NON-PROFIT HOUSING DEVELOPMENT

A Study by the Legislative Reference Bureau
in Conjunction With the
Hawaii Real Estate Research and Education Center

PETER G. PAN
Researcher

Assisted By:
SUSAN JAWOROWSKI
JEAN KADOOKA MARDFIN
Researchers

and

DR. NICHOLAS ORDWAY
Director

GRACE CAYAPAN
Research Coordinator

Hawaii Real Estate Research and Education Center

Report No. 11, 1993

Legislative Reference Bureau
State Capitol
Honolulu, Hawaii 96813

FOREWORD

This study on non-profit housing developers and affordable housing was undertaken in response to House Concurrent Resolution No. 476, H.D. 2, adopted during the 1993 legislative session.

House Concurrent Resolution No. 476, H.D. 2, requested that this study be conducted by the Legislative Reference Bureau in conjunction with the Hawaii Real Estate Research and Education Center ("Center"). The research, findings, and recommendations of the Bureau are presented in Part I of this report. The Center's research, findings, and recommendations are contained in Part II.

We extend our sincere appreciation to all who contributed and without whose cooperation this study would not have been possible.

Samuel B.K. Chang
Director

December 1993

TABLE OF CONTENTS

			Page
	FOREWORD		ii
	PART I		
1.	INTRODUCTION		3
		Organization	3
		Definitions	4
		Endnotes	5
2.	ROLE OF NON-PROFIT ORGANIZATIONS IN HOUSING DEVELOPMENT		6
		Types of Non-Profits	6
		The Role of Non-Profits	7
		Steps in the Typical Development Process	7
		Development in Hawaii	10
		Endnotes	12
3.	NON-PROFIT HOUSING DEVELOPERS IN HAWAII		13
	I.	Non-Profit Housing Developers in Hawaii and For-Profit Developers With Non-Profit Development Arms	13
		Non-Profit Housing Developers in Hawaii	13
		Private For-Profit Developers With Non-Profit Development Arms	22
	II.	Comments of Survey Respondents	23
		Advantages and Disadvantages of Non-Profit Housing Developers	24
		Specific Actions to Help Non-Profits Compete With For-Profits	25
		Obstacles Facing Non-Profits and Suggested Government Assistance	26
		Hawaii Laws That Helped Non-Profits	27
		Endnotes	27
4.	FINANCING AVAILABLE TO NON-PROFITS AND STATE STATUTES FAVORING NON-PROFIT DEVELOPERS		30
		Types of Financing	30
		Statutes That Favor Non-Profits	33

		Page
	Hawaii	33
	Other States	39
	State Tax Credit	42
	Tax Credit For Financial Institutions	42
	Endnotes	43
5.	HAWAII FINANCIAL INSTITUTIONS AND MECHANISM FOR WORKING WITH NON-PROFIT DEVELOPERS	45
	The Hawaii Community Reinvestment Corporation	45
	Government Programs	46
	Other Alternatives	47
	Endnotes	48
6.	THE UNIVERSITY OF HAWAII AS A NON-PROFIT DEVELOPER	50
	Introduction	50
	The UH as a Non-Profit Organization	51
	The Role of the University in Developing Housing	51
	1991 Faculty Housing Assistance Master Plan	52
	Master Plan Findings	53
	Master Plan Recommendations	54
	Housing Assistance Programs	54
	The Current Status of the Master Plan	59
	Student Housing	59
	Other Sources for Funding Student Housing	60
	The University as Developer	60
	Conclusion	63
	Endnotes	63
7.	CRITERIA TO MEASURE SUCCESS OF NON-PROFIT HOUSING DEVELOPERS AND RECOMMENDATIONS	65
	Criteria	65
	Recommendations	67
	Temporary Inter-Disciplinary Training and Support Program	67
	Capacity Building Grants	69
	Funding for Pre-Development Work	69
	Flexible Application of Progams	71
	Endnotes	71

Exhibits

I:2-1	Steps in the Development Process	8

		Page
I:3-1	List of Non-Profits Which Have Built Housing in Hawaii Within the Past Ten Years	15
I:3-2	List of Non-Profit Developers from the Honolulu Department of Housing and Community Affairs	20
I:6-1	Summary of Housing Units Available to Students & Faculty	51
I:6-2	University of Hawaii Faculty Housing Assistance Master Plan, Summary of Programs	55
I:6-3	University of Hawaii Faculty Housing Assistance Master Plan, Implementation	56

Appendices

I:A	House Concurrent Resolution No. 476, H.D. 2, Seventeenth Legislature, 1993 Regular Session, State of Hawaii	72
I:B	Affordable Housing Development Survey	75
I:C	Response from Pacific Housing Assistance Corporation	81
I:D	List of Goals and Objectives and Members of the Board of Directors of PATH	84
I:E	Letter from the Internal Revenue Service	89
I:F	Proposed Legislation	90
I:G	Proposed legislation	95

PART II

	EXECUTIVE SUMMARY	101
I.	INTRODUCTION	105
II.	METHODOLOGY	108
III.	AFFORDABLE HOUSING IN HAWAII	110
IV.	THE ROLE OF NONPROFIT ORGANIZATIONS	114
V.	NATIONAL INTERMEDIARIES	122
	A. The Neighborhood Reinvestment Corporation (NRC)	123
	B. The Housing Assistance Council (HAC)	125

Page

C. The Local Initiatives Support Corporation (LISC) 127
D. The Enterprise Foundation (EF) 130
E. Role of Intermediaries in Hawaii 131

VI. TAX MECHANISMS 131

VII. MAJOR FEDERAL PROGRAMS SUPPORTING NONPROFITS AND HOUSING 134

A. HOME Funds 134
B. Community Development Block Grants (CDBGs) 142

VIII. OTHER STATES' EXPERIENCES 145

A. California 146
B. Illinois 154

IX. CRITERIA FOR SUCCESS 156

X. RECOMMENDATIONS 157

BIBLIOGRAPHY 160

Figures

1. Proposed Organization of Research Topics 107

2. Hawaii Housing Choice Model 113

3. How Nonprofits Get Access to Development Funds 116

Tables

1. Annual Production of Units by NPO's (1988-1990) 121

2. Life Cycle Success of Nonprofit Housing Producers 122

Appendices

A. Housing Policy Statements 163

PART I

Chapter 1

INTRODUCTION

Organization

Each chapter in Part I is written and organized to specifically address one or more of the twelve specific topics set out in House Concurrent Resolution No. 476, H.D. 2. Indeed, research areas for this joint study by the Bureau and the Center were apportioned so that each topic -- corresponding to the twelve modules depicted in the Center's "Proposed Organization of Research Topics" chart in Part II -- could be addressed. Topics jointly researched are indicated as "joint." However, in order to supplement information presented in Part II, the Bureau also addressed topics marked with an asterisk (*) as follows:

Topic	Chapter	Description
1	3	Identification of non-profits which have built housing in Hawaii within the past ten years.
3	2	Definition of the role of non-profits (joint).
4*	4	Identification of the type of financing available to non-profits.
5	3	Identification of private (for-profit) developers that have a non-profit development arm.
6*	4	Identification of state statutes which favor or assist non-profits.
8	5	Determination of whether Hawaii financial institutions have a mechanism to work with non-profits.
9	7	Determination of criteria to measure the success of non-profits (joint).
10*	4	Determination of how state tax credits may benefit non-profit organizations.
11	6	Determination of how the University of Hawaii can utilize its status as a non-profit to develop housing for students and faculty.
12	7	Development and provision of suggestions and recommendations for future legislation to further assist non-profits (joint).

Definitions

House Concurrent Resolution No. 476, H.D. 2, speaks of the lack of accessible and **affordable** residential housing in Hawaii. It also mentions a critical shortage of housing that is **affordable for low- and moderate-income residents, and residents in the "gap-group."** On the other hand, neither "affordable," "low- or moderate-income" nor "gap-group" appears in the twelve topics to be addressed in the requested study. Instead, the Concurrent Resolution mentions only "housing developments," "development of housing," "developing housing," or "to build housing units." Nevertheless, the focus of this study is on "affordable" housing. To this end, several terms need to be defined for the purposes of this study.

"Affordable housing" is defined as follows:[1]

> Affordable housing is generally defined as housing where the occupant is paying no more than 30 percent of gross income for gross housing costs, including utility costs targeted to low-income, other low-income, moderate-income, and middle-income households, as further defined.

"Low-income households" is defined as:[2]

> Households whose incomes do not exceed 80 percent of the median income for the area, as determined by HUD [United States Department of Housing and Urban Development] with adjustments for smaller and larger families, except that HUD may establish income ceilings higher or lower than 80 percent of the median for the area on the basis of HUD's findings that such variations are necessary because of prevailing levels of construction costs or fair market rents, or unusually high or low family incomes.

"Other low-income households" is defined as:[3]

> Household[s] whose incomes are between 51 percent and 80 percent of the median income for the area, as determined by HUD, with adjustments for smaller and larger families, except that HUD may establish income ceilings higher or lower than 80 percent of the median for the area based on similar HUD findings as above.

"Moderate-income households" is defined as:[4]

> Households whose incomes are between 81 percent and 95 percent of the median income for the area, as determined by HUD, with adjustments for smaller or larger families, except that HUD may establish income ceilings higher or lower than 95 percent of the median for the area based on similar HUD findings as above.

