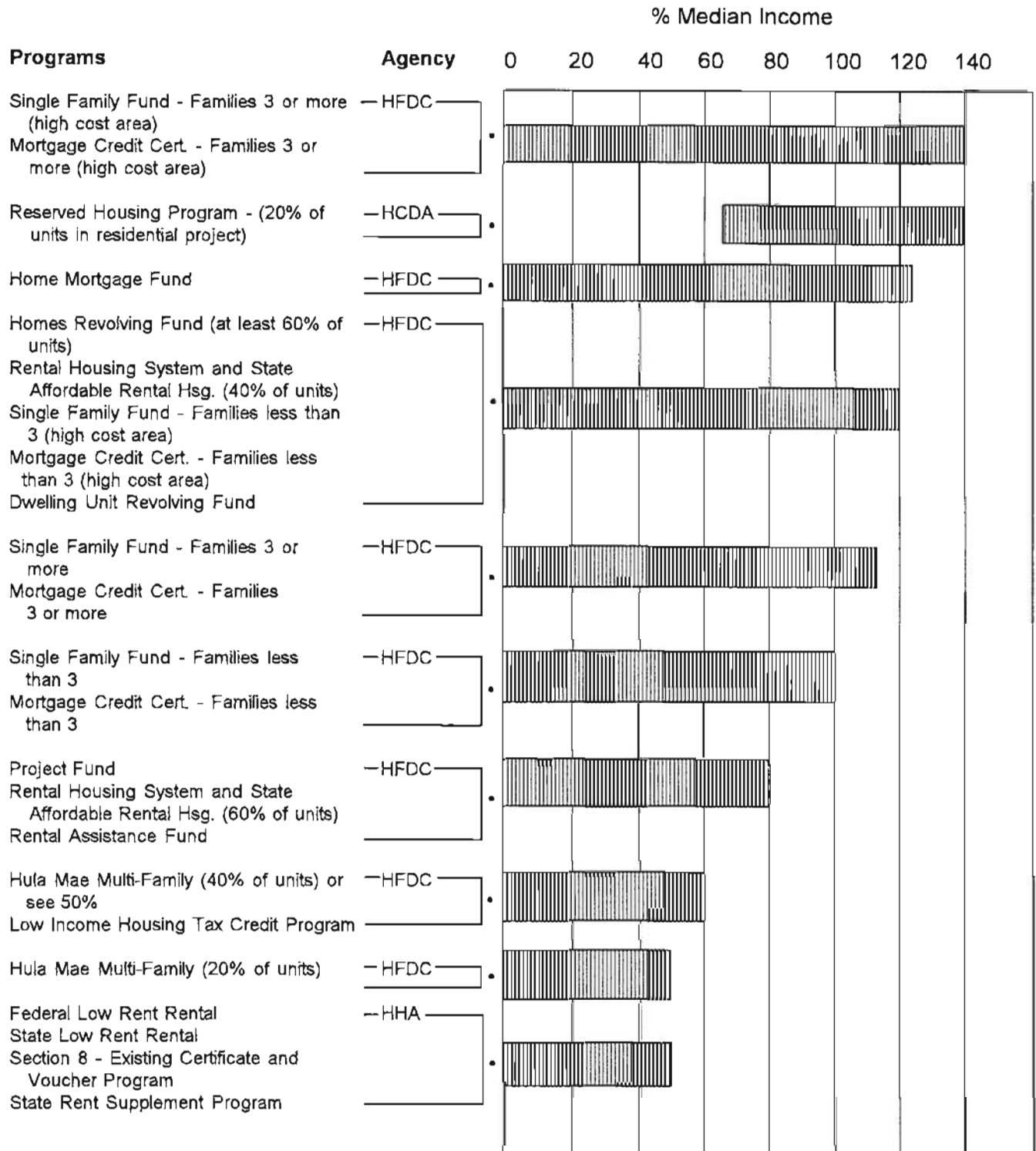
Generally, state housing programs target groups whose median income ranges up to 140 percent of the median income. Exhibit 2.2 summarizes the housing programs by the three state agencies according to median income requirements. While some programs may appear to duplicate each other, they may have different objectives. For example, one program objective may be homeownership, while another program's objective may be home rental. Taking program objectives and qualifying income levels into account, we found that most state programs are not duplicative.

### *Other programs are categorical*

Although the majority of housing programs target groups that are defined by median income, some programs have "special needs" or geographic requirements. A summary of these categories is found in Exhibit 2.3. As can be seen from this exhibit, the State offers a wide range of programs for a variety of target groups. The State should review these program categories against the State Housing Plan Functional Plan to determine their appropriateness.



**Exhibit 2.2**  
**Summary—State Housing Program Eligibility by Median Income**



**Exhibit 2.3**

**Summary – State Housing Program Eligibility Other Than Median Income**

<b>Program</b>	<b>Agency</b>	<b>Eligible Target Group</b>
Kakaako Redevelopment (includes infrastructure, community facilities, parks, relocation program, regulation of zoning)	HCDA	Entities located in the Kakaako District
Hawaii Development Revolving Fund	HFDC	Non-profit entities
Grant-in-Aid Fund	HFDC	Various non-profit corporations
Special Assistance Fund	HFDC	Hula Mae borrowers (closed in May 1992)
Loan Program for Kalapana Disaster Victims	HFDC	Individuals who lost homes due to lava inundation in Kalapana area
Kahana Valley Loan Program	HFDC	Holders of Kahana Valley State Park residential leases
Housing Alteration Fund	HFDC	Persons with physical disabilities
Disbursing Fund	HFDC	Not applicable; serves as clearing fund
Fee Simple Residential	HFDC	Owner occupants of single family and duplex leasehold lots; one or two family residential leasehold lots and cooperative housing corporations
Federal Fund	HFDC	Severely mentally ill, homeless individuals
Teacher Housing	HHA	School level certified personnel
Housing Assistance Administration	HHA	Supports all HHA programs
Homeless Services	HHA	Homeless
Grants	HHA	Various non-profits

***All groups need affordable housing***

The state's housing plan is designed to ensure that all groups have adequate affordable housing, both for-sale and rental. However, given the State's current limited resources and the traditional private sector role as the dominant provider of housing, the State must consider what is appropriate intervention and whether providing affordable housing for all is realistic.

Affordable housing is defined as costing no more than 30 percent of an individual's or family's gross income. A 1992 Hawaii housing demand survey reported:

- 33 percent of all households expend more than 30 percent of their income for housing;
- 58 percent of new home buyers exceed the 30 percent ceiling; and
- 44 percent of Hawaii's renters pay more than 30 percent of their household income for rent.<sup>6</sup>

The problem of available housing affects all income levels. A 1992 housing supply/demand model found that the total unmet demand in Hawaii was 27,865 units.<sup>7</sup> As shown in the table below, about 39 percent of the total housing needed was from households earning below 80 percent of the median income.<sup>8</sup>

<u>Percent of Median Income</u>	<u>Percent of Units Needed</u>
Below 80%	39
80 to 100%	11
100 to 120%	10
120 to 140%	11
140 and above	29

Seventy-one percent of the reported housing demand or almost 20,000 housing units falls within the threshold for qualifying for existing state programs. Even if state programs provided housing only for the below 80 percent category, the units needed would exceed 10,000.

**State intervention is needed for low-income rental market**

State intervention is needed to provide units for the below 80 percent group based on the data from the 1992 housing supply/demand study. This group needs rental units that the private sector does not generally develop. While there is a need for rental housing at all income levels, the need for rental units is greater for the 80 percent and below income group because they cannot qualify for homeownership financing. The general characteristics of this income level group and their general inability to qualify for homeowner mortgage support the argument for state intervention.

State intervention is also needed because rental construction is not profitable and therefore not attractive to the private sector. Construction of rental units requires large initial capital outlays and rental return rates in Hawaii are too low to cover construction and operating costs. Financial institutions are also not as interested in financing affordable rental construction because of the low investment return, generally around five percent of the value of the property. Since market conditions discourage private sector involvement, state and local governments must intervene, especially for the elderly and homeless persons, in the very low income group.

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## **Public and Private Sector Roles— Complementary or Competing?**

Public and private sector housing officials generally acknowledge that the State should play two important roles in the housing market. First, the State is the primary intervenor providing low income housing which is not profitable for the private sector to provide. Second, the State supports private sector initiatives, including nonprofit organizations that build affordable rental housing. The State also plays a parallel role with counties which are also administering housing programs. The issue here is whether the State complements or competes with the housing industry and the counties.

### ***State role and the private sector role***

Private sector interviewees agree that the State has a role in the housing market, but are concerned that public sector efforts hinder rather than facilitate housing development. The State and counties are sometimes felt to compete with rather than cooperate with the private sector in the for-sale housing market. When this happens, government obstructs rather than facilitates development.

We found that the State competes with the private sector—both market (for-profit) and non-profit organizations—in many areas such as financing new homes, developing infrastructure, developing housing, selling housing, and managing rental properties. The public sector secures government bonding for financing housing development at a lower cost than what the private sector can. Cost savings may be passed on to the private sector but savings are also used to finance other publicly constructed projects that may target the same group as those of the private sector.

State housing agencies also compete with non-profit organizations which may be eligible for public financing such as the Rental Housing Trust Fund (see chapter 3 for more details on this fund).

In establishing its housing policy, the State should review private sector capabilities and intentions to determine if government intervention is

needed and competition is necessary in each area of housing development. For example, should the public sector assist the private sector non-profit organizations to provide affordable housing or develop affordable housing itself?

Other government obstacles most frequently cited were a lengthy permit process and unrealistic exactions placed on private developers such as the affordable housing requirement. Such obstacles increase costs and discourage private development. The State also appears to have exempted its own projects or those under the State's auspices from these obstacles.

### ***State role versus the counties' role***

It is appropriate that the public sector intervenes in housing development when the private sector cannot operate efficiently. State or county interventions are appropriate, for example, when costs of raw lands and infrastructure cannot be privately borne but can be publicly financed.

Nationally, county and municipal governments are generally more active in direct intervention in the housing market than state governments. Local governments usually provide the public land, zoning regulation, and building permits that facilitate housing. State government intervention usually focuses on financing development, often acting as a conduit for federal or other funding that subsidizes local government intervention.

Contrary to the national experience, Hawaii's state government directly intervenes in housing development. Exhibit 2.4 shows the distribution of state housing projects by county. For example, the Hawaii Housing Authority is the only state level public housing authority under the U.S. Department of Housing and Urban Development (HUD). Other HUD-sponsored housing authorities are municipal or regional level operations.

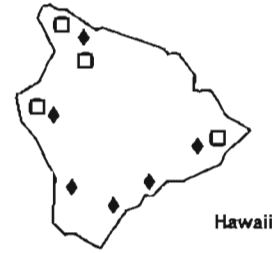
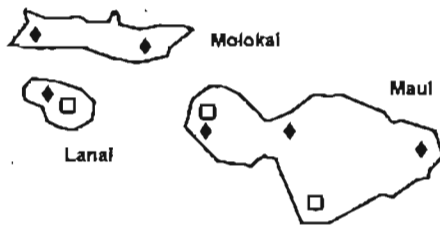
In addition, the State, through its State Land Use Commission and the Hawaii Community Development Authority, uses "local level" functions such as land use planning and zoning restrictions. How the State and counties' land use roles and regulatory responsibilities interface are unclear; they probably overlap and could be better coordinated. Problems in the land use process result in problems in housing development which will be discussed later in this study.

State and county program duplication may be due to the vagueness of "home rule"—that is, up to what point does the State regulate housing and at what point do the counties assume regulation? The State's functional plan does not interface with the counties' separate functional housing plans. It is appropriate that the State and counties coordinate their efforts to eliminate duplicate functions and programs.

