Report to the 2025 Hawaiʻi State Legislature:

Pursuant to Act 235, Session Laws of Hawaiʻi 2024, Relating to Housing.

Prepared by:
Hawaiʻi Housing Finance and Development Corporation
Department of Business, Economic Development & Tourism

December 2024

Act 235, Session Laws of Hawaii 2024, requires the Hawaii Housing Finance and Development Corporation (HHFDC) to submit a Report to the Legislature on "plans to revolve funds back into the Rental Housing Revolving Fund (RHRF) to ensure its self-sufficiency no later than twenty days prior to the convening of the regular session of 2025." This report satisfies that requirement.

RHRF is a key financial tool administered by HHFDC to support developing and preserving affordable rental housing in Hawaii. It provides equity gap low-interest loans to developers to construct and rehabilitate rental units targeted at households earning between 30% and 140% of the Area Median Income (AMI). The goal of RHRF is two-fold: to increase the supply of affordable housing for families across a range of income levels and ensure long-term affordability.

HHFDC plans to enhance RHRF's self-sufficiency by leveraging loans targeted at different income levels and expanding the scope of fund allocation.

1. **Expansion of the RHRF Tier II Program**

HHFDC supports expanding RHRF Tier II, which is designed to provide financing for affordable housing developments that serve tenants with income levels above 60% of the AMI. Specifically, this program targets households who are able to pay higher rents. Tier II projects require less public subsidy compared to lower-income housing projects, thereby allowing for a shorter repayment period, which enables the funds to revolve more quickly.

Providing rental units to households in Tier II will help reduce the outmigration of our workforce, young professionals, and our tax base. These are our working families who earn too much to qualify for Low-Income Housing Tax Credit (LIHTC) units but cannot afford to buy their own homes— such as teachers, firefighters, police officers, and nurses.

By offering Tier II housing options, Hawaii can retain this vital segment of its workforce, reducing the incentive for residents to relocate to more affordable mainland states. This, in turn, supports economic stability and preserves local communities, which are essential for the state's long-term sustainability.

2. **Short-Term Rehabilitation Loan Program**

HHFDC supports establishing a short-term rehabilitation loan program under RHRF to preserve the existing stock of affordable housing, which will ensure continued affordability for residents in the long-term and improve housing conditions of existing units through much-needed capital improvements. These units would come online more quickly, as they are not new construction.

Under this program, HHFDC would provide low-cost loans with terms of up to ten years for property owners who require capital for renovations and upgrades. In exchange, owners must agree to extend the affordability restrictions on their housing projects, keeping rents affordable for tenants at income levels such as 100% of the AMI.

These loans would be an attractive alternative to LIHTC resyndications, which are more complicated and costly, as they include additional financing costs and developer fees.

Since these loans will not use programs such as LIHTC, which is restricted to 60% AMI or below, the affordability can be expanded to assist the needs of Tier II families through existing housing.

3. Mixed-Income Workforce Housing

HHFDC supports investing RHRF in mixed-income workforce housing developments encompassing a wider range of AMI levels, from as low as 30% to market rate units.

By blending different AMI groups together, HHFDC will create diverse and financially sustainable developments, which will be capable of repaying loans quickly, further revolving the RHRF. This cross-subsidization allows the agency to use fewer resources for higher AMI units while directing more subsidies to deeply affordable units (i.e., 30% AMI).

The higher rent profiles of the project overall will also allow higher interest rates (yet still favorable) to increase income to the state and increase fund sustainability.