"Middle-income households" (presumably the "gap-group" referred to in the Concurrent Resolution) is defined as:[5]

> Households whose incomes are from 96 to 120 percent of the median income for the area, as determined by HUD, with adjustments for smaller or larger families, except that HUD may establish income ceilings higher or lower than 120 percent of the median for the area based on similar HUD findings as above.

Endnotes

1. The first part of this definition, excluding the targeted households, is taken from: City and County of Honolulu, Department of Housing and Community Development, Comprehensive Housing Affordability Strategy for the City and County of Honolulu, October 1992 - September 1996 (Honolulu: 1992), p. iii, and citing as source, Federal Register, v. 56, no. 155, Monday, August 12, 1991, Notices.

2. Ibid., p. v, modified.

3. Ibid., p. vi, modified.

4. Ibid., p. v., modified.

5. Ibid.

Chapter 2

ROLE OF NON-PROFIT ORGANIZATIONS IN HOUSING DEVELOPMENT

Topic number 3 of House Concurrent Resolution No. 476, H.D. 2, is a subject for joint research. Accordingly, in addition to the material presented in Part II of this study, this chapter also addresses the role of non-profit developers. Topic number 3 reads:

> (3) Define the role of non-profit organizations in the development of housing.

Types of Non-Profits

Regardless of a non-profit's type or style of operation, it does not distribute any money earned as dividends or profits. On the contrary, any money earned must be reused to further its stated mission. In the case of this study, that mission is to develop affordable housing at below-market rate for households with relatively lower incomes. However, such non-profits need not limit their role to actual development of housing. Some act only as housing advocates. Others own and manage housing projects. Still others provide support social services such as housing information and referral and tenant counseling. Some focus on community or economic development.

Those that perform actual housing development may further define their own specific niche, usually in terms of target population, type of housing development, or geographic region. Excluded from this discussion are public non-profit corporations created by state and local governments that typically have the status of a housing authority. In Hawaii, two examples are the Housing Finance and Development Corporation and the Hawaii Community Development Authority.

Frequently targeted groups for low-income housing are: households below a certain income limit, the elderly in general, the frail elderly, the homeless, battered spouses and children, certain ethnic minorities (such as those living on Hawaiian home lands), and those with special needs such as individuals with developmental disabilities or mental illness, or both.

In terms of a special style or type of housing development, some prefer to work with volunteer labor, including that of prospective owner-occupiers of housing in self-help projects. Others may concentrate on acquisition and rehabilitation of existing housing such as single-room occupancy hotel units. Some non-profits specialize in rehabilitated single or multi-unit apartments and other rentals. Still others develop only new housing, either multi-unit rentals or fee-simple single family homes.

Non-profit developers may also limit their activity to a certain neighborhood, region, city, or county. Grassroots, community development non-profits usually develop housing only within the confines of the neighborhood from which they spring. In Hawaii, they may confine their development to specific counties.

Finally, some non-profit housing developers are created for the sole purpose of developing a particular project and dissolve upon completion of their specific task. Or they may continue in business but take over the management of the completed project rather than develop new housing.

The Role of Non-Profits

"The for-profit developer will not take on a project if it will not sell in the market, or if the sales price or rent will not cover all costs of production and a profit."[1] On the other hand, the role of the non-profit housing developer is to fill the gap created by for-profits who decline to develop due to profit limitations. Non-profits can acquire and rehabilitate old, or develop new, housing that is otherwise too expensive for a for-profit to turn a profit on from market rents or sales prices. Although non-profits need not make a profit, nonetheless, they need to keep costs down in order to keep rents or sales prices affordable. In certain markets, including Hawaii, median income households find it very difficult to pay the going market rate for housing; even more so for below-median income households.

Steps in the Typical Development Process

Exhibit I:2-1 describes the various tasks of a non-profit housing developer.[2]

The developer's role is to create a project idea and coordinate the relevant expertise and financing to carry the project to completion. Developers tend to specialize in one particular type of development project if only because they wish to replicate success by applying that specialized expertise in one area. For example, developers tend to use the same formula design, the same consultants, architects, engineers, contractors, banks and financing, even the same county housing jurisdiction and housing market.

Non-profit developers typically commit to the long-term to keep a project affordable -- at least for the duration of a low income housing loan. They also try to keep the project from being sold which may jeopardize their affordability. Some non-profit developers also manage their own projects. Others contract with public agencies or other non-profit management groups. Non-profits usually charge a development fee to cover office and staff costs, and which is included in total project costs. Usually, staff and office costs are lower than for-profits. Personnel seeking higher remuneration go to organizations that can afford it. At the same time, non-profit developers realize that by cutting costs they can pass the savings on to consumers, and thus further their mission.

Exhibit I:2-1

STEPS IN THE DEVELOPMENT PROCESS

PLANNING AND DESIGN PHASE

Develop preliminary concept
Select potential site
Form project's ownership entity
Select architect
Review schematic drawings
Prepare preliminary feasibility studies
Obtain site control (option or earnest money agreement)
Hire appraisals
Approve architect's plans
Meet with neighborhood groups
Obtain necessary permits
Obtain commitment of permanent financing from investors and lenders
Obtain commitment of construction financing from lender
Advertise for bids
Select contractors
MAKE FINAL DETERMINATION OF FEASIBILITY

CONSTRUCTION PHASE

Close construction loan
Close on site purchase
Start construction
Supervise and inspect progress
Make final inspection and corrections
Prepare final cost certification
Obtain occupancy permits
Market and sell or rent units
Close permanent mortgage loan

OCCUPANCY PHASE

Manage and maintain property
Make replacements, rehabilitate, or modernize

The steps outlined in the chart above can be taken simultaneously or may need to be repeated. For example, "obtaining necessary permits" is not a simple, "one-shot deal" but may take repeated applications, visits, hearings, testimony, and appeals.

To determine whether a project concept can be feasible, a developer must sift through a multitude of preliminary data. These usually include:

(1) Zoning and site evaluation and planning;

(2) Architectural design options;

(3) Preliminary development budget; and

(4) Preliminary operating pro forma.

Preliminary schematic drawings are meant to create interest among potential financial backers as well as to estimate construction costs. Schematics typically undergo many changes, before being finalized for submission to the relevant public agencies for permits and approvals. For example, input from community and neighborhood meetings often force changes to preliminary plans.

To protect pre-development investment in engineering and architectural feasibility studies, the developer must ensure that plans will not be undercut by having the property sold off. This is site control. To do this, the non-profit usually obtains from the potential seller of the land an option to buy by a certain date at a specified price. Under this agreement, in exchange for periodic, normally non-refundable payments, the seller agrees to keep the property off the market. Alternatively, a developer may pay a front-end lump sum in earnest money to allow the purchase at a specified date, but contingent upon certain factors such as the securing of final permits and financing. Of course, if the developer cannot meet the specified deadline or contingencies all non-refundable purchase option payments or earnest money are forfeited along with all sunk pre-development costs.

For-profits use appraisals to determine the highest fair market value that would result from the "highest and best" use of the property (in terms of dollar return). Why would non-profit developers, whose goal is antithetical to charging the highest going rate for rentals or fee simple sales, also need appraisals? To keep a project affordable, non-profits use appraisals to figure the amount of subsidies needed to make up the difference between the highest fair market value and the targeted affordable range. Both for-profits and non-profits typically need financing which depends on the projected return of the development. Consequently, both require appraisals which serve as the basis for their two different types of calculations.

Typically, in a project's initial stage, a developer tries to obtain a contingent permanent financing commitment (also called "take-out" financing) from a lender. This commitment spells out the amount, rate, and terms of the loan and the effective period of the commitment. The take-out commitment is then used to obtain a further commitment for a contingent construction loan. If the project is still within budget, the developer then finalizes the construction loan and begins draw down for the contractors. Upon completion of construction, the permanent ownership entity will close on the take-out financing.

As a rule, financing for non-profits is more complicated than for for-profits. (See Part I: chapter 5 on Hawaii Community Reinvestment Corporation financing for housing developers.) For-profits need only persuade a lender of the financial feasibility of a project. Because non-profits' margins are lower, it is more difficult to obtain conventional loans and non-profits therefore must rely on a variety of non-permanent funding sources. Many of these are public funds of one sort or another. As a result, not only is it more difficult to aggregate sufficient funds, but the effort and time involved is compounded many-fold.

The developer can gain site control to allay one type of risk. However, the developer also faces another risk. All investments in planning and design can be forfeited if subsequent project bids based on these preliminary plans and designs do not come in within budget. Only when the project is determined to be within budget can a final determination of feasibility be made.

For non-profits, a special obstacle lies in the difficulty of obtaining pre-development moneys. Money needs to be spent before a project concept can be finalized. Site control, including land acquisition and site options, needs to be obtained. Various site feasibility studies need to be carried out -- architectural, engineering, legal, planning, and design. However, this preliminary work costs money. If preliminary studies indicate that a project concept is not feasible, development cannot proceed and these costs cannot be recovered. Because of this, it is especially difficult for non-profits (who cannot fold this pre-development risk into a projected overall return on investment for profit-seeking investors) to obtain the necessary risk capital.

Development in Hawaii

The role of non-profit housing developers is affected by the unusual circumstances surrounding the development of affordable housing in Hawaii. One inescapable factor is the unavailability of land in general and the high cost of land that is available. A second is the structural combination of relatively low wages and high costs that make decent housing unaffordable to many residents.