**Exhibit 2.4  
Distribution of State Housing Projects**



<u>Project</u>	<u>Type</u>	<u>Units</u>	<u>Project</u>	<u>Type</u>	<u>Units</u>
<b>Completed HFDC Developed/Assisted Projects * Kauai</b>			<b>Completed HCDA Projects * Oahu</b>		
1. Komohana (Puhii)	S	13	1. Kamakee Vista **	R	225
2. Hale Ohana II	R	18	2. Pohulani **	R (E)	262
3. Paanau (Kawaileihua) **	R	60	3. Na Lei Hulu Kupuna **	R (E)	75
4. Cliffside at Hanapepe	S/Lote	305	4. Kauhale Kakaako **	R	258
5. SDMI	R	2	5. Honuakaha (ongoing)	R (E) S	243
6. For Sale Units (FY1972-87)	S	684	<b>Complexes Administered by HHA * Oahu</b>		
<b>Complexes Administered by the HHA * Kauai</b>			1. Kupuna Home Waiialua	R (E)	40
1. Hale Hoolulu	R	12	2. Weinberg Village - Haleiwa	H	45
2. Hale Nana Kai O Kea	R	38	3. Kauhale Nani	R	50
3. Kapaa	R	36	4. Laiola **	R	108
4. Hui O Hanamaulu	R	46	5. Wahiawa Terrace	R	60
5. Elele	R	24	6. Wilikina Apts.	R	119
6. Hale Hoonanea	R (E)	40	7. Hookipa Kahaluu	R	56
7. Kalaheo	R	8	8. Banyan Tree	R	4
8. Kawailehua **	R	51	9. Kaneohe Apts.	R	24
9. Home Nani	R (E)	14	10. Kaneohe Elderly	R (E)	44
10. Kekaha Haaheo	R	78	11. Koolau Village	R	80
11. Kekaha Plantation	R (E)	36	12. Waimanalo Homes	R	50
<b>Completed HFDC Developed/Assisted Projects * Oahu</b>			13. Waimanalo	R	25
1. The Villages of Kapolei	MPC		14. Puuwai Momi	R	260
- Kumu Iki	S	519	15. Hale Laulima	R	36
- Malanai (Village 3 Single Family)	S	251	16. Kamalu **	R (E)	109
- Malanai Iki (Village 3 Multi-Family)	S	88	17. Waipahu I & II	R	39
- Kekulani (Village 4)	S	45	18. Waipahu Hill Elderly	R (E)	72
2. Kau'olu Properties (Crown)			19. Nanakuli	R	36
- Kamalu Elderly **	R (E)	109	20. Maili I & II	R	44
3. Pohulani Elderly (w/HCDA) **	R (E)	262	21. Keola Hoomalu	R (E)	35
4. Kamakee Vista (w/HCDA) **	R	226	22. Uluwehi Apts.	R	80
5. Na Lei Hulu Kupuna **	R (E)	76	23. Waimaha/Sunflower	R	130
6. Kauhale Kakaako (w/HCDA) **	R	268	24. Weinberg Village - Waianae	H	52
7. Manana Gardens	R	72	25. Palolo I & II	R	306
8. Hale Po'ai	R (E)	206	26. Palolo Valley	R	18
9. Nakolea	R	58	27. Spencer	R	17
10. Hokulele	S	172	28. Kalakaua	R	221
11. Waihole Lots	Lots	123	29. Makua Alii	R (E)	211
12. Lal'ola (Wahiawa Elderly) **	R (E)	108	30. Paoakalani	R	151
13. Leilehua Village	S	43	31. Waiaka	R	8
14. Whitmore Circle	R (E)	44	32. Nakolea	H	100
15. Wilikina	R (E)	64	33. Hale Poai	R	206
16. Holani at Makaha	S	75	34. Hauli	R	46
17. Makaha Meadows East II	S	4	35. Kaahumanu	R	152
18. SDMI	R	14	36. Kalanihula	R	151
19. For Sale Units (FY1972-87)	S	3,605	37. Kalihi Valley	R	400
			38. Kamakee Vista **	R	226
			39. Kamehameha	R	211
			40. Kapuna I	R (E)	162
			41. Kuhio Homes	R	134
			42. Kuhio Park Terrace	R	814
			43. Kulaokahua	H	29
			44. Makamae	R (E)	124
			45. Mayor Wright	R	364
			46. Pohulani **	R	263
			47. Puahala	R	128
			48. Pumehana	R (E)	139
			49. Punchbowl	R (E)	156
			50. Salt Lake	R	28
			51. Banyan Street Manor	R	55
			52. Hoolulu	R	112
			53. Kauhale Kakaako **	R	288



<u>Project</u>	<u>Type</u>	<u>Units</u>	<u>Project</u>	<u>Type</u>	<u>Units</u>
<b>Completed HFDC Developed/Assisted Projects * Maui/Lanai/Molokai</b>			<b>Completed HFDC Developed/Assisted Projects * Hawaii</b>		
1. Kahului Town Terrace	R	72	1. HCC Homes	S	7
2. Waiehu Planned Community			2. Hilo Hale Ohana	R	96
- Hale Mahaolu Ekolu (Waiehu A elderly)	R (E)	42	3. Hilo Maile Terrace	R	24
- Waiehu Handicapped	R (H)	21	4. Lincoln Courtyard	R	36
- Waiehu Inc. A	S/SH	177	5. Ka La Loa	S	28
- Waiehu Inc. B	S	232	6. Piihonua Meadows	S	37
- Waiehu Inc. C	S/SH	88	7. Miloli'i Self-Help Phase (I, II, III)	SH	36
3. Lahaina Affordables	R	52	8. Ke Kumu at Waialoa **	R	48
4. Honokowai Kauhale **	R	184	9. La'ilani **	R	200
5. Honokowai Villa	R	56	10. Teacher's Housing **	TH	13
6. Uwapo Road Apts. (Brook Hollow)	R	18	11. Noelani II **	R	24
7. SDMI (Maui)	R	3	12. SDMI	R	2
8. Iwiolo Hale (Waialua Multi-Family)	R	128	13. For Sale Units (FY1972-87)	S	1,012
9. Lanai Teachers' Housing	R	9	<b>Complexes Administered by the Hawaii Housing Authority (HHA) * Hawaii</b>		
10. For Sale Units (FY1972-87)	S	492	1. Kohala	TH	1
<b>Complexes Administered by HHA * Maui</b>			2. Halaula **	TH	12
1. Hana	TH	1	3. Waimea	TH	6
2. Hana B	TH	1	4. Noelani I & II **	R	43
3. Waku	TH	5	5. Honokaa	TH	6
4. David Malo Circle	R	18	6. Hale Hauoli	R	40
5. Piihoni	R (E)	42	7. Hale Olaloa	R (E)	50
6. Honokowai Kauhale **	R	184	8. Lanakila	R	230
7. Kahakili Terrace	R	82	9. Lokahi	R	30
<b>Molokai</b>			10. Punahale	R	30
1. Kahale Mua	R	57	11. Pomaikai	R (E)	20
2. Kaunakakai	TH	8	12. Haili Elderly	R (E)	36
<b>Lanai</b>			13. Hale Aloha O Puna	R	30
1. Lanai City	R	11	14. Ke Hale Kahaluu	R	50
2. Lalakoa	TH	2	15. Kau	TH	8
			16. Pahala	TH	2
			17. Pahala Kau	R	24
			18. Nani O Puna	R	31
			19. Naalehu	R	4
			20. Hale Hookipa	R	32
			21. Kaimalino	R	40
			22. Kamaaina Hale	R	128
			23. Kealakehe	R	48
			24. La'ilani **	R	200
			25. Nani Olu	R (E)	32
			26. Ke Kumu **	R	48

<u>Type</u>		<u>Legend</u>	
MPC	Master Planned Communities	□	HFDC Projects
R	Rental project for families, singles	●	HCDA Projects
R (E)	Rental project for elderly	◆	HHA Projects
R (H)	Rental project for handicapped		
S	For sale units		
SH	Self-help project		
TH	Teacher Housing		
H	Homeless Facilities		
SDMI	Persons with Severely Disabling Mental Illness		
			* data obtained from the 1994 annual report
			** Joint projects - Developed/assisted by HFDC and/or HCDA - Administered by HHA

In reconsidering its housing policy, the State should coordinate its programs with the counties and private sector to pursue complementary and not competing programs.

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## **Other Cost Issues Affect State Housing Programs**

In addition to determining target groups and appropriate levels of intervention, the State must also address other issues that impact the housing market. These issues include diminishing funds and improving the planning and processing of urban and ceded lands.

### ***Diminishing funds***

A significant factor affecting the State's housing role is the available sources of funds. The State faces a significant shortfall in revenues for fiscal biennium 1995-97. Reductions in both programs and personnel have been made. These budgetary constraints will severely limit the State's ability to continue direct intervention in housing programs such as the Villages at Kapolei on Oahu. Fiscal restraints also limit the willingness of the State to increase bond authorizations that are sources of funds for its housing programs.

Federally funded housing programs are also being affected by federal budget constraints. For example, the major source of funding for the Hawaii Housing Authority is the U.S. Department of Housing and Urban Development. Due to proposed federal budgetary cuts, the department may reduce or even eliminate housing projects. In addition, funds may be limited primarily to block grants which will significantly alter the nature of state housing programs. Any adjustments will be contingent upon federal cutbacks or restructuring.

State funded housing projects are also vulnerable to diminishing funding sources. State housing projects are funded by revenue bonds issued by the Housing Finance and Development Corporation. Three large state housing programs which are revenue bond funded are: The Hula Mae Single Family program (HFDC), the Hula Mae Multifamily program (HFDC), and the Rental Housing System (HFDC). In a typical single family program, a housing agency issues bonds, then uses the proceeds from the bond sale to make loans to homeowners at below market rates.

But revenue bond financing is restricted by the Internal Revenue Code which sets a cap on the volume of tax-exempt revenue bonds that each state can issue annually. Revenue bonds are also restricted by the federal government as to the loan interest rate that a state can earn from these loans. The trustee of the bonds has a fiduciary responsibility to ensure loan repayments and related interest are sufficient to pay the bond indebtedness. Thus elimination of these programs would require the repayment of the revenue bond.



### ***Cost of urban lands***

The high cost of urban land and the lands' infrastructure also affects housing development in Hawaii. Infrastructure includes water and sewer lines, electrical lines, roads, curbs, street lighting, and cable and telecommunication lines.

The state's land use management system is substantially the same as when it was first established in 1961. Since the enactment of the State Land Use Law, Hawaii's resident population has nearly doubled, becoming increasingly urban. Hawaii's economy is no longer primarily agriculturally based. Competing demands for finite land and natural resources have intensified, county planning capabilities have grown, and weak fiscal conditions constrain the public sector's capacity to service growth.<sup>9</sup>

Land use management has significant effect on the development of housing. Limited land, designated as urban, increases the demand and cost of housing. Lengthy government zoning and permit processing cause delays in making housing units ready for occupancy. This also increases the cost of development through holding and overhead expenses.

However, some of our interviewees believe that the amount of land designated urban is adequate. They noted that external influences such as foreign speculation exacerbated the residential land cost. They noted, however, that the feasibility and cost of infrastructure are important considerations. The feasibility of housing projects is limited when there is insufficient infrastructure to support the project. Such factors as a limited water supply, lack of sewer system capacity, poor access, and the unavailability of social services, such as schools, can hinder or block the development of a housing project.

If a private developer places and pays for infrastructure, these costs are passed on to the consumer. The additional costs can make the homes beyond the reach of many potential buyers. But infrastructure for a housing project actually benefits all developments in the area and the surrounding properties. The high cost of infrastructure and the broad impact on the population, coupled with the low cost financing available to government, makes it reasonable for state involvement to provide the necessary infrastructure. The State also has the ability to reasonably allocate a proportional share of these costs to housing and other types of projects. Several private sector professionals we interviewed felt that the State's primary housing focus should be the financing and construction of infrastructure.

Our preliminary study, Report No. 95-7, showed that the Housing Finance and Development Corporation had expended the majority of the almost \$3 billion allocated between FY1987-88 through FY1993-94. In order to meet the backlog of demand for affordable housing, the Housing Finance and Development Corporation adopted a new strategy of

developing “planned communities.” Developing planned communities required the State to get involved from the starting point of the development process—construction of off-site infrastructure—normally not required in the State’s prior housing projects.

In addition to assisting with major infrastructure projects, states and local governments could also control housing costs by utilizing such other assets as government owned lands. However, for the State of Hawaii, this tool is complicated by limitations placed upon use of ceded lands.

### ***Ceded land issues***

Land is a major housing cost component. A typical government intervention technique is to provide land at either a reduced or otherwise minimal cost. Governments may either buy land or use existing publicly owned land for new developments. Honolulu, for example, has effectively constructed housing projects on county owned land. State projects at Kapolei have typically been built on land acquired through the condemnation process and used for state sponsored affordable housing projects. However, the State’s ability to continue to utilize state-owned land for housing projects is being questioned.

Most of state-owned lands are ceded lands held in trust by the State. Ceded lands consist primarily of government and crown lands that were ceded to the United States when the Republic of Hawaii became a territory of the United States. At statehood, most of these lands were ceded back to the State of Hawaii. However, the use of the ceded lands is restricted by Section 5 of the Admissions Act. Section 5 created a public land trust that requires the State as a fiduciary trustee to use either the public lands or proceeds generated by these lands for the beneficiaries of the trust. As a fiduciary, the State is obligated to derive the maximum benefit from the lands. Using ceded lands to “subsidize” housing by keeping the land cost at a minimum may violate the State’s fiduciary responsibility to maximize the return from those lands for the beneficiaries.