Because of these high costs, for-profit developers have not generated much affordable housing. Contributing to these high costs are affordable housing exactions made on for-profit developers requiring a certain number or proportion of units to be sold at affordable prices. Exactions reduce the already diminished return on investment due to relatively high development costs (including length of project which increases carrying costs). Even with the general excise tax exemption and low-income housing tax credits, for-profits generally chose to build conventional homes over government-assisted low- and moderate-income homes.[3]

For-profit developers have left a huge gap in the affordable housing market. Non-profit developers and public agencies are natural candidates to fill this breech. However, in the last decade, almost all affordable housing has been developed by the public sector or by for-profits in response to exactions.

For example, since its inception in 1987 to 1992, the Housing Finance and Development Corporation has assisted in the completion of 1,137 units statewide. A further 1,431 HFDC units consisting of fee-simple homes, town homes, family and senior rentals are under construction. Finally, 16,020 units are in planning statewide.[4] HFDC's affordable fee-simple units are targeted at households earning between 80% and 120% of median area income. Rental units are targeted at households earning between 50% and 80% of median area income.

Honolulu's Department of Housing and Community Development (DHCD) develops affordable housing for Oahu residents, which currently comprise about three-quarters of the State's population. According to the DHCD's Comprehensive Housing Affordability Strategy (CHAS), the City intended to implement a one-year plan in fiscal year 1992 to construct, substantially rehabilitate, or build related infrastructure for 3,149 rental units in 15 projects. Of these, 1,996 are targeted at very low- and low-income households.[5] An additional 3,644 owner-occupied units in seven projects are also planned. Of these 1,110 are targeted at the very low- and low-income household groups.[6]

Non-profits can potentially contribute greatly to the development of affordable housing. They have the advantage of not requiring a profit margin. Affordable housing exactions, therefore, should have no deterrent effect on non-profits. In addition, whatever savings that can be generated will be passed on to consumers in the form of lower prices or rents. However, this margin can easily erode with low levels of technical expertise and financial and operational efficiency. Although not profit-oriented, non-profits still need to deal with the realities of the worlds of real estate, finance, and construction. They still need to negotiate deals and know what they are doing. If non-profit inefficiencies become too large, their comparative advantage disappears although on the surface they remain eligible for priority funding and other preferences.

Development of affordable housing in Hawaii is unusual for another reason. The major public developers (the HFDC and Honolulu's DHCD) in Hawaii have a unique dual role. They act as both sources of financing as well as active developers. In effect, they can finance their own developments. This puts them in direct competition with non-profit developers who may be eligible for public funding.

It is clear that both public agencies and non-profit developers have the same goal of generating as many affordable housing units as possible with available resources. However, non-profits in Hawaii tend not to receive funding because of their relatively poor track history. Public agencies view non-profits as relatively lacking in technical or operational skills, negating much or all of their comparative advantage vis-a-vis for-profits or public agency developers. (However, it has been claimed by one source that ". . . the level of efficiency of the public sector is lower than that of private non-profit and for-profit organizations. In Hawaii, this comparative inefficiency is masked by the extraordinary advantages given to the public sector in obtaining site control, entitlements and financing and by exemptions from development fees and restrictions.)[7] On the whole, non-profits do not have a strong record of successful development in Hawaii. The pool of effective non-profits capable of creating significant numbers of affordable units has been very small.

This is the current catch-22 situation regarding non-profit development of affordable housing in Hawaii. Non-profits do not receive more support because of their perceived relative technical and operational inefficiencies. A reduced cost-effectiveness in producing affordable housing makes it hard to justify their funding. On the other hand, because they do not receive as much support, non-profits lack the capacity to improve output, justifying public agency decisions and continuing the cycle of reduced support. (See Part I: chapter 3 comments by non-profit developers regarding capacity building grants and loans, Part I: chapter 5, on capacity building grants to become available under the newly established rental housing trust fund, and Part I: chapter 7 recommendations.)

Endnotes

1. Carla Okigwe, "Nonprofit Developers and Neighborhoods: Likely Partners" in Seattle - King County Housing Development Consortium, Guide to Neighborhood Housing Strategies, a Collaboration of Seattle Neighborhood Representatives and Nonprofit Housing Developers, 1991, hereafter referred to as "Housing Strategies," p. 65.

2. The chart and the following discussion is taken from Ken Katahira and Carla Okigwe, "An Overview of the Development Process" in Housing Strategies, pp. 88 - 93.

3. Arthur Young, Alternative Tax Policies and Incentives to Increase the Availability of Affordable Housing, Final Report, for the Hawaii Housing Authority and the Hawaii Nonprofit Housing Corporation, December, 1984, p. 20.

4. Hawaii, Housing Finance and Development Corporation, 1992 Annual Report (Honolulu: 1992), inside front cover.

5. City and County of Honolulu, Department of Housing and Community Development, Approved Comprehensive Housing Affordability Strategy for the City and County of Honolulu: October 1992 - September 1996, March, 1992, p. 5-1 and exhibits III-A summary table, III-A priority 1, and III-A priority 2.

6. Ibid.

7. Senia Investments, "Affordable Housing Development in Hawaii: A Feasibility Study" (Lafayette, CA: March 31, 1993), p. 4.

Chapter 3

NON-PROFIT HOUSING DEVELOPERS IN HAWAII

This chapter is divided into two sections. Section I addresses topics number 1 and number 5 listed in House Concurrent Resolution No. 476, H.D. 2. Section II presents the open-ended comments of survey respondents to various development issues. These include the role of non-profit housing developers, their advantages and disadvantages, their needs, and suggestions on ways to assist non-profits to improve their operations.

I. NON-PROFIT HOUSING DEVELOPERS IN HAWAII AND FOR-PROFIT DEVELOPERS WITH NON-PROFIT DEVELOPMENT ARMS

Topics number 1 and number 5 of the Concurrent Resolution read:

(1) Identify non-profit organizations which have successfully built housing developments in the State of Hawaii over the past ten years.

* * *

(5) Identify how many private developers have a non-profit development arm.

Non-Profit Housing Developers in Hawaii

There are no ready-made listings of Hawaii non-profit housing developers. A variety of methods and sources were used to identify those that do appear in Exhibit I:3-1.

First, all parties mentioned in the Concurrent Resolution -- listed below -- were asked to respond to a survey:[1]

(1) Affordable Housing Alliance;

(2) Honolulu Neighborhood Housing Services;

(3) Homeless Solutions, Inc. (formerly the Hawaii Ecumenical Housing Corporation;

(4) Hawaii Community Foundation;

(5) PATH (People And Transit Housing);

(6) Self-Help Housing Corporation of Hawaii; and

(7) The graduate student of the University of Hawaii who submitted testimony during the 1993 hearings on the Concurrent Resolution.

All but respondent (7) were asked whether they had constructed or rehabilitated any affordable housing units in Hawaii within the past ten years. They were also asked to identify any other non-profit housing developers they were aware of. It is instructive to note that none of the respondents identified any other non-profit housing developers.

As this chapter is being written, of those mentioned in the Concurrent Resolution, only the Affordable Housing Alliance, Homeless Solutions, Inc., Hawaii Community Foundation, PATH, and the Self-Help Housing Corporation of Hawaii have responded.[2] Data from respondents regarding any actual housing development are included in Exhibit I:3-1.

The Affordable Housing Alliance (AHA) does not actually develop housing itself. It plans to do this through the Ilima Corporation[3] and reports that a project called "1st Leeward" consisting of one fee-simple and sixteen rental units is being planned. The Ilima Corporation registered as a non-profit with the Department of Commerce and Consumer Affairs (DCCA) on June 20, 1986 although the DCCA listing indicates its status as "inactive."

Homeless Solutions, Inc. (HSI) has developed three projects for the homeless: (1) the Edwin Thomas Home, consisting of 28 units; (2) the Kokea Street Transient Shelter, consisting of 35 units; and (3) the Kunawai Lane Group Home, consisting of 5 units.[4] HSI registered with the DCCA on December 18, 1986.

The Hawaii Community Foundation (HCF) does not develop housing on its own but has made grants to non-profit housing developers. In response, the HCF provided a report[5] evaluating the need for a new non-profit housing developer in Hawaii. The upshot was the formation of a new non-profit housing developer named the Hawaii Housing Development Corporation which registered with the DCCA on April 19, 1993.

The Self-Help Housing Corporation of Hawaii (SHHCH) has been registered as a non-profit since May 3, 1983. The SHHCH reported having completed three fee-simple projects on Oahu, Kauai, and Maui consisting of 40, 24, and 27 units, respectively. The following fee-simple units were reported in planning:

(1) One project on Maui consisting of eight units;

(2) Two projects on Kauai consisting of 20 and ten units each; and

(3) Two projects on Oahu consisting of 20 and ten units each.