This is the basis of the suit the Office of Hawaiian Affairs has filed over the development by the Housing Finance and Development Corporation of the Villages of Leiali’i in Maui. The suit seeks to gain more compensation or block the transfer of land ownership of the development. While a recent attorney general opinion confirms the State’s right to sell the land, further litigation is possible which may affect the project. The proposed Villages of La’i’opua in Kona is also located on ceded land and may also be affected.

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## Conclusion

The decision to create a new cabinet level department is a major policy decision that can have far reaching impact upon the State. The proposal to combine the Hawaii Housing Authority, the Hawaii Community Development Authority, and the Housing Finance and Development Corporation into a single department of housing therefore requires careful consideration of the major policy issues.

At present the State is an active participant in the housing market as are the counties and private sector. Public sector intervention, whether at State or county level, is warranted in some segments of the housing market, particularly where the private sector cannot satisfy demand. In other areas of the market, varying degrees of intervention may be warranted, based upon current demand and market conditions.

To effectively utilize its limited resources, the State needs to evaluate its housing goals and objectives to determine its most suitable courses of action and target groups. These decisions should take into consideration such factors as the role of the counties, the private sector, the various target groups and their needs and specialized conditions. In Chapter 3, we discuss in more detail some of the specific issues involved with the creation of a cabinet level department.

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# Chapter 3

## A Proposed Department of Housing

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To use its limited resources effectively, the State must ensure that its approach to housing is flexible and can adjust to meet changing housing market conditions. In this chapter, we discuss whether the State's housing programs can achieve greater effectiveness and be more efficiently administered under a single state level department. This means merging the three agencies—the Hawaii Housing Authority, the Hawaii Community Development Authority, and the Housing Finance Development Corporation—into a single cabinet level housing department.

Change in the state government structure comes with the expectation that government services will be more effective and efficient. The proposed single department of housing should be weighed for its likelihood of delivering housing services more cost effectively and efficiently than what is currently being delivered by the three agencies. Two criteria applied to the proposed merger of the three agencies are (1) whether there will be greater effectiveness of services and (2) whether greater efficiencies in operations and delivery of services will result.

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### Achieving Greater Effectiveness of Services

“Effective services” means that programs are meeting their goals and objectives. Given the enormity of housing needs in the State of Hawaii, it is unlikely that simply combining the agencies into a consolidated department of housing could meet the goal of affordable housing for all. However, it is likely that a single department could better coordinate and respond more quickly to narrowly targeted housing needs than could three separate agencies. A single department could revise its housing goals as conditions changed more easily than could three separate agencies, and hopefully better serve the public due to its revised goals.

Greater effectiveness can be achieved if state housing policies and programs are responsive to changing market conditions; if programs complement rather than compete within the public and with the private sectors; and if programs are clearly scoped as to their target groups and ancillary activities. Alaska and Texas have merged their multiple programs under single departments using clearer, coordinated policies and specifying narrower target groups.

#### *Housing policies and programs need to be responsive*

Housing policy and programs should be responsive and timely. A single department should respond faster to changing housing needs and dynamic market conditions than could three separate agencies. Adjusting target

groups and other housing strategies through one customary level of review and public hearing is more expedient than through the processes of three individual and independent state agencies.

Also, a single housing agency could better monitor and evaluate all housing related programs, weighing program costs and benefits, and initiating changes if warranted. Government intervention for low-income rentals is warranted. However, intervention in the for-sale housing market should be variable and dependent on market conditions and private sector production. According to those interviewed, state housing efforts would improve if the three agencies merged under one department. However, potential gains may not materialize if the department is not well conceived and continues to compete within itself and with others.

***Housing programs that complement, not compete***

Housing programs within the single housing agency should have a clear scope of their services to ensure programs do not overlap with each other and with those of the counties and private sector. Housing programs should complement rather than compete with one another. Adequate planning and clearly identifying target groups to be served under a single department ensures better coordination and direct intervention as needed.

The State has been both a direct competitor and regulator of the private sector in housing development. The result is a tendency to restrict rather than facilitate private sector production. Private sector professionals feel that state housing programs should assist and facilitate their efforts, not compete. As a single department, housing programs should be flexible to accommodate changing market conditions. Construction of for-sale housing for the low-to-moderate income groups was not feasible a few years ago but is now private sector sponsored. Demand for housing improvement and innovations in building technique have increased private sector construction and production of affordable for-sale housing. The State should re-evaluate continuing construction of for-sale housing due to such changes in the market.

The State can continue to facilitate the private sector through its regulatory and low-cost financing powers without being directly involved in housing production. The decision to facilitate private sector efforts or to intervene directly should be easier to make under a single department. As discussed earlier, direct intervention by the State is only needed in areas where private sector clearly does not operate, such as the very low income rental market.

Under the present three agency structure, major policy changes within the three respective governing departments threaten the viability of the smaller agency or program with a specific focus. A single department with a broader housing focus and with an ability to respond and be flexible would override this kind of siege mentality.

In addition, parallel housing activities between the State and counties need clarifying. The proposed department of housing should delete duplicative regulatory and development processes as a cost containment strategy. Both the State and counties engage in federal Section 8 Rental Subsidy Programs. Both Honolulu and the State have constructed housing projects on lands they own. The Hawaii Community Development Authority has responsibilities that parallel traditional zoning functions of the counties. It may be appropriate to consider transferring duplicative functions to the counties. However, any transfer of functions from the State to the counties must be supported with sufficient funds to support the transferred functions.

Once the mission and scope of services of the single department of housing are defined, the State will need to address those programs which may exceed the scope of the new department. Currently, the three agencies provide a broad range of services, ranging from rental housing and homeless shelters to community redevelopment and new master-planned communities. However, as noted in Chapter 2, not all existing activities are directly “housing” related. Examples of such services are listed in Exhibit 2.1 under “Other.” If the three agencies are consolidated, the State may need to evaluate the disposition of these programs.

### ***Alaska and Texas models***

In merging their housing programs, Alaska and Texas recognized that a coordinated state housing policy was needed to provide clearer directions in addressing their housing needs.

In 1992, Alaska merged certain housing and energy programs administered by its Department of Community and Regional Affairs and the Alaska State Housing Authority with the Alaska Housing Finance Corporation. Lack of coordination among Alaska’s different programs resulted in state housing assistance for people who did not need assistance. Program assessment was done prior to any restructuring action. The assessment results became the basis for deciding to merge three agencies into a restructured Alaska Housing and Finance Corporation.

Texas noted a similar need to “achieve synergy of complementary programs” as its programs merged under a single agency. Texas consolidated the Texas Housing Agency and the Texas Department of Community Affairs into the Texas Department of Housing and Community Affairs.

A goal for the consolidation efforts by these states was a clearer direction for housing intervention efforts. The direction led to purposeful decisions in both states to pursue programs specifically targeted at the very low-income. Alaska reported that its state housing policy now provides clearer direction. A follow-up Alaskan study found that the merger

resulted in a more cohesive housing program, which the agency said improved its effectiveness. Texas reported to us that despite transition problems, the agency now functions more effectively and efficiently as a result of the merger. For Hawaii, an assessment would be needed to determine whether targeting such a limited group, the very low income, is an appropriate strategy in light of Hawaii's high cost housing market.

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## **Achieving Greater Efficiencies in Operations and Delivery of Services**

Greater efficiencies in operations and delivery of services may be achieved by merging housing programs. However, more bureaucracy can also result if program mergers are poorly planned and implemented. Several housing professionals noted that mergers can increase bureaucracy despite the expected benefits from sharper focused programs. Under the present levels of public housing interventions, a single housing department may become so broad in scope that its operations would be unwieldy. Concern was expressed that merging the three agencies "as-is" into one department without clear directions and goals would create a "monster" agency—one that would be more difficult to deal with. In our review of other states' housing efforts, we found that Alaska and Texas were able to merge their programs and generally avoid increasing the level of bureaucracy by clearly identifying the purpose and goal of the merger from the start.

### ***Coordination can improve services***

Coordination of housing services should be improved under a single department. In addition to coordinating the department's own services, it would coordinate with other state agencies and counties, and with the private sector. The department would be responsible for dovetailing housing programs with other government jurisdictions. The department would identify the roles, responsibilities, and funding for state and county support services such as schools, emergency healthcare and police services, civil defense, and trash collection.

Coordination under a single department of housing can expedite public/private interface requirements. Presently, the private developers may be required to approach any of the three agencies or county housing agencies to gather information. A single housing department could be a central source of information for the private sector be it financing, permit processing, or other assistance.

A central coordinating department would need clear authority to perform functions currently performed by the multiple agencies. Separate agencies established to qualify for and receive federal or other funds may still require a separate corporate body for this purpose. If separate corporate bodies are still required for funding purposes, efficiencies may be lost and a restructured single department may be futile. Current multiple boards and commissions may not fold neatly under one governing body with comprehensive fiduciary responsibility.



In addition, there is one major program that operates under a commission independent of the three agencies—the Rental Housing Trust Fund.

### **The Rental Housing Trust Fund Program**

The Legislature created the Rental Housing Trust Fund Program to provide loans or grants for development, pre-development, construction, acquisition, preservation, and substantial rehabilitation of rental housing units. The program has been widely used, and the demand for funds is expected to increase.

The program is directed by an independent seven-member commission administratively attached to the Department of Budget and Finance. Technical assistance and staff support services are provided by the Housing Finance and Development Corporation under a Memorandum of Understanding. The commission enters into contracts with consultants, engages employees to perform its duties, and obtains the services of technical and support staff from other governmental agencies.

If the three agencies are consolidated into a department of housing, a decision on whether to merge this program into the new department would also need to be determined. If this occurs, the governance structure and operations of the program would also have to be evaluated.

### ***Personnel consolidation can be cost saving***

Eliminating duplicated staff positions, based on a prior evaluation of programs and priorities, can be cost saving. Staff support services that are consolidated under a single department without significantly impacting program operations is a prudent use of limited resources.

Presently, the three housing-related agencies have a total of approximately 540 staff positions. In Appendix 2, we identify a total of 26 different job categories containing 142 positions that have similar job titles. Consolidation into a single department may enable some of these positions, such as the 25 secretaries and 42 clerk typists, to be eliminated.

However, consolidation and elimination cannot be implemented without first determining the organizational structure of the merged department. Based on a new organizational structure, actual job functions and number of positions would be determined in relation to the scope of services to be provided by the department. So while potential efficiencies exist, it cannot be assumed that they will be realized simply by merging the agencies.

In Alaska's merger, gains in staff utilization are disputed. Prior to merger, Alaska's total permanent full-time and part-time housing positions numbered 350. After merger, the total number of authorized positions decreased to 333, a reduction of 17 positions. An audit of the

merger concluded that no significant savings in personnel costs were realized as a result of merger. However, the Alaska Housing and Finance Corporation countered that the audit found improved efficiency of operations and increased level of services, actually resulting in a net improvement at the reduced staffing levels and reduced personnel costs.

For Hawaii, differences in personnel classification need resolution. The Hawaii Housing Authority, the Housing Finance and Development Corporation, and the Hawaii Community Development Authority employ a combination of civil service and exempt personnel. In some instance, staff performing similar functions in different agencies have different classifications. Prior to a merger, the differences between civil services and exempt staff needs resolution. A determination is needed whether similarly classified positions are either exempt or civil service. Any loss of accrued benefits as a result of employment changes from one category to another, or from a former job description or classification to another, needs to be addressed and justified.

In the Texas merger, the issue of civil service and exempt employee position status was not addressed prior to merging. This resulted in considerable confusion after the merger because several issues were not considered. For example, outstanding issues such as the disposition of accrued compensatory time for employees was not resolved. Texas lacked a comprehensive transition strategy for these situations.

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## The Necessity of a Well-Planned Transition

A purpose and goal of any merger from the start should be cost savings through more responsive, complementary, and judiciously scoped programs. Program efficiencies can be achieved through coordinated services, clear authority and supporting legislation, and reclassified personnel. A well-planned transition will address these issues. Texas reported that the merger hampered housing development efforts and much time was spent in correcting problems that were not anticipated. Unnecessary disruption of services, decreased program operations, longer delays in meeting housing needs will setback any gains from a merger. A well-planned transition should continue to address housing programs and services during the merger period, reclassification of personnel, and determine if any legislation is needed to restructure funding authorization and schemes for housing programs.