Exhibit I:3-1

LIST OF NON-PROFITS WHICH HAVE BUILT HOUSING IN HAWAII WITHIN THE PAST TEN YEARS

Non-Profit Developer	Name of Development	# Built	Units Planned	Fee or Rental	Date of Reg / Incorp	Comments
Acacia Non-Profit Corporation	Acadia Housing	90	---	F	dissolved	
Adult Student Housing of Hawaii, Inc.	Adult Student Housing of Hawaii, Inc.	100	---	R	5/19/89	Described itself as NOT a non-profit housing developer
Alger, Consuelo Zobel Foundation	Alger Community	0	70	F	7/15/88	8 units to be finished by 1/94
Alternative Structures International	Ohana Ola O Kahumana	15	---	R	11/18/74	
The ARC in Hawaii	Dominis St. & 6th Ave.	16	---	R	5/3/60	
The ARC in Hawaii	Ewa Estates	15	---	R	---	
The ARC in Hawaii	Fern Street	13	---	R	---	
The ARC in Hawaii	Hawaii Kai	6	---	R	---	
The ARC in Hawaii	Lusitana Street I	10	---	R	---	
The ARC in Hawaii	Lusitana Street II	10	---	R	---	
The ARC in Hawaii	Pearl City	11	---	R	---	
The ARC in Hawaii	Wahiawa	9	---	R	---	
The ARC of Maui	Hale Lahaina Handicapped Project	5	---	R	8/24/60	
The ARC of Maui	Hale Kihei Housing, Inc.	5	---	R	---	
The ARC of Maui	Hale Kenalua	4	---	R	---	
The ARC of Maui	Mana Ola Na Keanuenue	5	---	R	---	
Association for Retarded Citizens of Kauai	ARC of Kauai Housing Project # 1, Inc.	5	15	R	10/9/63	Of 15 units (5 per house) 10 are almost complete; 5 just broke ground
Central Oahu Youth Services Association	Home By the Sea	8	---	R	2/13/80	
Central Oahu Youth Services Association	Independent Living Skills	8	---	R	---	
Coalition for Specialized Housing	Hale Mohalu	---	213	R	1/10/89	In planning only; working with a for-profit group and HFDC
Episcopal Homes of Hawaii, Inc.	Hale O Malia in Waialae-Kahala	---	314	R	11/22/89	In planning only; will use "life care format" for elderly
Ewa Housing Foundation	Ewa Elderly	84	---	R	---	NOT currently registered in Hawaii as a non-profit corporation per DCCA
Ewa Village Non-Profit Development Corporation	Ewa Plantation	---	279	F	3/9/92	In planning only; rehabilitation project
Hale Aloha O Hilo Habitat for Humanity, Inc.	Plumeria Street (1 house)	1	---	F	11/20/89	
Hale Mahaolu	Hale Mahaolu Ekolu	42	---	R	4/2/87	Pacific Housing Assistance Corporation as consultant
Hale Mahaolu	Hale Mahaolu Eha	---	40	R	---	
Hale Mahaolu	Hale Mahaolu Elima	---	55	R	---	
Hale O Ka Aina	Brydeswood Terrace	111	---	F	9/22/72	
Hawaii County Economic Opportunity Council	Milolii Phases I - II Self-Help Housing	39	7	F	5/27/65	Described itself as NOT a non-profit housing developer
Hawaii County Economic Opportunity Council	Keaukaha / Panaewa Self-Help	20	9	F	---	With Department of Hawaiian Home Lands
Hawaii Habitat for Humanity	Baker Home, Nanakuli	1	---	F	3/2/88	On Hawaiian home lands
Hawaii Habitat for Humanity	Battered Spouse & Children's Shelter, Oahu	1	---	R	---	Multiple units in each house
Hawaii Habitat for Humanity	Irvine Home, Waianae	1	---	F	---	On Hawaiian home lands
Hawaii Habitat for Humanity	Kamaka Home, Waianae	1	---	F	---	On Hawaiian home lands
Hawaii Habitat for Humanity	Kaneakua Home, Halona St., Oahu	1	---	F	---	On state lease for eventual fee ownership
Hawaii Habitat for Humanity	Kaukini Home, Halona St., Oahu	1	---	F	---	On state lease for eventual fee ownership
Hawaii Habitat for Humanity	Mahoe Home, Nanakuli	1	---	F	---	On Hawaiian home lands
Hawaii Habitat for Humanity	Marquez Home, Waimanalo	1	---	F	---	On Hawaiian home lands
Hawaii Habitat for Humanity	Pau Home, Waianae	1	---	F	---	On Hawaiian home lands
Hawaii Habitat for Humanity	Tom Home, Lakimela St., Oahu	1	---	F	---	On state lease for eventual fee ownership
Hawaii Island Community Development Corporation	Ainakea Village Unit II Mutual Self-Help	10	---	F	7/2/86	
Hawaii Island Community Development Corporation	Pacific Paradise Gardens I	8	---	F	---	
Hawaii Island Community Development Corporation	Pacific Paradise Gardens II	7	---	F	---	
Hilo Association for Retarded Citizens	Hale Ulu Hoi, Phases I - II	36	---	R	6/22/54	For developmentally disabled / mentally retarded
Homeless Solutions, Inc.	Edwin Thomas Home	28	---	R	12/18/86	Previously "Hawaii Ecumenical Housing Corporation"
Homeless Solutions, Inc.	Kokea Street Transient Shelter	35	---	R	---	
Homeless Solutions, Inc.	Kunawai Lane Group Home	5	---	R	---	
The Ilima Corporation	1st Leeward, Oahu	---	17	R	6/20/86	In planning only; 1 fee-simple unit; DCCA non-profit list indicates "inactive"
Kahuku Village Association	Kahuku Phases I - III	107	---	F	11/4/83	
Kahuku Village Association	Kahuku Phase IV	177	---	F	---	
Ka'u Housing Corporation	Pahala Elderly Housing	8	---	R	4/16/84	For the elderly and handicapped
Kauai Housing Development Corporation	Charles River, Hanamaulu	---	165	R	8/24/92	In planning only
Kohala Union Housing Corporation	Yoshito Takamine Ainakea Elderly Housing	21	---	R	5/22/87	Elderly housing
Lokahi Pacific	Hale O Mana'o Lana Hou	10	---	R	5/11/71	Independent living for the chronically mentally ill
Lokahi Pacific	Hale Lokahi Akahi	20	---	R	---	Independent living for the physically disabled
Lokahi Pacific	Hale Lokahi Elua	8	---	R	---	Low income renters (50% or less of the Maui median income)

Non-Profit Developer	Name of Development	# Built	Units Planned	Fee or Rental	Date of Reg / Incorp	Comments
Maili Ku'u Home Non-Profit Corporation	Maililand	68	---	R	dissolved	
Opportunities for the Retarded, Inc.	Helemano Training Center	50	---	R	4/8/80	
Pacific Housing Assistance Corporation	Kailua Elderly	81	---	R	3/12/80	Elderly housing
Pacific Housing Assistance Corporation	Lanakila Gardens	28	---	R	---	For low and moderate income families
Pacific Housing Assistance Corporation	Maluhia Elderly	---	40	R	---	Under construction; for very low income, frail elderly
Pacific Housing Assistance Corporation	Palolo Affordable Housing Project	6	---	F	---	
Pacific Housing Assistance Corporation	Academy Gardens	40	---	R	---	Rehabilitation project; cooperative housing
Pacific Housing Assistance Corporation	Hoa'akea subdivision	152	---	F	---	Mark Development, Inc.'s non-profit arm also reported itself as developer
Pacific Housing Assistance Corporation	Lani Huli	80	---	R	---	Developer and owner; elderly project
Pauahi Block A Nonprofit Housing Corporation	Hale Pauahi	202	---	R	4/30/85	194 market rental units in addition to the 202 affordable units
Pu'uhonua Nonprofit Corporation	Iwilei Homeless Center	220	---	R	8/22/85	Services for homeless street people
RHF 202-II Housing (Hawaii), Inc.	Pauahi Elderly Housing	48	---	R	5/9/88	Elderly housing
RHF 202-II Housing (Hawaii), Inc.	Philip Street Elderly	34	---	R	---	Elderly housing
The Salvation Army	Wahiawa Silvercrest	60	---	R	---	A California corporation
Self-Help Housing Corporation of Hawaii	Waimanalo Self-Help	40	---	F	5/3/83	
Self-Help Housing Corporation of Hawaii	Kauai Housing #1	24	---	F	---	
Self-Help Housing Corporation of Hawaii	Maui Housing #1	27	---	F	---	
Self-Help Housing Corporation of Hawaii	Oahu Housing #1	---	20	F	---	
Self-Help Housing Corporation of Hawaii	Kauai Housing #2	---	20	F	---	
Self-Help Housing Corporation of Hawaii	Oahu Housing #2	---	10	F	---	With Hawaiian home lands lessees
Self-Help Housing Corporation of Hawaii	Maui Housing #2	---	8	F	---	With Hawaiian home lands lessees
Self-Help Housing Corporation of Hawaii	Kauai Housing #3	---	10	F	---	With Hawaiian home lands lessees
Steadfast Housing Development Corporation	Aiea, Oahu # 1	1	---	R	5/4/89	All Steadfast units are acquisitions; 2 - 10 beds / unit for mentally ill
Steadfast Housing Development Corporation	Aiea, Oahu # 2	1	---	R	---	
Steadfast Housing Development Corporation	Ewa Beach	1	---	R	---	
Steadfast Housing Development Corporation	Hawaii Kai, Oahu	1	---	R	---	
Steadfast Housing Development Corporation	Hilo, Hawaii	1	---	R	---	
Steadfast Housing Development Corporation	Kahului, Maui	1	---	R	---	
Steadfast Housing Development Corporation	Kailua, Oahu # 1	1	---	R	---	
Steadfast Housing Development Corporation	Kailua, Oahu # 2	1	---	R	---	
Steadfast Housing Development Corporation	Kailua-Kona, Hawaii	1	---	R	---	
Steadfast Housing Development Corporation	Kaimuki, Oahu	1	---	R	---	
Steadfast Housing Development Corporation	Kalihi, Oahu # 1	1	---	R	---	
Steadfast Housing Development Corporation	Kalihi, Oahu # 2	1	---	R	---	
Steadfast Housing Development Corporation	Kapaa, Kauai # 1	1	---	R	---	
Steadfast Housing Development Corporation	Kapaa, Kauai # 2	1	---	R	---	
Steadfast Housing Development Corporation	Kula, Maui	1	---	R	---	
Steadfast Housing Development Corporation	Maili, Oahu	1	---	R	---	
Steadfast Housing Development Corporation	Makakilo, Oahu	1	---	R	---	
Steadfast Housing Development Corporation	Makiki, Oahu	1	---	R	---	
Steadfast Housing Development Corporation	Mililani, Oahu	1	---	R	---	
Steadfast Housing Development Corporation	Pearl City, Oahu	1	---	R	---	
Steadfast Housing Development Corporation	Waianae, Oahu	1	---	R	---	
Steadfast Housing Development Corporation	Wailuku, Maui	1	---	R	---	
Steadfast Housing Development Corporation	Waipahu, Oahu	1	---	R	---	
West Hawaii Housing Foundation, Inc.	Captain Cook Elderly	21	---	R	6/12/80	Jointly developed with Kona Housing Corp; date of incorporation: 5/22/87
Whitmore Associates	Whitmore Circle Apartments	44	---	R	---	NOT currently registered in Hawaii as a non-profit corporation per DCCA
Wilikina Park	Wilikina Park	---	62	R	5/13/91	Estimated completion in 1/94

The second method used to identify non-profit housing developers involved a 420-page DCCA printout of all 6,011 domestic non-profit corporations registered in Hawaii. The DCCA does not have the programming capacity to extract the "nature of business" of each non-profit from its database to print out. However, names, addresses, and dates of incorporation or registration can be obtained. The only clue, therefore, as to whether any particular non-profit might be a housing developer lies in the descriptive name of the organization itself.[6] Consequently, it was necessary to manually search through non-profits ranging from the A.A.A.C.T.I.O.N. International of Hawaii to the Honolulu Table Tennis Association, to the Zion Presbyterian Church of Honolulu.

From the master list, 37 likely candidates were culled. As this chapter is being written, 24 have responded for a 65 percent response rate. Of the 24, five reported that they were neither housing developers nor had they developed any housing.[7] Three others reported having developed affordable housing but affirmed that they were <u>not</u> housing developers. For the sake of completeness, they have been included in Exhibit I:3-1. These three were the:

(1) Adult Student Housing of Hawaii, Inc.;

(2) Association for Retarded Citizens of Maui; and

(3) Hawaii County Economic Opportunity Council.

Nine of the 24 who responded indicated their status as housing developers and reported having developed housing. These nine entities were the:

(1) Hale Aloha O Hilo Habitat for Humanity, Inc.;

(2) Hale Mahaolu;

(3) Hawaii Habitat for Humanity;

(4) Hawaii Island Community Development Corporation;

(5) Ka'u Housing Corporation;

(6) Kohala Union Housing Corporation;

(7) Lokahi Pacific;

(8) RHF 202-II Housing (Hawaii), Inc.; and

(9) Steadfast Housing Development Corporation.

Finally, seven respondents reported themselves as housing developers but indicated that they had not constructed or rehabilitated housing within the past ten years in Hawaii. These were:

(1) Alii Affordable Housing Foundation (registered on September 19, 1986);

(2) The Association for Retarded Citizens of Kauai (registered on September 10, 1963), which reported having assisted the ARC of Hawaii with one development and that it had three others under construction;

(3) Ewa Villages Non-Profit Development Corporation (registered on March 9, 1992), which is planning to rehabilitate 279 fee-simple homes;

(4) Hana Affordable Housing and Community Development Corporation (registered on November 8, 1991);

(5) Laniakea Housing Corporation (registered on August 11, 1972); and

(6) Kauai Habitat for Humanity, Inc. (registered on October 28, 1992), although it has carried out post-Iniki rebuilding of 14 homes as of October, 1993: two at Kekaha, one at Kapaa, ten at Anahola, and 1 at Kalaheo.

A seventh respondent, the Episcopal Homes of Hawaii, Inc. (registered on November 22, 1989), also fell within this category. However, its "life care" package that combines both rental and health care costs requires an explanatory note. Scheduled to open in mid-1995, its project, named Hale O Malia at Waialae-Kahala, will consist of 314 senior retirement units (minimum entry age is 62). The project plans to offer residents independent living as well as lifetime care up to the skilled nursing facility level. Other amenities will include a fitness center, a lap pool, and a tennis court. Residents must pay a one-time entry fee ranging from $70,000 to $600,000, depending on the size of the unit, and a monthly maintenance fee. A unit's second resident must pay a $25,000 entry fee. The entry and monthly fees cover rental as well as care for the life of the resident (Medicare is required). In the event a resident dies, prorated refunds to the surviving spouse or the resident's estate will be limited to the first two years of residence.[8] Because rental and health care costs are bundled, it is not possible to directly compare these units with conventional affordable units.

The third method used to search for and cross-check the accuracy of information regarding non-profit housing developers employed a survey of the housing activities of:

(1) The Housing Finance and Development Corporation (HFDC);

(2) The Hawaii Community Development Authority (HCDA);

(3) The Department of Housing and Community Development of Honolulu county (DHCD);

(4) The Office of Housing and Community Development of Hawaii county (OHCD);

(5) The County Housing Agency of Kauai county (CHA); and

(6) The Department of Housing and Human Concerns of Maui county (DHHC).

These agencies are in a unique position to either interact with or observe the operation of non-profit housing developers. As this chapter is being written, only the DHHC has not responded.

Each agency was asked to list all developers who built or rehabilitated affordable housing units within each agency's jurisdiction in the past ten years. Also requested were:

(1) The name of each developer and development;

(2) Whether the developer worked with the agency or not; and

(3) The developer's status as either a for-profit or a non-profit, or a for-profit with a non-profit development arm.

The HCDA reported only one such developer of affordable housing: Business Investments, Limited, a for-profit group, which built 297 affordable units in the Royal Capitol Plaza in Kakaako, Oahu. No non-profits were involved.

The HFDC provided information that was used to cross-check data already developed regarding the following non-profits: Hawaii County Economic Opportunity Council, the Self-Help Housing Corporation of Hawaii, Whitmore Associates, Wilikina Park, Hale Mahaolu, Pacific Housing Assistance Corporation, and Lokahi Pacific. In addition, new data were reported regarding the Coalition for Specialized Housing, (also a non-profit) and its current work with both the HFDC and the CBM Group -- a for-profit -- in developing 213 affordable rental units in Pearl City, Oahu.

Honolulu's DHCD provided a list of affordable housing developments -- excluding projects involving the rehabilitation, acquisition, or both, of existing dwellings -- that were developed by 17 non-profits. (See Exhibit I:3-2.) Fifteen of these non-profit developers were not originally mentioned in the Concurrent Resolution.

Exhibit I:3-2

LIST OF NON-PROFIT DEVELOPERS FROM THE HONOLULU DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Developer	Project	# Units	Sales or Rental	City Assistance	Total Project Cost
Acacia Non-Profit Corp (Dissolved)	Acacia Housing	90	Sales	Lease of City land, Loan of CDBG funds	$4,837,000
Alger Foundation	Self-Help Housing	69	Sales	Exemptions from Development requirements	$16,000,000
Alternative Structures International	Ohana Ola O Kahumana	15	Rental	Lease of City land, Grant of CDBG funds	$1,735,000
Association for Retarded Citizens	ARCH - Dominis St & 6th Ave	16	Rental	Lease of City land, Loan of CDBG funds	$450,000
Association for Retarded Citizens	ARCH - Ewa Estates	15	Rental	Lease of City land, Loan of CDBG funds	$1,200,000
Association for Retarded Citizens	ARCH - Fern Street	13	Rental	Lease of City land, Loan of CDBG funds	$848,000
Association for Retarded Citizens	ARCH - Hawaii Kai	6	Rental	Lease of City land, Loan of CDBG funds	$496,000
Association for Retarded Citizens	ARCH - Lusitana Street I	10	Rental	Lease of City land, Loan of CDBG funds	$597,000
Association for Retarded Citizens	ARCH - Lusitana Street II	10	Rental	Lease of City land, Loan of CDBG funds	$685,000
Association for Retarded Citizens	ARCH - Pearl City	11	Rental	Loan of CDBG funds, facility design	$2,200,000
Association for Retarded Citizens	ARCH - Wahiawa	9	Rental	Loan of CDBG funds	$1,480,000
Central Oahu Youth Services Assn.	Home By the Sea	8	Rental	Loan of CDBG funds	$109,000
Central Oahu Youth Services Assn.	Independent Living Skills	8	Rental	Loan of CDBG funds	$200,000
Ewa Housing Foundation	Ewa Elderly	84	Rental	Lease of City land, construction of offsite improvements	$6,832,000
Homeless Solutions, Inc *	Edwin Thomas Home	28	Rental	Loan and Grant of CDBG funds	$2,360,000
Homeless Solutions, Inc *	Kokea Street Trans. Shelter	35	Rental	Loan of CDBG funds	$1,439,000
Homeless Solutions, Inc *	Kunawai Lane Group Home	5	Rental	Lease of City land, Loan of CDBG funds	$117,000
Kahuku Village Association	Kahuku Phase IV	177	Sales	Lease of City land, Loan of CDBG funds	$8,832,000
Kahuku Village Association	Kahuku Phases I-III	107	Sales	Lease of City land, Loan of CDBG funds	$4,291,000
Maili Kuu Home Non-Profit Corp	Maililand	64	Rental	Lease of City land, Loan of CDBG funds, Tax Exemption	$1,443,000
Opportunities for the Retarded, Inc.	Helemano Training Center	50	Rental	Loan of CDBG funds	$815,000
Pacific Housing Assistance Corp	Kailua Elderly	81	Rental	Lease of City land, Loan of CDBG funds	$11,600,000
Pacific Housing Assistance Corp	Lanakila Gardens	28	Rental	Lease of City land, Loan of CDBG funds	$3,293,000
Pacific Housing Assistance Corp	Maluhia Elderly	40	Rental	Exemptions from Development requirements	$7,088,000
Pauahi Block A - Non-Profit Corp. (Dissolved)	Hale Pauahi	396	Rental	Lease of City land, Loan of CDBG funds, Tax exempt bonds	$23,000,000
Puuhonua Nonprofit Corp	Iwilei Homeless Center	220	Rental	Sublease of State land, Grant of CDBG funds	$850,000
Retirement Housing Foundation	Pauahi Kupuna Elderly	48	Rental	Lease of City land	$2,400,000
Retirement Housing Foundation	Philip Street Elderly	34	Rental	Lease of City land, Loan of CDBG funds	$3,930,000
Salvation Army	Wahiawa Silvercrest	80	Rental	Exemptions from Development requirements	$7,000,000
Self-Help Housing Corp. of Hawaii	Waimanalo Self-Help	40	Sales	Interim CDBG loan	$3,900,000
Wilikina Park	Wilikina Elderly	64	Rental	Lease of City land, Loan of CDBG funds	$7,600,000