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## Conclusion

Adequate supplies of suitable housing in Hawaii remain both a major problem and goal for the State. Significant resources are spent by the federal, state, counties, and private sector on housing. Creation of a single cabinet level department of housing has the potential to improve the

effectiveness and efficiency of the State's efforts to achieve its housing policy goals. However, the act of merging the Hawaii Housing Authority, the Hawaii Community Development Authority, and the Housing Finance and Development Corporation itself will not improve the State's efficiency and effectiveness in dealing with the housing problem in Hawaii. To ensure that coordination under a single department can result in operational efficiencies, all merged programs should be assessed for their duplication or inefficiencies as well as any federal funding that may diminish. For example, federally funded rental assistance programs may seem duplicative in funding source but have narrowly defined purposes which differ. Similarly, government bond funded programs may also seem duplicative but are limited to certain public related uses. In addition, evaluating existing programs should determine the legislative intent and identify the necessary legislation to achieve restructuring.

Careful evaluation of the State's housing policies and goals in conjunction with a realistic assessment of the housing market are necessary. The State's housing efforts should be flexible to reflect changes in housing market conditions. This will ensure that the State's housing efforts appropriately reflect market conditions. Furthermore, it will complement and facilitate the efforts of other players in the housing market to develop adequate shelter for all of Hawaii's people.

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**Appendix 1**  
**Public Housing Programs in Hawaii**

Homeownership	Agency/County	Objective
FEE SIMPLE RESIDENTIAL	HFDC	This program pays for all costs (including administrative costs) of Chapter 516 and 519, HRS, to encourage the widespread ownership of fee simple lands among Hawaii's people (Chapter 516, HRS) and to provide assist lessees and lessors in arbitrating the renegotiation of ground lease rent when agreement on the new lease rent cannot be reached when the fixed lease period expires (Chapter 519, HRS).
DWELLING UNIT REVOLVING FUND	HFDC	This fund was for the acquisition, development, sales, lease, and rental of residential, commercial, and industrial properties; and to provide mortgage interim construction, down payment, participation mortgage, and agreement of sales loans. Recently, this fund has been used primarily for interim construction financing of affordable infill housing projects.
HAWAII DEVELOPMENT REVOLVING FUND	HFDC	This program assists non-profit entities to conduct feasibility analysis of projects by providing "seed money" low interest loans and grants to cover planning, development, and initial costs, of low or moderate cost housing through government assistance programs.
SINGLE FAMILY FUND	HFDC	This program increases homeownership opportunities for low and moderate income families by providing financing assistance. The Hula Mae Single Family Program provides eligible homebuyers with mortgage loans at interest rates below those available on conventional loans through the use of tax-exempt mortgage revenue bonds.
HOME MORTGAGE FUND	HFDC	This program finances the acquisition by eligible borrowers of units in newly constructed government assisted housing projects.
SPECIAL ASSISTANCE FUND	HFDC	This program assists certain Hula Mae borrowers to qualify for the purchase of their homes by providing a monthly subsidy that offset a portion of the eligible borrower's monthly mortgage payments during the first four years of the Hula Mae loan. This fund was closed on May 7, 1992 and is no longer active.
HOUSING FINANCE REVOLVING FUND	HFDC	This fund is used for long-term and special financing and administrative expenses of the following programs: Mortgage Credit Certificate Program, the Loan Program for Kalapana Disaster Victims, the Kahana Valley Loan Program, and the Low-Income Housing Tax Credit Program.
Mortgage Credit Certificate Program		This program makes more income available both to qualify for a mortgage loan and to make monthly payments by providing eligible homebuyers with a direct tax credit against their federal income tax liability.

Loan Program for Kalapana Disaster Victims		See Special Needs section for objective.
Kahana Valley Loan Program		See Special Needs section for objective.
Low Income Housing Tax Credit Program		See Special Needs section for objective.
HOMES REVOLVING FUND	HFDC	This fund was established to develop and implement affordable housing programs including the development of infrastructure, development of off-site and on-site improvements required for development, providing short-term or interim construction loans, development and construction of housing, and advancing equity capital for the Rental Housing System.  (Also listed under Rental Housing and Community Development sections.)
RESERVED HOUSING PROGRAM	HCDA	Under this program, private developers may receive density bonuses if 20 percent of the residential units are set aside, or "reserved," for low- to moderate-income households. In lieu of providing the reserved units, the HCDA may allow developers to pay 4 percent of the gross revenues from the sale of the residential units to satisfy the reserved housing requirement.  (Also listed under Rental Housing section.)
HOME INVESTMENT PARTNERSHIP PROGRAM (HOME)	Hawaii	This program is federally-funded and implements local housing strategies designed to increase homeownership and affordable housing opportunities for low- and very low-income families.
HOMEOWNERSHIP AND OPPORTUNITY FOR PEOPLE EVERYWHERE (HOPE) FOR HOMEOWNERSHIP OF SINGLE FAMILY HOMES	Hawaii	This federally-funded program offers homeownership opportunities to lower-income families and individuals by providing Federal assistance to finance an eligible homebuyer's direct purchase and rehabilitation of eligible single family properties.
LEASEHOLD CONVERSION PROGRAM	Honolulu	This program entitles owner-occupants of leasehold condominium, cooperative, and planned development units to purchase the fee simple interest of their properties.
FEDERAL HOME PROGRAM COMMUNITY HOUSING DEVELOPMENT ORGANIZATION (CHDO) SET-ASIDE PROGRAM	Honolulu	This program is to implement local housing strategies designed to increase homeownership and affordable housing opportunities for low- and very low-income Americans.
REHABILITATION LOAN PROGRAM	Honolulu	This program was established by the City to make low-interest loans available to eligible property owners who are interested in repairing and improving their properties.

HOUSING BUY-BACK PROGRAM	Honolulu	The City has the first right of refusal to purchase the eligible unit in the event of the owners of the unit desire to sell. After the City acquires the unit, it is typically offered for sale to low-moderate and gap group income families on the waiting lists. Also, this program reviews and approves title changes, refinancing requests, and subsidy payoffs from the owner of such units.
FINANCING PROGRAMS	Honolulu	<ol style="list-style-type: none"> <li>1. Tax-exempt financing for multi-family rental housing.</li> <li>2. Refinancing.</li> <li>3. Promoting housing opportunities for low-moderate and gap group income households.</li> <li>4. Other financing programs include the utilization of CDBG funds, general obligation bonds or various FHA/VA/FmHA mortgage programs.</li> </ol>
RESIDENTIAL INIKI REBUILD LOAN PROGRAM	Kauai	The program is for homeowners who have incomplete houses due to contractor default, insufficient insurance recovery, or other lack of funding due to Hurricane Iniki.
RESIDENTIAL REHABILITATION LOAN PROGRAM (HOMEOWNERS)	Kauai	The program offers low interest loans depending on household income for a determined amount of years. Rehabilitation is limited to moderate repairs and deteriorated dwellings.
HOME INVESTMENT PARTNERSHIPS ACT (HOME)	Kauai	This program expands the supply of decent, affordable housing for low and very-low income families with the emphasis on rental housing. Also, to build State and local capacity to carry out affordable housing programs and provide for coordinated assistance to participants (private and public) in the development of affordable low-income housing.
HOME INVESTMENT PARTNERSHIP (HOME) PROGRAM	Maui	This program expands the supply of decent, safe, and sanitary housing that is affordable to low and moderate income families and individuals.
HOUSING DEVELOPMENT PROGRAM	Maui	This program develops in partnership with others or on its own, affordable ownership and rental housing units.
HOUSING SALES AND COUNSELING PROGRAM	Maui	This program sells affordable housing units developed by the County and monitor deed restrictions relating to County buy-back option, other encumbrance restrictions and architectural control approval.
<b>Rental Housing</b>	<b>Agency/County</b>	<b>Objective</b>
HULA MAE MULTI-FAMILY PROGRAM	HFDC	This program alleviates the shortage of affordable housing accommodations by promoting the development of new or the rehabilitation of existing rental housing projects for lower income families by providing financing assistance.

		The Hula Mae Multi-Family Program provides interim construction and/or permanent financing at rates below market interest rate through the issuance of tax-exempt mortgage revenue bonds.
LOW INCOME HOUSING TAX CREDIT PROGRAM	HFDC	This program provides an incentive to private developers for the development and preservation of privately owned affordable rental housing. Tax credits are only available for projects with units rented to low-income occupants.
RENTAL ASSISTANCE FUND	HFDC	This program stimulates the construction of affordable rental housing by providing subsidies to owners of newly constructed or rehabilitated affordable rental housing projects in order to lower the out-of-pocket rents paid by eligible tenants. The fund also provides interim construction financing for affordable rental projects.
RENTAL HOUSING SYSTEM AND STATE AFFORDABLE RENTAL HOUSING PROGRAM	HFDC	This program alleviates the shortage of affordable housing accommodations by promoting the development of new rental housing projects for lower income families by providing permanent financing assistance.  The Rental Housing System finances the development of rental housing projects through the issuance of tax-exempt revenue bonds. HFDC is the owner of these projects. (The bonds are payable from the net revenues of the entire system. By financing numerous projects under a single bond indenture or system, HFDC is able to diversity its risks and obtain a lower cost financing. Additionally, weekly floating rate bonds have been issued in the past, and through the use of these types of bonds, HFDC has been able to obtain lower financing costs for its projects (approximately 4-5 percent), resulting in more affordable rental rates).
HOMES REVOLVING FUND	HFDC	See Homeownership section for objective.
FEDERAL LOW RENT RENTAL	HHA	Built with Federal funds, the units are owned and managed by HHA. Eligible families pay the higher of 10 percent gross annual income or 30 percent of adjusted annual income for rent. Rent includes the cost of utilities and all major appliances. There is no continued occupancy income limit and families may remain in the project for as long as they wish. (Families and the elderly can qualify.)
STATE LOW RENT RENTAL	HHA	Built with State appropriations, the units are owned and managed by HHA. Eligible families pay the higher of 10% gross annual income or 30 percent of adjusted annual income for rent but no less than an HHA established minimum rent. Rent includes the cost of utilities and all major appliances. Families may continue in occupancy as long as their income does not exceed established continued income limits. (Families and the elderly can qualify.)



TEACHER HOUSING RENTAL	HHA	This program facilitates the operations of lower education programs by providing housing accommodations to school-level certificated personnel where and if no other adequate private or leasing arrangements for housing are available within reasonable commuting distance from the assigned schools.
RENTAL ASSISTANCE SERVICES	HHA	This program facilitates the use of private rental housing for low- and middle-income families by supplementing their rental payments.
Section 8 Rent Subsidy		Federally subsidized rental assistance program. Certified family finds a rental unit in the private market (rent limits apply in the Certificate Program). The family pays the higher of 10 percent of gross annual income or 30 percent of adjusted annual income toward rent and HHA pays the balance of the rent directly to the landlord.
State Rent Supplement Program		State subsidized rental assistance program. Rental Supplement payments are made on behalf of an eligible family who is renting a qualified unit in the private market. A family pays at least 20 percent of adjusted income toward rent. HHA pays the balance of the rent directly to the landlord up to the maximum of \$160 per month.
RESERVED HOUSING PROGRAM	HCDA	See Homeownership section for objective.
SECTION 8 PROGRAM	Hawaii	This program assists very low-income families in leasing privately owned, decent, safe, and sanitary rental housing through the federal certificate and voucher programs.
HOME	Hawaii	See Homeownership section for objective.
CITY RENTAL ASSISTANCE PROGRAM	Honolulu	Rent subsidizes are provided for eligible tenants in designated city-owned housing developments.
SECTION 8 RENTAL ASSISTANCE PROGRAM	Honolulu	A federally-funded program that provides certificates or vouchers to low-income families seeking housing in the private sector rental market.
FINANCING PROGRAMS- Multi-Family Rental Housing Program	Honolulu	Each project reserves and maintains at a minimum, 20 percent of the units for occupancy by lower income households, as defined by the Program.
PROPERTY MANAGEMENT PROGRAM	Honolulu	This program manages and maintains City owned properties. Properties are managed by the City or through contract with property management firms. This program renovates and maintains units repurchased by the City under "buy back" agreements of projects designed for low-income homeowners.
RENTAL REHABILITATION LOAN PROGRAM	Kauai	This program provides low cost loans for landlords to rehabilitate rental units occupied by low-income families.
HOME	Kauai	See Homeownership section for objective.