* Formerly Hawaii Ecumenical Housing Corporation

Hawaii county's OHCD reported six for-profits who developed affordable housing; none had a non-profit arm. OHCD also reported new data for three projects involving four non-profits.[9] The four non-profits were: the Hawaii Island Community Development Corporation, West Hawaii Housing Foundation, Inc. and Kona Housing Corporation jointly developing one project, and the Hilo Association for Retarded Citizens.

The Kauai CHA confirmed data regarding the formation of a new non-profit named the Kauai Housing Development Corporation. This entity was registered on August 24, 1992 and is planning the Charles River project in Hanamaulu, Kauai, consisting of 165 affordable rental units, planned for $108,000 each. The CHA also provided new data on a project in Wailua.

The fourth method used to identify non-profit housing developers involved interviews with various individuals and organizations in the field of housing development. One was the Pacific Housing Assistance Corporation.[10] According to one source, "The only active community-based non-profit developers on Oahu are Pacific Housing Assistance Corporation (PHAC) and Hawaii Ecumenical Housing Corporation (HEHC)."[11] In addition, the same source concluded that PHAC was ". . . apparently the only Oahu organization which currently qualifies as a CHDO [community housing development corporation]. . . ."[12] (Fifteen percent of all Home Investment Partnership Program (HOME) funds, granted by the United States Department of Housing and Urban Development and first authorized by the National Affordable Housing Act of 1990, are mandated for eligible activities undertaken by CHDOs. Eligible activities include ". . . acquisition of land and existing buildings, construction of new rental and first-time home buyer units, rent subsidies, and financial assistance to first time home buyers [as well as] rehabilitation [of existing buildings]. . . .")[13]

In addition to developing the six projects listed in Exhibit I:3-1, PHAC also acted as housing consultant on 19 projects to various non-profit clients who needed PHAC's development expertise. A table compiled by PHAC is included as Appendix I:C.

One individual, a housing development consultant,[14] provided new data on four non-profit developers. These were: the Acacia Non-Profit Corporation, Maili Ku'u Home Non-Profit Corporation, Pauahi Block A Non-Profit Housing Corporation, and Pu'uhonua Non-Profit Corporation. (See Exhibit I:3-1.)

The Consuelo Zobel Alger Foundation[15] not only provides funding for, but also develops affordable housing. In its response to our survey, the Alger Foundation indicated that 70 fee-simple units of the Alger Community project on Oahu are planned and eight units are scheduled to finish in January, 1994. For the sake of completeness, these are included in Exhibit I:3-1.

Private For-Profit Developers With Non-Profit Development Arms

First of all, "private" is understood as intending to describe "for-profit" as opposed to non-profit developers. The use of the word "private" to refer to for-profits is unfortunate inasmuch as it misleads in two ways. First, it incorrectly implies all private corporations are for-profit. Clearly, most of the non-profit developers in this study are private. Secondly, it further incorrectly implies that non-profits are "public" or possess an official, governmental capacity in some way. It is easy to mistakenly end up with the faulty proposition that "private" corporations are generally for-profit because the obverse is generally true -- that "public" corporations are generally non-profit.

Furthermore, for-profits who are merely complying with development mandates to include a certain proportion of affordable units do not necessarily qualify as having a non-profit arm. For-profits appear to build affordable units -- what non-profits do as a matter of principle -- mostly on a case-by-case basis.

One possible exception could be the Myers Corporation's PATH. PATH's mission statement is as follows:[16]

> PATH Housing Development Corporation ("PATH") is a non-profit organization created to promote the development of affordable housing within the City and County of Honolulu, Oahu, Hawaii. PATH will actively work with government to assist in determining housing needs and opportunities. It will act as a developer in the production of affordable housing to meet those needs. PATH's primary purpose will be to develop significant quantities of new quality affordable housing. It will, also, where possible, promote the acquisition and preservation of existing affordable units. It is PATH's overall purpose to help relieve Oahu's affordable housing shortage.

PATH cites the reason for its creation as ". . . a private-sector response to the Governor's 1992 'State-of-the-State Address' and the community's overwhelming need for quality affordable housing. . . ."[17] PATH was conceived at a time when affordable housing was to be built near the sites of train stations of the abortive rapid transit system in Honolulu. It was initiated by the Myers Corporation and Morrison Knudsen Corporation through their joint venture partnership, Myers/MK Partners. PATH was incorporated on September 1, 1992. Having only received approval from the Internal Revenue Service of its non-profit status on July 5, 1993, PATH had no projects as of the date of this writing. PATH has a board of directors consisting of a number of prominent individuals with initial operating funds donated by AEG Westinghouse and the Myers Corporation. The list of board members and a further description of PATH's goals and objectives is included as Appendix I:D.

An evaluation of PATH's potential strengths and weaknesses as a non-profit developer was made by Senia Investments in a report written for the Hawaii Community Foundation. Senia found that PATH would not qualify as a CHDO for the $1,400,000 set-aside for Honolulu nor as a "local development corporation" for CDBG funds.[18] Senia also doubts that PATH would be able to produce much, if any, rental housing for households at 80 percent of the median income or below. It cites PATH's focus on fee-simple housing targeted to households having incomes between 80 to 120 percent of the median.[19]

To find other for-profit housing developers that maintain a non-profit development arm, listings from the 1993 edition of the Hawaii Business Directory were used.[20] Surveys were sent to 135 entities listed under "real estate development co" and to seven under "real estate develop/manage." Responses were received from 53 entities for a 39 percent response rate. The great majority of those responding (38 entities or 72 percent) indicated that they were for-profit developers who had not developed any affordable housing in Hawaii within the last ten years. Nine (17 percent) for-profits reported having developed affordable housing without benefit of a non-profit development arm.

Only one respondent[21] -- Mark Development, Inc. -- reported having a non-profit development arm <u>**and**</u> developing affordable housing within the last ten years. Mark Development, Inc., reported the following:

(1) 36 rental units in the Kekaha Elderly project on Kauai;

(2) 114 rental units in the Kekaha Haheo project on Kauai;

(3) 242 fee-simple units in the Hokulele project on Oahu; and

(4) 141 fee-simple units in the Ho'akea[22] project on Oahu.

II. COMMENTS OF SURVEY RESPONDENTS

Respondents of the LRB survey also offered comments that broadly encompassed the following issues:

(1) The advantages and disadvantages of non-profit housing developers vis-a-vis for-profits;

(2) Specific steps, if applicable or necessary, to help non-profits compete with for-profits on a more equal footing;

(3) The greatest obstacles facing non-profits in their development role;

(4) Specific actions, if any, on the part of state government to assist or facilitate the operations of non-profits; and

(5) Specific state and county laws or ordinances or governmental processes which helped non-profits to develop housing.

Advantages and Disadvantages of Non-Profit Housing Developers

There was wide acknowledgment that the inherent role or mission of non-profits affords them an advantage by relieving them of the burden of generating profits. It was also felt that expedited processing -- available through chapter 201E, *Hawaii Revised Statutes* -- and exemption from the general excise tax also helps non-profits. Also cited was access to certain funding resources some of which are not generally available to for-profits. These include charitable donations; low income housing tax credits; loans from the Hawaii Community Reinvestment Corporation (see Part I: chapter 5); low, or no-interest loans or grants from state and county governments (including community development block grants and the rental housing trust fund); rental subsidies; access to free or low-cost land for building sites; and statutory exemption from certain zoning and building restrictions.

Rental subsidies received by tenants work to reduce the developer's initial capital requirements. Exemptions from zoning and other restrictions also serve to reduce developer costs by making a project more cost-effective. For example, a density restriction exemption allows a developer to increase housing density, thereby lowering per unit costs.[23] Under certain circumstances, state law also exempts non-profits from the prevailing wage rate requirements of section 104-2, *Hawaii Revised Statutes*. The exemption takes effect if the eligible developer is a non-profit and if the entire cost of the project is less than $500,000.[24]

Aside from funding resources, non-profits also tend to operate with lower overhead. Salary expenses are spared whenever services are donated by professionals such as architects, engineers, and builders. On the other hand, non-profits often do not have sufficient funds to attract personnel who are competent and knowledgeable about housing development. There were several complaints that non-profits in general do not have the required development expertise to carry out housing development successfully.