PAKU'I HOUSING PROGRAM (DISASTER FUNDING)	Kauai	This program assists Kauai's housing market recover from the effects of Hurricane Iniki. The program set out to increase the County's low-to-moderate income housing inventory, primarily rental units, and to assist low to moderate income homeowners in rebuilding the pre-disaster existing housing stock damaged or destroyed by Hurricane Iniki.
SECTION 8 HOUSING ASSISTANCE PAYMENTS PROGRAM	Kauai	This program assists very low-income families, the elderly, and the handicapped who cannot afford to pay market rents for housing. <ol style="list-style-type: none"> <li>1. Families pay the greater of 10 percent of their gross income, or 30 percent of their adjusted gross income toward their monthly rent. The total monthly rent cannot exceed the Fair Market Rent amounts set annually by HUD. The difference is paid by the federal government; or</li> <li>2. Families may choose to pay more than 10 percent/30 percent of their income by paying the rental amount above HUD's Fair Market ceilings.</li> </ol>
HOUSING DEVELOPMENT PROGRAM	Maui	See Homeownership section for objective.
SECTION 8 HOUSING ASSISTANCE PAYMENTS PROGRAM	Maui	This program provides rental assistance to very low-income families and individuals.
HOUSING MANAGEMENT PROGRAM	Maui	This program oversees and ensures the proper management of County-owned rental housing projects.
HOME	Maui	See Homeownership section for objective.
<b>Community Development</b>	<b>Agency/County</b>	<b>Objective</b>
PROJECT FUND	HFDC	This fund was created to accommodate the various Capital Improvement Projects (CIP) for audit purposes.
HOMES REVOLVING FUND	HFDC	See Homeownership section for objective.
KAKAAKO REDEVELOPMENT	HFDC	See objectives of HCDA in Chapter 2. Includes infrastructure, community facilities, parks, relocation program, regulation of zoning in district.
COMMUNITY DEVELOPMENT BLOCK GRANTS (CDBG)	Hawaii	This program provides annual CDBG to entitled communities to carry out a wide range of community development activities directed toward neighborhood revitalization, economic development, and improved community facilities and services.
HOME	Hawaii	See Homeownership section for objective.

REVITALIZATION PROGRAMS FOR DECLINING NEIGHBORHOODS	Honolulu	These programs consist of improving public improvements and upgrading private properties by property owners through city rehabilitation loan services.
COMMUNITY DEVELOPMENT BLOCK GRANTS (CDBG)	Kauai	This program develops viable communities by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.
HOME	Kauai	See Homeownership section for objective.
EMPLOYEE/AFFORDABLE HOUSING PROGRAM	Maui	This program reviews applications for boundary change, community plan amendment and zoning change and prepare recommendations for employee/affordable housing, and monitor projects for compliance with employee/affordable housing conditions imposed by the County.
HOME	Maui	See Homeownership section for objective.
<b>Special Needs</b>	<b>Agency/County</b>	<b>Objective</b>
LOAN PROGRAM FOR KALAPANA DISASTER VICTIMS	HFDC	This program provides low-interest rate loans to eligible persons whose homes have been destroyed or rendered inaccessible as a result of the continued volcanic eruptions. Loans made under these programs can be used for land acquisition, home construction and mortgage loans, repairs and/or improvements.
KAHANA VALLEY LOAN PROGRAM	HFDC	This program provides low-interest mortgage loans to holders of Kahana Valley State Park residential leases.
HOUSING ALTERATION FUND	HFDC	This program provides low-interest loans to eligible persons with physical disabilities. This allows these individuals to maintain independent lifestyles by using these loans to make design alterations to their residences.
HOMELESS SERVICES	HHA	This program comprehensively addresses the needs of the homeless in Hawaii and to provide the opportunity for homeless people to help themselves achieve improved living situations.
STEWART B. MCKINNEY ACT HOMELESS PROGRAMS	Hawaii	This program provides suitable Federal properties, which are categorized as unutilized, under-utilized, excess, or surplus, to States, local governments, and nonprofit organizations for use in homeless programs.
EMERGENCY SHELTER GRANTS PROGRAM (ESGP)	Hawaii	This program provides Federal grants for safe, sanitary shelter, supportive services, and other assistance to homeless people and families.
EMERGENCY SHELTER GRANTS PROGRAMS	Honolulu	This is a federally-funded grant program administered by the U.S. Department of Housing and Urban Development and intended to support local activities to assist the homeless.

HO'OMAKA PROGRAM	Kauai	Funded by KCHA, the Ho'omaka Transitional Shelter provides a temporary stable housing and social environment for homeless single parent head-of-household families to re-integrate into society and obtain permanent housing.
SHARED HOUSING PROGRAM	Kauai	The KCHA funded a shared housing program administered by the YWCA of Kauai. The program helped place hurricane displaced households with those that had extra space in their homes.
FAMILY SELF SUFFICIENCY PROGRAM (FSS)	Kauai	This program assists Section 8 certificate participants with their rent. This program is to help participants become self-sufficient by providing counseling in setting goals, referrals and assistance in obtaining their goals and to conquer stumbling blocks such as needs for more education, child care, and transportation.
TEMPORARY DISASTER ALLOCATION PROGRAM (HOUSING VOUCHERS)	Kauai	HUD granted Kauai a special allocation of 545 units due to the devastation by Hurricane Iniki. This special allocation was for a maximum of two years.
HOKULEI ESTATES "SELF-HELP" HOMES PROJECT	Kauai	This program produces contractor built homes more quickly to provide housing opportunities for Kauai's immediate housing needs.
EMERGENCY SHELTER GRANTS PROGRAM (ESGP)	Kauai	This program improves the quality of emergency shelters for the homeless, to make available additional emergency shelters, to meet the costs of operating such shelters, and to provide essential social services to homeless individuals.
SUPPLEMENTAL ASSISTANCE FOR FACILITIES TO ASSIST THE HOMELESS (SAFAH)	Kauai	This program provides comprehensive assistance for innovative programs for meeting the immediate and long term needs of homeless individuals and families.
SUPPORTIVE HOUSING DEMONSTRATION PROGRAM-TRANSITIONAL AND PERMANENT HOUSING FOR THE HANDICAPPED HOMELESS (SHD)	Kauai	This program develops innovative approaches for providing supportive housing, especially to de-institutionalized homeless individuals, homeless families with children, homeless individuals with mental disabilities and other handicapped homeless persons.
HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS (HOPWA) PROGRAM	Maui	This program expands opportunities for housing with supportive services to person with AIDS.
<b>Other</b>	<b>Agency/County</b>	<b>Objective</b>
FEDERAL FUND	HFDC	This fund was created to accommodate federal grants for audit purposes.

DISBURSING FUND	HFDC	This fund serves as a clearing fund to facilitate central purchasing and disbursements for HFDC. The fund pays operating expenses such as payroll, utilities, and other operating charges for all funds of HFDC.
GRANT-IN-AID FUND	HFDC	This fund was created to accommodate State grant-in-aid for audit purposes.
GRANTS	HHA	
Public Housing (PH) Drug Elimination Program		For drug prevention, intervention, and treatment through economic development, community organization, and physical improvement.
Gateway Grant Program		For adult education, including outreach work and classroom instruction.
Family Investment Center		For the development of family centers that will provide job training, child care, and other support services.
Youth Sports Program		Prevention program focusing on sports and recreation.
Tenant Opportunities Program		For technical assistance to enable residents to manage their own housing complex and/or to start a business.
Neighborhood Improvement Grant		For community betterment projects.
FAIR HOUSING PROGRAM	Hawaii	This program implements and manages the Fair Housing Program, establish administrative rules and regulations, and provide technical assistance to non-profit organizations.
FAIR HOUSING PROGRAM	Honolulu	This program insures that the general public is informed of equal housing opportunities under Federal and State laws. The City provides information on tenants' rights under existing fair housing laws, and conducts informational workshops for interested citizens and community groups.
RELOCATION PROGRAM	Honolulu	This program provides relocation services and benefits to displaced families, businesses and individuals. Displacement occurs mainly from acquisition of private properties for City projects and through enforcement of codes and ordinances.

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**Appendix 2**  
**Position Titles with More Than One Person**  
**Combination of HHA, HCDA, and HFDC**  
**Based on Organizational Charts**

Title	Agency	No. of positions
<b>Executive Director's office (5):</b>		
Executive Director	HHA,HCDA, HFDC	3
Deputy Executive Director	HHA, HFDC	2
<b>General Administration (87):</b>		
Admin. Service Off.	HHA, HCDA	2
Secretary	HHA, HCDA, HFDC	8
Secretary I	HHA, HFDC	9
Secretary II	HHA, HFDC	6
Secretary III	HHA, HFDC	2
Clerk II	HHA, HFDC	2
Clerk III	HHA, HFDC	9
Clerk Steno II	HCDA, HFDC	5
Clerk Typist II	HHA, HCDA, HFDC	34
Clerk Typist III	HHA, HFDC	8
Pers. Mgt. Splt. IV	HHA, HFDC	2
<b>Accounting (28):</b>		
Account Clerk III	HHA, HFDC	8
Account Clerk IV	HHA, HFDC	3
Account Clerk V	HHA, HFDC	2
Accountant II	HHA, HFDC	2
Accountant III	HHA, HCDA, HFDC	4
Accountant IV	HHA, HFDC	4
Accountant V	HHA, HFDC	3
Purchasing Tech. II	HHA, HFDC	2
<b>Data Processing (4):</b>		
Data Pro. Sys. Anl. IV	HHA, HFDC	2
Data Pro. Sys. Anl. V	HHA, HFDC	2
<b>Housing related (18):</b>		
Engineer	HHA, HFDC	3
Hsg. Info. Officer	HHA, HFDC	2
Hsg. Dev. Splt. I	HHA, HFDC	<u>13</u>
<b>Total</b>		<u><b>142</b></u>

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## Notes

### Chapter 2

1. Section 226-19, Hawaii Revised Statutes.
2. Hawaii, Housing Finance and Development Corporation, *The Hawaii State Plan*, Honolulu, May 8, 1989, pp. 23, 30, 33, and 37.  
  
Amended by Hawaii, Housing Finance and Development Corporation, *The Hawaii State Plan: Addendum to the State Housing Functional Plan*, Honolulu, March 6, 1992, p. 18.
3. Hawaii, The Auditor, *A Preliminary Study of a Proposed Department of Housing*, Report No. 95-7, Honolulu, February 1995, p. 6.
4. Letter to Marion M. Higa, State Auditor, from Michael N. Scarfone, Executive Director, Hawaii Community Development Authority, February 7, 1995.
5. Letter to Marion M. Higa, State Auditor, from Roy S. Oshiro, Acting Executive Director, Housing Finance Development Corporation, February 3, 1995.
6. Locations, Inc. Research & Consulting Division and SMS Research & Marketing Services, *Hawaii Housing Policy Study: A Report to a Consortium of Private Developers, Landowners, & State and County Housing Officials*, Honolulu, May 1993, pp. 42-43.
7. *Ibid.*, p. 21.
8. *Ibid.*, p. 22.
9. Hawaii, Office of State Planning, *State Land Use Regulation and Management Study: Findings and Recommendations to the State Legislature*, June 1994, p. 2.

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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), Hawaii Community Development Authority (HCDA), and the Housing Finance and Development Corporation (HFDC), on February 7, 1996. A copy of the transmittal letter to the HHA is included in Attachment 1. Similar letters were sent to HCDA and HFDC. The responses from the agencies are included as Attachments 2, 3, and 4, respectively.

Hawaii Housing Authority responded that it supports the concept of consolidation of housing functions in the State of Hawaii. It stated no preference in the structure of the consolidation. HHA further noted that as long as the powers and functions of HHA are left intact, the state and counties can receive federal dollars from HUD. HHA also agreed that the State needs to evaluate its housing goals and objectives to determine its most suitable courses of action and targets. The State should also take into consideration the role of the counties, private sector, and various target groups.

Hawaii Community Development Authority agreed that consolidating the agencies would make sense only if the goals and targeted groups for housing are narrowed. HCDA suggested that the report perhaps should state that if this is so, an effective program of consolidation will essentially mean elimination of some agency programs. HCDA also provided additional information to clarify some points made in the report, some of which have been incorporated in our final report.

Housing Finance and Development Corporation concurred with the conclusions that (1) the State needs to evaluate its housing goals and objectives to determine its most suitable courses of actions and target groups, and (2) the State's housing efforts should be flexible to reflect changes in housing market conditions. The response included a copy of the Governor's Blueprint for Affordable Housing. HFDC also provided additional information to clarify points made in the report, some of which have been incorporated in our final report.

We noted differences in opinion by the agencies as to each other's involvement with different projects. All projects listed in our report's Exhibit 2.4 were from the agencies' 1994 annual reports. We stated no opinion which agency should get credit for what project.

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

February 7, 1996

*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 9 to 11 of our draft report, *A Study of a Proposed Department of Housing - Final Phase*. We ask that you telephone us by Friday, February 9, 1996, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Wednesday, February 14, 1996.

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,

A handwritten signature in cursive script that reads "Marion M. Higa".