Several respondents also complained of low cash flows. Because non-profits charge low development fees in order to keep housing units affordable, they often need to continually raise money to keep their operations going. Although access to public funds is seen as an advantage over for-profits, over-dependence on such resources can turn into a disadvantage. Non-profits also complain of the near-impossibility of securing ordinary bank financing due to a lack of collateral. Given the scarcity of land in Hawaii, when land is not donated or made available at reduced cost, non-profits cannot compete with for-profits in securing sites.

Furthermore, several non-profits voiced worry over the lack of "front money" or "pre-development" funds to develop initial plans and to carry out feasibility and site studies, etc. without a guarantee of a project's success. (However, see the section in Part I: chapter 4, that discusses section 201E-217, *Hawaii Revised Statutes*, which does provide loans or grants

". . . to cover planning, engineering, feasibility studies, and other initial costs, including the cost of options, agreements of sale, and down payments of commencing projects . . . ." See also Part I: chapter 4, discussion of chapter 201F, HRS, and Part I: chapter 5, discussion of the rental housing trust fund and capacity building grants.)

Specific Actions to Help Non-Profits Compete With For-Profits

Several respondents felt that the issue of assisting non-profit developers to compete with for-profits is irrelevant, the idea being that the two operate on separate playing fields. However, one felt that whenever a <u>public</u> site becomes available, it must be given to a non-profit to build for those with the lowest income and for the longest time. Another felt that there were not enough non-profits in operation who have the necessary development expertise.

Other respondents suggested the following:

(1) Municipalities to be more aggressive in seeking federal funds for non-profits;

(2) For-profits not to be given no-bid state housing contracts;[25]

(3) The State [in its capacity as both developer and financing source] to avoid inherent conflicts of interest by not competing with non-profits;

(4) Government to give its line staff more discretion in implementing housing development programs and encourage bottom-up program improvement;

(5) Government to earmark funds for non-profits;

(6) Government to pass legislation to urge or require state and county housing agencies to work with non-profits;

(7) Government and other sources to provide more front-end capital or pre-development funds;

(8) State to convene a development consultant pool for the use of non-profits for pre-development work; and

(9) State to establish a permanent funding source or equity pool of capital for affordable housing, especially for rentals.

Obstacles Facing Non-Profits and Suggested Government Assistance

Not surprisingly, the scarcity and the high cost of land, or both, topped the list of obstacles faced by non-profit housing developers in Hawaii. Inadequate infrastructure, especially on the neighbor islands, and the high cost of infrastructure (and sometimes outdated and expensive infrastructure requirements) were also cited. Again, the lack of sufficient capitalization, especially initial front-end, or pre-development funds was mentioned. One complained that available state loans covering pre-development costs involves excessive paperwork. The lack of money to attract competent development expertise was also cited. *Inflexibility of certain governmental rules with regard to development programs was also* mentioned.

Respondents suggested several governmental actions to help non-profits overcome the obstacles they consider critical. Among these are:

(1) Allowing government flexibility with program rules on a case-by-case basis, e.g. waiving restrictions on the use of certain funds for purchase of land to include construction expenses; waiving requirements to spend at least ten percent of certain funds by year end to qualify for tax credits;

(2) *Allowing non-profits the flexibility to make "profits" by allowing them to report* positive fund balances in order to remain competitive with for-profits;

(3) Creating a more stable environment for affordable housing by lengthening beyond one year the time commitment for state operating funds and by allowing reasonable agency flexibility in relation to the time constraints within which the developer has to operate;

(4) Making available "capacity building" grants or loans to supplement non-profit operations including the hiring of staff;

(5) Further streamlining the permit process;[26]

(6) Suspending the fee imposed by the State on non-profits to bid on a project;

(7) Directing and allowing the HFDC to give land to non-profits free [the claim is that currently, appropriations require HFDC to recover on infrastructure development, interest, and administrative carrying costs];

(8) Directing and allowing the Office of Hawaiian Affairs to reduce or eliminate their "highest and best use" return calculations when dealing with non-profits who develop affordable housing;

(9) Directing the Department of Health to adopt more flexibility to grant waivers or exemptions regarding certain restrictions involving lots of 10,000 square feet using septic tanks or leach fields that limit house size to five bedrooms;

(10) Exempting low income rental housing from water facility charges; and

(11) Exempting non-profits from the Hurricane Iniki Relief fee paid at recordation;

As a respondent, the HFDC reported that it provides technical assistance to non-profits to help them attain development capacity through various programs such as the rental housing trust fund and the HOME program. (In the HOME program, fifteen percent of the State's allocation is reserved for qualified non-profits (community housing development organizations, or CHDOs). In addition, ten percent of Hawaii's federal tax credit ceiling is set aside for qualified non-profits in the low income housing tax credit program.)

Hawaii Laws That Helped Non-Profits

In general, chapter 201E, *Hawaii Revised Statutes*, was cited as having helped non-profit developers through access to funding, general excise tax exemption (in conjunction with section 237-29, HRS), low-income housing tax credits (in conjunction with §235-110.8, HRS), and exemptions from certain zoning and other requirements. Despite this, some complained of excessive paperwork and a process that is still too lengthy. Chapter 201F, *Hawaii Revised Statutes*, relating to the rental housing trust fund, was also mentioned by the HFDC as being of assistance to non-profits. The HFDC also cited the federal Home Investment Partnerships Program (24 C.F.R. Part 92).

Endnotes

1. See Appendix I:B.

2. Those not responding were contacted by letter, follow-up letter, and several subsequent follow-up phone calls.

3. Information affirmed by Charles Torigoe of the AHA and the Honolulu Neighborhood Housing Services in a telephone interview of September 7, 1993.

4. Data from Honolulu's Department of Housing and Community Development. HSI, itself, reported 32 units in the Edwin Thomas Home.

5. Senia Investments, "Affordable Housing Development in Hawaii: A Feasibility Study" March 31, 1993, hereafter referred to as "Senia." Senia Investments is located in Lafayette, California.

6. Mrs. Roberta Morimoto of the Business Registration Division of the DCCA was instrumental in furnishing the printout.

7. These five were: the Catholic Charities of the Diocese of Honolulu, East Oahu Housing Corporation, Maui

Affordable Housing Alliance, The Mutual Housing Association of Hawaii, and the Waimaha Housing Corporation.

8. Information from telephone interview of October 20, 1993, with sales agent for Hale O Malia.

9. A fourth project involving a fifth "non-profit" has been omitted from Exhibit I:3-1 because the developer cited, the Hawaii Community College Model Home Program, is not registered with the DCCA as a non-profit corporation. The Program built one fee-simple model home in Hilo.

10. *PHAC was referred by Gail Kaito, Deputy Director of Honolulu's Department of Housing and Community* Development.

11. Senia, p. 21. However, in a telephone interview on November 10, 1993, Terry Brooks of Homeless Solutions, Inc. (formerly HEHC), described the organization as not being a housing developer but as a non-profit administrator of housing for the homeless in existing shelters.

12. Ibid., p. 14.

13. Ibid.

14. John W. Anderson, Jr., of Hawaii Project Management, Inc., also referred by Gail Kaito.

15. Also referred by Kaito.

16. From material supplied by PATH.

17. Ibid.

18. Senia, pp. 23-24.

19. Ibid.

20. CD Systems Corp., 1993 Hawaii Business Directory (Honolulu: 1993).

21. One other respondent, who did not identify itself, reported having a non-profit development arm but had not developed affordable housing within the last ten years.

22. See Exhibit I:3-1; Pacific Housing Assistance also reported itself as the developer for Ho'akea but indicated 152 units.

23. §201E-210(a), Hawaii Revised Statutes, allows the Housing Finance and Development Corporation to provide exemptions from ". . . all statutes, ordinances, charter provisions, and rules of any governmental agency relating to planning, zoning, construction standards for subdivisions, development and improvement of land, and the construction of units thereon; . . ." Such exemptions take effect if the county council takes no action within 45 days to disapprove them. *(According to Act 15, Session Laws of Hawaii, 1988, for the five-year* period from April 20, 1988 to April 19, 1993, a moratorium was imposed on certain provisions of chapter 201E, including §201E-210(a)(3) which required the county council's approval for zoning and other exemptions. During that moratorium, only a public hearing conducted by the HFDC was required.) Section 201E-212(c) provides similar exemptions regarding independent development of projects. (The same moratorium, which has expired, applied to section 201E-212(c).)

24. Hawaii Rev. Stat., sec. 201E-41.

25. Section 201E-211(b), Hawaii Revised Statutes, allows non-bid contract awarding by the State: "In selecting the eligible developers or in contracting any services or materials for the purposes of this chapter, the corporation [HFDC] shall not be subject to the competitive bidding laws."

26. Act 227, Session Laws of Hawaii 1992, already requires by December 31, 1993:

    (1) Each county to enact ordinances to decrease to no more than twelve months the total time required by the county to review and grant all general plan, development plan, community plan, zone change, and discretionary permit approvals to construct housing in that county; and to decrease to no more than six months the total time required to process and approve subdivision, grading, building, and other ministerial development permits; and

    (2) Each state agency to adopt rules to decrease to no more than six months the total time required by all state agencies to review and grant approvals to construct housing in Hawaii and other required permits connected with housing development.