Marion M. Higa  
State Auditor

Enclosures

BENJAMIN J. CAYETANO  
GOVERNOR



MITSUO SHITO  
EXECUTIVE DIRECTOR

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

LEONARD PARESA, JR.  
DEPUTY EXECUTIVE DIRECTOR

FAX (808) 832-6030

February 13, 1996

IN REPLY REFER TO  
96:PLNG:07

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

RECEIVED

FEB 14 9 53 AM '96

OFF. OF THE AUDITOR  
STATE OF HAWAII

Dear Mrs. Higa:

**Subject: Comments from Hawaii Housing Authority re: "Legislative Auditor's Study of Proposed Department of Housing--Final Phase (1996)"**

We appreciate your kindness to allow us to review the draft and comment on it before it is presented in final to the Legislature. Our office has reviewed your draft of your study entitled "A Study of a Proposed Department of Housing--Final Phase (1996)" (hereinafter known as "Study").

It is our understanding that the Legislative Auditor was requested by the Hawaii State Legislature in 1994 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.

HHA supports the concept of consolidation of housing functions in the State of Hawaii. We applaud the efforts of the Governor in both his 1995 and 1996 State of the State addresses which outline his vision to streamline government and focus on the poor, elderly and special needs groups. HHA also appreciates the Legislative Auditor's efforts in attempting to define the parameters and issues that need to be resolved in this consolidation effort.

HHA has no specific concerns with the report. The issues regarding the State's role in housing and the proposed department of housing are thoroughly addressed in the Study.

As stated in the report, we concur that the State needs to evaluate its housing goals and objectives to determine its most suitable courses of action and target groups. The State should also take into consideration the role of the counties, private sector and various target groups.

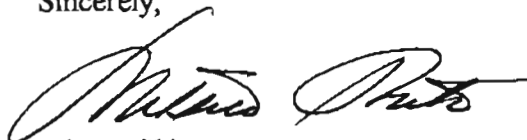
Marion Higa  
February 13, 1996  
Page Two

The report indicates under the present three agency structure, major policy changes within the three respective governing departments threaten the viability of the smaller agency or program with a specific focus. HHA's situation with the Department of Human Services is an example of our specific focus versus the department's policy. The report suggests the single department concept because the department with a broader housing focus and ability to respond and be flexible would override this kind of siege mentality. HHA takes no position regarding the pros and cons of the establishment of a department vs. an attached agency and leave that decision to the policy makers of this State.

However, we have attached correspondence from HHA to Secretary Henry Cisneros, U.S. Senator Daniel Akaka, and from HUD's Washington, D.C. Office regarding the proposed consolidation of housing functions. HHA is very concerned about the flow of federal dollars into the State of Hawaii and wants to ensure that no matter what form the consolidation takes, that Hawaii would still be able to receive Section 8 funds, modernization funds, and other federal grants that would help Hawaii's vulnerable and most at risk population. We believe that the letter from Washington, D.C. reinforces the position that as long as the powers and functions of HHA are left intact, the State of Hawaii and its respective counties can receive federal dollars from HUD.

In conclusion, we believe that the overall study done in 1995 and 1996 by your office is comprehensive and fair in the overall assessment of HHA, HFDC, and HCDA. Your other insights into the Department of Hawaiian Home Lands (DHHL) and the Office of Hawaiian Affairs (OHA) are timely and may also assist in improving the housing inventory for the most needy. We hope the Legislative and Executive branches will review the report with an open mind and develop innovative strategies to assist in Hawaii's ever growing need for housing.

Sincerely,



Mitsuo Shito  
Executive Director

Attachments



U. S. Department of Housing and Urban Development  
Washington, D.C. 20410-5000

OFFICE OF THE ASSISTANT SECRETARY  
FOR PUBLIC AND INDIAN HOUSING

Mr. Mitsuo Shito  
Executive Director  
Hawaii Housing Authority  
P.O. Box 17907  
Honolulu, Hawaii 96817

Dear Mr. Shito:

On behalf of Secretary Cisneros, thank you for your letter of November 15, 1995, concerning the creation of a proposed State Department of Housing in the State of Hawaii. Your letter presented three questions that needed to be answered to construct a streamlined and efficient housing organization in your State. The answers to your questions are presented below.

1. Is a board or commission necessary?

No. The United States Housing Act of 1937, as Amended, Title I, Section 3., (b), (6), provides the following definition. "The term "public housing agency" means any State, county, municipality, or other governmental entity or public body (or agency or instrumentality thereof) which is authorized to engage in or assist in the development or operation of low-income housing." There are no special restrictions on the organization of the State entity.

It may be valuable to examine the recent organizational restructuring of the housing function in the State of Alaska or examine the various organizational structures used by State Finance Agencies. Direct contact with these agencies may provide valuable candid insights to assist you in your proposal. Once you have a working proposal with sufficient detail, HUD would provide a legal opinion of that document.

2. Would the present reorganization of HUD and the proposed centralization of the State housing functions affect the flow of any monies committed or available to Hawaii?

It is impossible to tell at this time the direction of the various pieces of legislation now pending in Congress or how they will play out. However, based upon the general and limited information you have provided, it is likely that the organizational changes at HUD would not affect your flow of monies from program commitments and obligations. Future funds available to your State would reflect general housing program budget cuts that HUD has experienced, but would likely not be affected by the organizational changes at HUD. Financial impact

from changes in your housing organization depends on whether the scope or functionality of your organization will be limited or eliminated.

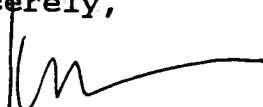
3. If the block grant concept of direct funding to States becomes a reality, will the impact be different depending on whether our old or new housing organizations are in place?

The Office of Community Development and Planning advises that this is a highly speculative area at this time. The monies destined to a State will likely be controlled by the "formula" used to calculate the equitable distribution of funds to all States and State equivalents (e.g., District of Columbia, Puerto Rico, etc.). We have no way of knowing what need data (overall population, homeless estimates, percent of population at various income levels, unemployed, at various age levels) or other data will be used (and how it will be weighted) to calculate allotments to States. It is unknown at this time whether HUD will play a role in this allocation process.

The Department discussed these issues with the Hawaii Housing Authority (HHA) staff. At the time of that discussion, the HHA staff posed an additional question. Specifically, if the HHA were transferred to another organizational part of State government, would Hawaii continue to receive public housing funds, (e.g., modernization and operating subsidy)? As long as the proposed organizational unit is given the powers of a public housing agency and continues to operate the existing inventory as public housing, the proposed organizational unit (now the PHA), would continue to be eligible for public housing funds.

Your efforts to streamline your housing activities and maximize your housing funds are commendable. I hope the information provided is helpful in responding to your concerns.

Sincerely,



Kevin Emanuel Marchman  
Deputy Assistant Secretary  
for Distressed and Troubled  
Housing Recovery



DANIEL K. AKAKA  
HAWAII

WASHINGTON OFFICE:  
720 HART SENATE OFFICE  
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7104 PRINCE JONAH KUHIO  
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United States Senate

WASHINGTON, DC 20510-1103

COMMITTEE ON GOVERNMENTAL AFFAIRS  
COMMITTEE ON INDIAN AFFAIRS  
COMMITTEE ON VETERANS' AFFAIRS

HOUSING  
AUTHORITY

December 15, 1995

DEC 19 9 11 AM '95

Mr. Mitsuo Shito  
Executive Director  
Hawaii Housing Authority  
P.O. Box 17907  
Honolulu, HI 96817

Dear Mits:

Thank you for your letter of December 5, 1995, requesting my assistance in following up with Henry Cisneros, Secretary of Housing and Urban Development (HUD), regarding the Hawaii Housing Authority's letter of November 15.

In an effort to be of assistance, I have forwarded your correspondence to Secretary Cisneros, noting that the Hawaii State Legislature opens in mid-January, and the determination requested in November will assist the state in drafting appropriate legislation. I am also seeking clarification of the approval process to become an approved public housing authority.

Again, mahalo for contacting me. As always, it is a pleasure to assist the Hawaii Housing Authority.

Aloha pumehana,



DANIEL K. AKAKA  
U.S. Senator



**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

November 15, 1995

The Honorable Henry Cisneros  
Secretary  
United States Department of Housing and Urban Development  
451 Seventh St, S.W.  
Washington, D.C. 20410

Dear Mr. Cisneros:

RE: CREATION OF PROPOSED STATE DEPARTMENT OF HOUSING IN THE  
STATE OF HAWAII--REQUEST FOR OPINION

The State of Hawaii is presently exploring alternatives in streamlining State government and maximizing federal and private dollars that flow into the State in the development of housing for our citizens. One of the serious proposals before a blue ribbon task force created by the Governor's office is the creation of a brand new State Department of Housing which would coordinate state, federal and county programs. Our office has the following concerns if such a state department were to be created:

1. Necessity of a board or commission--It is not clear in the creation of Hawaii Housing Authority (the present PHA) why a board of commissioners was created--probably for citizen input but we are not sure. Is there anything in the federal rules or regulations that mandate a board or commission to be created in order to receive federal funds and execute federal contracts? The closest authority we could find would be the PUBLIC HOUSING DEVELOPMENT HANDBOOK 7417.1 REV-1 (1980) in which discusses the role of HUD and local public housing agencies (PHAs) and how all PHAs must be approved by HUD before the receipt of federal funds.

Please advise us as to the necessity of a board or commission in order to become a PHA or if the State of Hawaii creates a department of housing to receive such federal funds.  
(See Attachment #1).

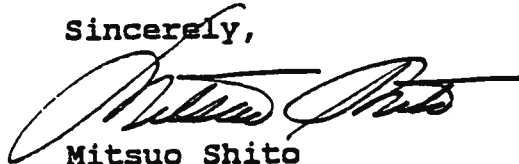
Honorable Henry Cisneros  
November 15, 1995  
Page Two

2. Present Reinvention of HUD--if the State of Hawaii creates this new department of housing and combines several agencies into one state entity, we are concerned about the the current reorganization of HUD and how that will affect the flow of federal dollars into the State of Hawaii. Presently, Hawaii Housing Authority is the local PHA and receives Comprehensive Grant (federal modernization moneys), Section 8 vouchers and certificates, McKinney Act Homeless funds and Drug Elimination grant funds on behalf of the State. CDBG funds and some Section 8 vouchers presently go directly to the municipalities such as the City and County of Honolulu for development and special needs groups. Given the reinvention of HUD and this new state department of housing, would these federal funds received by HHA and the counties now be centralized in this new department?

3. New federal block grant legislation in Congress--there is much discussion as to how the Republican Congress may block grant everything to the States and the State will decide its own priorities relating to welfare and housing. If the State of Hawaii creates this new department of housing, what do you foresee the impact of block grants will have if we have a new department of housing?

Thank you for your time and attention to this matter. If there are any questions, please call me or Ron Lim at (808) 586-0150.

Sincerely,



Mitsuo Shito  
Executive Director

Attachments



HAWAII COMMUNITY DEVELOPMENT AUTHORITY



**KAKAKO**  
Where Honolulu Greet The Sea

Benjamin J. Cayetano  
Governor

Michael K. Kawaharada  
Chairman



Jan S. Yokota  
Interim Executive Director

Ref. Nos.: GF LEG 4.20/  
GF ST 3.36

February 15, 1996

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OFFICE OF THE AUDITOR  
STATE OF HAWAII

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

Dear Ms. Higa:

Thank you for the opportunity to comment on your draft report entitled "A Study of a Proposed Department of Housing - Final Phase".

We agree with the concern implied in the report that consolidating the agencies would only make sense if the goals and targeted groups for housing are narrowed. If that is so, an effective program of consolidation will essentially mean elimination of some agency programs, not merely delivery of the same services under a new organization. Perhaps this could be stated more directly in the report.

Our specific comments regarding the report are as follows:

Page 10

In addition to its Reserved Housing Program, the Hawaii Community Development Authority (HCDA) has been involved in the direct development of low- and moderate-income housing units. Reserved housing program fees have been used to build units directly developed, but the programs are otherwise distinct.

Page 12

The report mentions that "...the 20 percent requirement was under review..." at the time the study was being prepared. In fact, the 20 percent requirement was not under review by HCDA, although other aspects of the Reserved Housing Program were studied and subsequently amended.

Specifically, in an effort to encourage the provision of housing for "gap group" households, HCDA has amended the cash in lieu formula for such projects by reducing the payment according to the average price of the units. Unit prices which are affordable to "gap group" households with incomes between 140 and 180 percent

Ms. Marion M. Higa  
Page Two  
February 15, 1996

of median income would qualify for reduced cash in lieu payments. Projects with prices which are not affordable to the "gap group" households would pay the standard rate of 4 percent of the gross revenues from the sale of residential units. For comparison purposes, reserved housing household incomes are between 70 and 140 percent of median income.

Page 17

Reflecting our comments regarding Page 10 of the report, a more accurate program title would be "HCDA Direct Development Program/Reserved Housing Program". Combined, the programs reach a target group of up to 140 percent of median income.

Page 22

The Na Lei Hulu Kupuna project should be deleted from the list of completed Housing Finance and Development Corporation (HFDC) Developed/Assisted Projects. This project was developed by HCDA and was not a joint HCDA/HFDC development.

Honuakaha, listed in the category of "Completed HCDA Projects", was completed in October, 1995.

The listing of complexes administered by the Hawaii Housing Authority includes Kamakee Vista, Pohulani, and Kauhale Kaka'ako. These projects are, in fact, administered by HFDC.

Page 31

The first paragraph states that HCDA "...has responsibilities that parallel traditional zoning functions of the counties..." The report then contends that "It may be appropriate to consider transferring duplicative functions to the counties." As stated in our February 7, 1995 letter to you, the land use planning and regulatory activities exercised by the HCDA in Kakaako replace, rather than duplicate or overlap, functions formerly undertaken by the county in this area. Recognition of this distinction is essential to a clear understanding of HCDA's community development objectives.

Page 38

To reflect recent amendments to the rules governing HCDA's Program, the description should be amended to state:

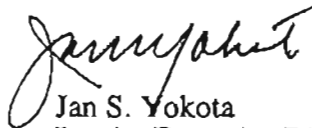
Ms. Marion M. Higa  
Page Three  
February 15, 1996

In lieu of providing the reserved units, HCDA may allow developers to pay up to 4 percent of the gross revenues from the sale of the residential units to satisfy the reserved housing requirement, with reductions in the fee for the provision of "gap group" housing.

Finally, the report should address the disposition of fees or land collected by HCDA for its Reserved Housing Program in the event housing functions are consolidated.

Thank you for the opportunity to review the draft report.

Sincerely,



Jan S. Yokota  
Interim Executive Director

JSY:ak

BENJAMIN J. CAYETANO  
GOVERNOR



ROY S. OSHIRO  
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:

96:PPE/657

February 14, 1996

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OFFICE OF THE AUDITOR  
STATE OF HAWAII

Ms. 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 Study of a Proposed Department of Housing - Final Phase"

Thank you for the opportunity to comment on the subject report.

We concur with your conclusions that (1) the State needs to evaluate its housing goals and objectives to determine its most suitable courses of actions and target groups, and (2) the State's housing efforts should be flexible to reflect changes in housing market conditions. The State has initiated such an evaluation, which is reflected in the strategies of the enclosed Blueprint for Affordable Housing. Our comments on specific areas in the report are as follows:

## **Chapter 2**

### State Housing Functional Plan, page 7

The report incorrectly states that the State Housing Functional Plan objectives "do not specify what actions the State will take to reach them." The format for the functional plan includes issue areas, problem statements, objectives, strategies, policies, and implementing actions. Each implementing action for a particular objective contains specific information on (1) lead organizations, (2) assisting organizations, (3) starting date, and (4) measures of effectiveness.



State Housing Programs, page 7

This section does not provide an adequate description of the State's role in the provision of housing units by stating that "in 1993 and 1994, Hawaii's state and county governments **built** [emphasis added] over 35 percent of the new single family homes on Oahu." For the most part, the State, namely HFDC, does not serve as a builder or developer of housing. HFDC provides assistance to private developers through various land, infrastructure, financing, and expedited approval programs.

Exhibit 2.1 - Agency Programs, pages 10 and 11

It appears that only programs with special funds were included in this exhibit. Not included are HFDC's homeownership counseling and buyback programs (homeownership); or the housing information system (other programs). The following corrections should be made to the exhibit:

Homeownership	Delete the Special Assistance Fund (this program is no longer implemented)
	Add Home Investment Partnership (HOME) and Housing Finance Revolving Fund
Rental Housing	Add HOME, Dwelling Unit Revolving Fund, Hawaii Development Revolving Fund, and Housing Finance Revolving Fund
Special Needs	Add HOME, Milolii, and Hamakua

HFDC's mission and programs, page 12

HFDC's mission and programs are not adequately described. It would be more appropriate to use the information provided to you in our letter of February 3, 1995, which is also referenced in your description of HFDC.

The Housing finance and Development Corporation was established in 1987 to assume the functions transferred from the Hawaii Housing Authority - land reform [and] housing development, and financing. The corporation is administratively attached to the Department of Budget and Finance and is governed by a nine member board of directors. The corporation's mission is to [expedite the supply of affordable rental or for-sale housing to qualified residents] serve as a catalyst in the provision of quality housing opportunities in a balanced environment to meet the



housing needs of Hawaii's residents. The corporation engages in the following activities in pursuit of its mission:

- Facilitate the development of affordable housing (which includes providing tools and resources such as low interest interim construction loans, funding infrastructure development, and expediting the review of State and county land use approvals);
- Overcome some of the major constraints to the development of affordable housing (such as obtaining necessary land use and zoning approvals and financing the development of major off-site infrastructure);
- Encourage 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 and tax credits); and
- Assist in the lease-to-fee conversion of residential homelots, as well as the renegotiation of ground lease rents for one- and two-family residential lots and cooperative housing corporations.

Hawaii County Housing Programs, page 15

Add HOME to the list of programs administered by the Office of Housing and Community Development.

Other programs are categorical, page 16

The report states that the State should review categorical programs against the State Housing [Plan] Functional Plan to determine their appropriateness. Our general comment is that most categorical programs are created by special legislation which designates HFDC as the agency to administer the programs.

Exhibit 2.2, Summary of State Housing Program Eligibility by Income, page 17

Please note that the Home Mortgage Fund was created by a 1981 indenture. As this fund is no longer in existence, it should be deleted from the chart. (If you choose to retain it, the income cap is 120% of median (the chart incorrectly shows about 125%.))

Ms. Marion M. Higa  
Page 4  
February 14, 1996

Please make the following revisions to the list of programs:

1. In the 80% of median income category, please add the HOME Investments Partnerships Program.
2. Under the Low Income Housing Tax Credit Program, add (40% of units) or see 50%
3. In the 50% of median income category, please add Low Income Housing Tax Credit Program (20% of units)

Exhibit 2.3, State Housing Program Eligibility Other Than Income, page 18

Please make the following revisions:

1. Add to Loan Program for Milolii Lessees - Holders of Milolii residential leases
2. Add Loan Program for Kalawahine Lessees - Holders of Kalawahine residential leases
3. Add Hamakua Loan Program - Former employees of Hamakua Sugar and Hilo Coast Processing Companies
4. Delete the Disbursing Fund which is not a housing program.

State role and the private sector role, pages 20 and 21

We disagree with your statement that the State competes with the private sector - both market (for-profit) and non-profit organizations - in many areas such as financing new homes, developing infrastructure, developing housing, selling housing, and managing rental properties. State programs are intended to facilitate the private provision of for-sale and rental housing by offering assistance to developers and/or consumers.

Your statement that State housing agencies also compete with non-profit organizations which may be eligible for public financing such as the Rental Housing Trust Fund is incorrect. Please note that pursuant to section 201F-6, HRS, government agencies are eligible to apply for funding from the trust fund. However, pursuant to the administrative rules 6-411-22(6), if all projects have equal ranking, nonprofit projects are given a preference over for-profit or government projects.

Ms. Marion M. Higa  
Page 5  
February 14, 1996

The report poses the question of whether the public sector should assist private non-profits to provide affordable housing or develop affordable housing itself. Adding to that, should be do private non-profits presently have the ability and capacity to develop affordable housing to satisfy Hawaii's housing needs? We believe that all participants -- private for-profits, nonprofit, and government -- must be involved

The report also states that the State "appears to have exempted its own projects or those under the State's auspices from these [government] obstacles." It is unclear whether reference is being made to Act 15, SLH 1988, which sunset in 1993 or to the provisions of Chapter 201E, HRS. If it is the latter, the expedited review and approval process is available to the State, counties, and private developers who provide lower cost housing.

State role versus the counties' role, page 21

The report states that the "State's functional plan does not interface with the counties' separate functional housing plans." While it is unclear what a "county functional plan" is, we disagree with your statement that there is no "interface". On the contrary, there is a great deal of coordination with the counties.

Please refer to page 2 of the State Housing Functional Plan which states "State Functional Plans are intended to act in a coordinated fashion with County General Plans and Development Plans. Chapter 226, Hawaii Revised Statutes, as amended by Act 336, SLH 1987, states that County General Plans and Development Plans shall be used as a basis in the formulation of State Functional Plans. conversely, the law also states that the Counties shall use approved State Functional Plans as guidelines in formulating, amending and implementing the County General Plans and Development Plans. Thus, State Functional Plans and the County General Plans and Development Plans each draw from the knowledge embodied in the other, and all are essential to implement the Hawaii State Plan."

Exhibit 2.4, Distribution of State Housing Projects, page 23

Two asterisks should follow no. 22, Kamaaina Hale, as this is another joint HFDC/HHA project.

Diminishing funds, page 24

The report incorrectly states that budgetary constraints will severely limit the State's ability to continue direct intervention in housing programs **such as the Villages of**

Ms. Marion M. Higa  
Page 6  
February 14, 1996

**Kapolei on Oahu** (emphasis added). The Villages of Kapolei is an economically feasible and viable housing program which will continue.

The statement that "fiscal restraints also limit the willingness of the State to increase bond authorizations that are sources of funds for its housing programs" is also incorrect. Please note that Act 1, Special Session Laws of Hawaii 1995, increased HFDC's bond authorization under the Hula Mae Single Family program from \$1.275 million to \$1.775 million.

Additionally, the statement that "State housing projects are funded by revenue bonds issued by the State of Hawaii" is incorrect. Under HFDC bond programs such as the Hula Mae Single Family, Hula Mae Multi-Family and the Rental Housing System programs, revenue bonds are issued by HFDC, not the State of Hawaii. Further, bonds are payable solely from the HFDC or credit enhancements which HFDC acquires.

Another correction should be made as follows: "In a typical single family program, a housing agency issues bonds, then uses the proceeds from the bond sale to make loans to homeowners at below market rates." This does not apply under multi-family programs, where bond proceeds are used as interim and permanent financing for rental projects.

#### Cost of urban lands, pages 25 and 26

We recommend that the backup information be provided to support the \$3 billion expenditure figure. The backup data, which was included in Report No. 95-7, shows that loan advances and bond proceeds (all of which are repaid) are included in this figure.

Further clarification on why HFDC adopted a new strategy of planned communities is needed. As indicated in our letter of February 3, 1995, there are 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. Planned communities were a way of overcoming many of these obstacles to the provision of affordable housing.

#### Ceded land issues, page 26

We agree that land is a major housing cost component, particularly urbanized, developable land. The greater cost, however, is the cost of infrastructure.

Ms. Marion M. Higa  
Page 7  
February 14, 1996

The report states that "using ceded lands to 'subsidize' housing by keeping the land cost at a minimum may violate the State's fiduciary responsibility to maximize the return from those lands for the beneficiaries." This is an inaccurate statement as HFDC is required to pay entitlements based on fair market value for public lands which are acquired from the Department of Land and Natural Resources. The acquisition of public lands for residential purposes is governed by Chapter 171, HRS, which contains certain fair market value provisions.

### **Chapter 3**

#### The Rental Housing Trust Fund Program, page 33

Please make the following revision: "The commission may enter[s] into contracts with consultants, engages employees to perform its duties...." While the commission has this authority, to date, the commission has not entered into consultant contracts nor employed its own staff.

### **Appendix**

Please make the following revisions:

Home Mortgage Fund, p. 37 - Please delete. This fund is closed.

Home Investment Partnerships Program - Please add to programs administered by HFDC.

We appreciate the opportunity to review the draft report. We hope our comments prove to be useful.

Sincerely,



ROY S. OSHIRO  
Executive Director

**GOVERNOR CAYETANO'S BLUEPRINT  
FOR  
AFFORDABLE HOUSING**

**January 10, 1996**

# **GOVERNOR CAYETANO'S BLUEPRINT FOR AFFORDABLE HOUSING**

## **VISION**

Every resident of the State of Hawaii has the opportunity to obtain safe, decent and affordable housing or shelter.

## **MISSION STATEMENT**

To serve as a catalyst in providing affordable housing and shelter opportunities in a balanced and supportive environment.

## **SITUATION AND RESPONSE**

Today, we are faced with troublesome obstacles that threaten the accomplishment of our mission. These obstacles include the following:

- Weakened economic and fiscal conditions severely limit the availability of federal, state, and local funds.
- The most vulnerable (low income households and special need groups) of our population are growing in number.
- Housing developments compete in a weak market characterized by growing inventories.
- Government sponsored developments are subject to increasing financial risks and exposure.

In this period of severely limited resources and weakened economic environment, we must respond with appropriate actions, specifically:

- We must assign funding priority to projects and programs that serve the most vulnerable.
- We must assist and facilitate private developments.
- We must utilize government resources more efficiently and effectively while reducing financial exposure.
- We must consolidate housing operations to improve efficiency and effectiveness.

The strategies and programs which will be pursued are presented on the following pages.

## **Strategies/Programs**

### **1. INCREASE RENTAL HOUSING AND SUPPORTIVE OPPORTUNITIES FOR LOW INCOME AND SPECIAL NEED SEGMENTS OF HAWAII'S POPULATION**

***The poor and special need groups (disabled, abused, frail, homeless, elderly, etc.) are our most vulnerable populations. They are the most likely to reside in overcrowded and substandard units while paying over 50% of their income for housing.***

**1.1 Assign funding priority** to programs and projects that serve low income and special need households.

**1.2 Participate in joint developments** with private sector developers, counties, mutual housing associations and nonprofit organizations.

**1.3 Provide incentives to private sector developers** to produce rental housing.

- Provide tax-exempt low interest loans, rental assistance and tax credits to enhance project feasibility.
- Streamline and consolidate the processing and financing of rental housing projects.
- Set aside state lands for special need group homes, assisted care facilities, mutual housing associations, etc.

**1.4 Provide funding for self sufficiency programs** (social and economic counseling, job training and placement, child care, etc.) to organizations which serve low income and special need residents of government sponsored housing.

**1.5 Initiate a Future Homebuyer's Club of Hawaii program** to help public housing tenants and renters prepare for and attain homeownership.



2. **PROVIDE PRIVATE AND NON-PROFIT HOUSING DEVELOPERS WITH INCENTIVES TO ENCOURAGE THE DEVELOPMENT OF AFFORDABLE HOUSING**

***We will assist and facilitate private developments while requiring a fair contribution of affordable housing. To the maximum extent feasible, we will not compete with private developments.***

- 2.1 **Establish a new streamlined affordable housing policy** for private sector developments requesting State land use reclassifications.

**Assign implementation requirements and enforcement to the counties through a memorandum of understanding.** (Details for satisfaction of the affordable housing policy shall be determined by the counties e.g., requirements for compliance, pricing, buybacks, shared appreciation, bonuses, acceptable in lien alternatives, and related affordable housing elements. The State shall reserve the right to require the petitioners to show just cause for failure to satisfy such housing requirements upon receiving complaints from the counties.)

- 2.2 **Streamline the development approval process.**

- 2.3 **Approve new issue of Hula Mae bonds** for low interest loans for first-time home buyers.

- 2.4 **Fund a down payment loan program** for affordable housing.

3. **UTILIZE GOVERNMENT RESOURCES MORE EFFICIENTLY AND COST EFFECTIVELY**

***Numerous overlapping and duplicative housing activities currently undertaken by various state agencies will be consolidated to enhance the achievement of our housing mission. We will also initiate actions to reduce financial risks and exposure in state sponsored developments.***

3.1 **Coordinate and consolidate housing activities** to improve operating efficiency and effectiveness.

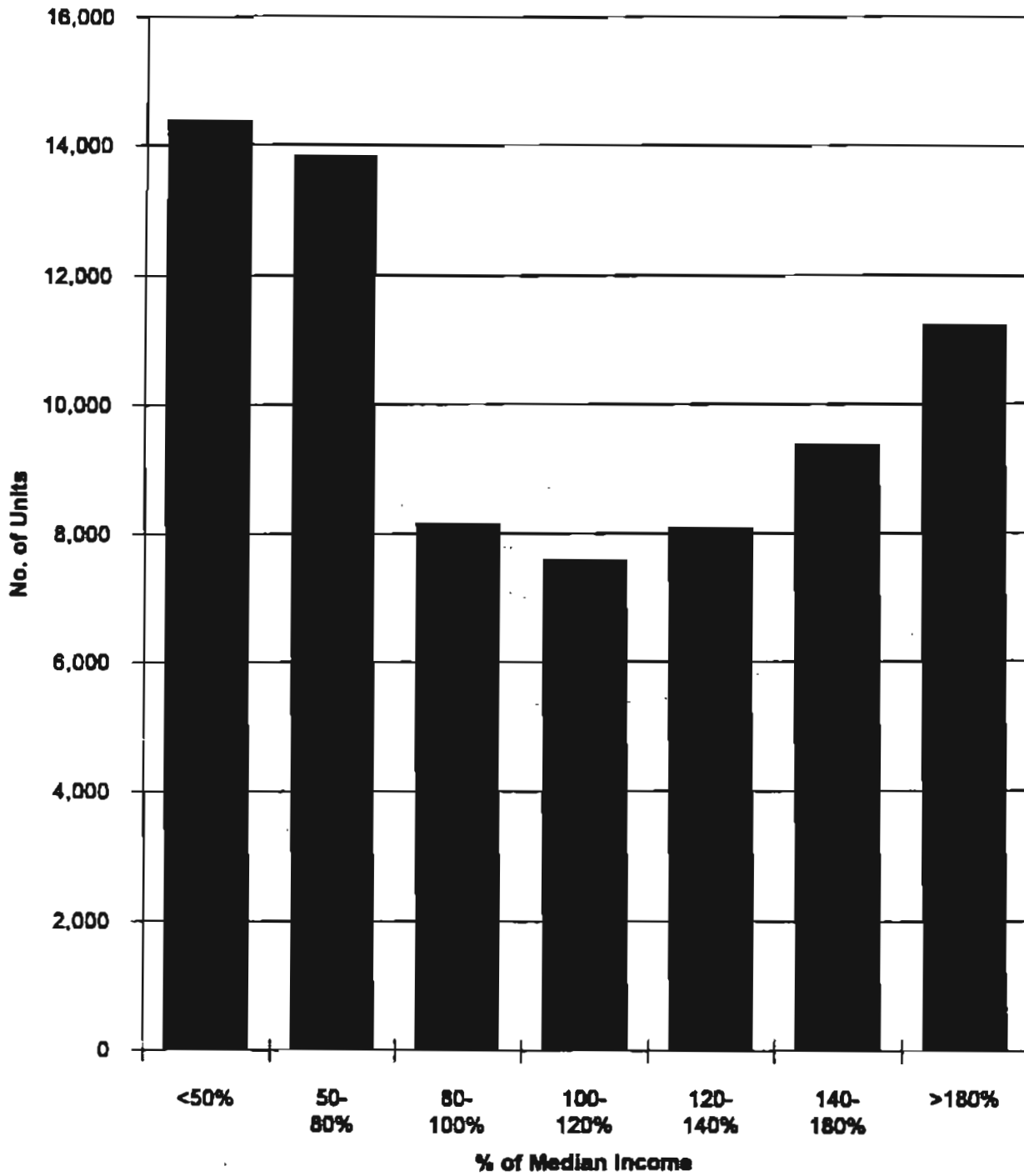
- Consolidate the HFDC, HHA, and RHTFC.
- Assume housing development function of HCDA.
- Assist the DHHL in the planning and development of housing.

3.2 **Sensitively privatize government activities** that would be more efficiently and effectively performed by the private sector.

3.3 **Complete existing planned communities only if economically feasible.**

3.4 **Negotiate conveyance of selected ceded land sites in stalled planned communities to the Department of Hawaiian Home Lands** for cash or in lieu of payment credits.

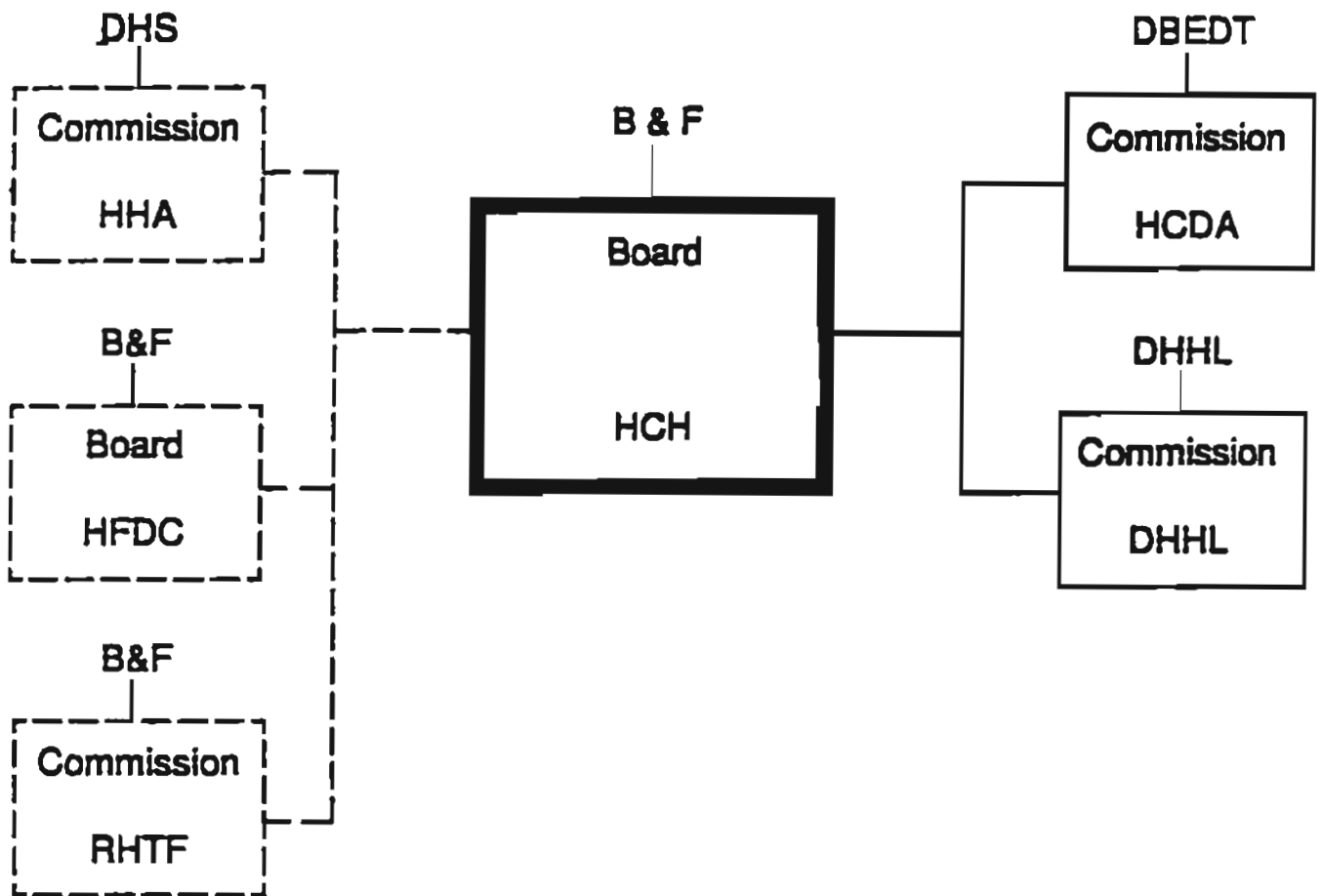
### State Housing Demand by Income Group 1995-2005



## HOUSING ACTIVITIES LISTING

	HFDC	HHA	HCDA	DHHL
<b>DEVELOPMENT</b>				
Sales	•		•	•
Rentals	•	•	•	•
Special Needs	•	•		
Infrastructure	•	•		•
<b>PROPERTY MANAGEMENT</b>	•	•	•	
<b>FINANCE PRIVATE DEVELOPMENTS</b>				
Construction	•			•
Mortgage	•			•
<b>SUPPORT SERVICES</b>				
Plan/Engineering	•	•	•	•
Constr. Mgmt	•	•	•	•
Admin/Accounting	•	•	•	•
<b>OTHER</b>				
Rental Assistance	•	•		
Lease Conversion	•			
Sales/Marketing	•		•	•

**PROPOSED CONSOLIDATION  
OF  
HOUSING FUNCTIONS**



**PROPOSED STATE AFFORDABLE HOUSING POLICY  
FOR PRIVATE DEVELOPMENTS  
REQUESTING LAND USE RECLASSIFICATION**

***Petitioner shall provide affordable housing opportunities for the residents of the State of Hawaii in a manner acceptable to the County that has jurisdiction over the petitioned property.***

- Satisfaction of the affordable housing requirement shall be pursuant to the affordable housing program and requirements for compliance, pricing, buy backs, shared appreciation, bonuses, acceptable in lieu alternatives, and related affordable housing elements as determined by the County.
- The State will enter into a memorandum of understanding with each county to implement the affordable housing policy.