Chapter 4

FINANCING AVAILABLE TO NON-PROFITS AND STATE STATUTES FAVORING NON-PROFIT DEVELOPERS

This chapter is written to supplement material in Part II relating to topics number 4, number 6, and number 10 regarding types of financing for non-profits, state statutes favoring or assisting non-profit housing developers, and state tax credits, respectively. A review of Hawaii's statutes that favor non-profit developers is also included.

Topics number 4, number 6, and number 10 of the Concurrent Resolution read:

> (4) Identify the type of financing available for non-profit organizations to build housing units.
>
> * * *
>
> (6) Identify Federal and State statutes which favor or assist non-profit organizations in developing housing.
>
> * * *
>
> (10) Determine how State and Federal tax credits may benefit non-profit organizations.

Types of Financing

In order to keep costs down, non-profits need to secure subsidies of one kind or another. Reducing costs is important for affordable housing development. This is because non-profit developers have no profit incentive so that any cost reduction benefits are guaranteed to be passed on to consumers.

Some subsidies are direct grants of money. Others are less direct. Among the less direct subsidies are cost write-down programs.[1] As applied to land, this kind of program may involve a county's use of community development block grant (CDBG) funds to buy land and then donating it for affordable housing development. At times, land is resold at some reduced proportion of its fair market value to enable the non-profit to develop less expensive housing. Otherwise, land may be leased to non-profit developers on favorable terms. In Hawaii, by reclassifying conservation or other type lands to urban, the State acquires great leverage to impose affordability requirements on the land to be developed. The State can transfer the land to a non-profit developer at a nominal cost without having to generate any dollar subsidies. By the same token, non-profits also gain greatly by receiving land at a nominal cost. Non-profits are most likely to acquire the large amounts of land needed to achieve high volume production of affordable housing by developing the affordable component of a master planned community development by a public agency such as the HFDC or Honolulu's DHCD.[2] At the same time, master planned communities tend to be built in phases which offers non-profits a comparatively predictable pipeline of projects.[3]

A second type of cost write-down is an interest rate subsidy. The non-profit purchaser of land pays a below-market rate on the purchase loan. "The difference is an interest reduction grant which can be deducted from the total land cost and applied to the purchase price of the unit as a front end grant for site acquisition."[4]

A third type of cost write-down involves construction costs. In this case, when a non-profit developer has already selected a site, a subsidy is used as a front end grant to reduce construction costs. The non-profit covers the remaining costs.

A fourth type of cost write-down applies to the cost of infrastructure or site development. Often, the amount of this type of write-down equals the amount of the assessment made against the property for the improvements. In effect, the cost of the assessments is eliminated.

Obviously, other types of cost reduction measures can be used, and in various combinations. The overall aim and effect of these measures are to reduce the cost of housing to the consumer through a lower purchase price or reduced rents.

Among the more direct subsidies are funds from the sale of tax-exempt bonds and state and county government assistance. In Hawaii, these come from grants and loans from the HFDC and county housing departments. Counties spend large amounts in capital improvement projects funded by general funds. Honolulu's Department of Housing and Community Development spent $58,901,000 in fiscal year 1992 on housing developments on Oahu.[5] The primary sources of flexible federal funds come from the HOME and CDBG programs. (Also see Part II of this joint study for a discussion of federal HOME funds and federal CDBG funds (entitlement and non-entitlement funds for states and small cities).) HOME funds are granted by the United States Department of Housing and Urban Development to states and larger cities and counties by formula. Smaller cities and counties apply through the state of Nevada.[6]

State governments receive 40 percent and local governments receive 60 percent of HOME funds. In Hawaii, the state government received $4.5 million and $3.0 million for fiscal years 1992 and 1993, respectively. Honolulu county received $4.5 million and $3.3 million in fiscal years 1992 and 1993, respectively.[7] Fifteen percent of all HOME funds must be channeled to eligible activities by qualified CHDOs, as defined by the National Affordable Housing Act of 1990. Eligible activities include land and building acquisition, new rental and first-time home buyer construction, rent subsidies, and financial assistance to first-time home buyers.[8] HOME's occupancy standard requires that 90 percent of HOME funds that are invested in rental housing be attributable to units occupied by families at or below 50 percent of the median income for the area. Occupants of the remaining ten percent must have incomes below 80 percent of the median income. Taken together with HOME's affordability standard, rents for each unit should not exceed what is "affordable" (no more than 30 percent of monthly income) to households earning about 60 percent of median income.[9]

Community Development Block Grants (CDBG) funds target higher median income households. Not less than 70 percent of all program benefits must be provided to households earning incomes less than 80 percent of the median income.[10] Unlike HOME funds, they do not require matching funds. Neither is there a set-aside for non-profit CHDOs. CDBG funds are also more flexible and can be spent on non-housing community development activities.[11] In fiscal year 1992, Honolulu county received $12.5 million. A similar amount is expected for fiscal year 1993.

The Homes Revolving Fund (sections 201E-207 and 201E-207.5, HRS) is funded with the proceeds of general obligation bonds to finance the development of affordable housing and related infrastructure. The Dwelling Unit Revolving Fund (sections 201E-203 and 201E-204, HRS) is similarly funded and the proceeds used to acquire, sell, lease, and rent residential and other properties and to fund mortgage and construction loans and down payment loans.[12]

There are also bank second mortgages backed by guarantors and money from private fund raising. In addition, there are loans from the Hawaii Community Reinvestment Corporation (HCRC), a private non-profit funding entity. (See Part I: chapter 5 for a discussion of the role of the HCRC.) Sometimes overlooked are charitable donations that can be used as tax write-offs. Some donations are given by other charitable, tax exempt organizations which may have a special interest in low-income housing development. The Harry and Jeanette Weinberg Foundation is a prime example. Some donor charitable organizations may have religious affiliations. (See discussion of the Hawaii Community Foundation and the Alger Foundation in Part I: chapter 3.)

Recipients of subsidies can either be developers or prospective homeowners or renters. If non-profit developers receive them, these subsidies (such as density enhancement concessions) are used to reduce the cost of construction and generate savings passed on to consumers. If renters receive them, these subsidies obviously cut renters' costs. However, they also reduce the required return on investment for developers and so enable them to reduce their initial construction costs and assume larger mortgages, usually for longer periods. Homeowners use these subsidies to reduce the cost of the purchase. "Sweat-equity" *is a variation of a subsidy where low-income renters perform various maintenance* or upkeep functions on their units for a specified period. Typically, in exchange, monthly rentals are accumulated as a down payment for the renter households' future purchase of the units.

Statutes That Favor Non-Profits

Topic number 6 of the Concurrent Resolution asks for "statutes that favor or assist" non-profit developers. Most housing and development laws do not differentiate non-profits from for-profits. Certainly, they do not discriminate against non-profits. Only a very few discriminate in favor of non-profits. Consequently, a law that assists a developer would most probably also assist a non-profit developer. Therefore, for the purposes of this study, it would make no sense to list the entire corpus of laws that assist housing developers. The focus of this and the following section is on statutes that grant different treatment in favor of non-profits.

Hawaii

In Hawaii, the statute governing the development of affordable housing is chapter 201E, Hawaii Revised Statutes. This statute is quite long. It is divided into four parts -- with part II having 11 subparts and part III having four subparts. On the whole, chapter 201E treats for-profit and non-profit housing developers equally. That is, for the most part, the law does not especially favor non-profits at the expense of for-profits. "Favoring" implies unequal treatment, a positive discrimination in favor of one party over another. However, in most of chapter 201E, for-profits are just as likely to receive benefits under the law as non-profits, as long as they are "eligible" for such benefits. The eligibility criteria do not include a developer's profit status or whether the developer distributes profits or dividends from its activities.

Section 201E-2, Hawaii Revised Statutes, defines "eligible developer" as:

"Eligible developer" means any person, partnership, cooperative including limited equity housing cooperatives as defined in chapter 421H, firm, nonprofit or profit corporation, *[emphasis added]* or public agency determined by the corporation:

(1) To be qualified by experience and financial responsibility and support to construct housing of the type described and of the magnitude encompassed by the given project;
(2) To have submitted plans for a project adequately meeting the objectives of this chapter, the maintenance of aesthetic values in the locale of the project, and the requirements of all applicable environmental statutes, and rules; and
(3) To meet all other requisites the corporation deems to be just and reasonable, and all requirements stipulated in this chapter.

It also defines "development" as:[13]

"Develop" or "development" means the planning, financing, acquisition of real and personal property, demolition of existing structures, clearance of real property, construction, reconstruction, alteration, or repairing of approaches, streets, sidewalks, utilities, and services, or other site improvements, or construction, reconstruction, repair, remodeling, extension, equipment, or furnishing of buildings or other structures, or any combination of the foregoing, of any housing project. It also includes any and all undertakings necessary therefor, and the acquisition of any housing, in whole or in part.

Although non-profits are assisted by chapter 201E as a whole, only a small portion of the housing statute especially "favors" non-profits. The focus of the Concurrent Resolution is to help non-profits expand their role. Because the entire statute "assists" non-profits (as well as for-profits), it makes little sense to enumerate and discuss the entire statute. Non-profits, however, occupy a favored position in certain parts of chapter 201E. These are discussed below.

Section 201E-30.5, HRS: This section designates the HFDC as the state housing credit agency and authorizes it to allocate the federal housing tax credit dollar amounts within the State. It also authorizes the HFDC to ". . . determine the portion of the State's housing credit ceiling set aside for projects involving qualified nonprofit organizations." This portion is currently ten percent. The entire allocation is calculated by multiplying $1.25 times the State's population in the calendar year according to section 42(h) of the Internal Revenue Code of 1986. (See also the separate section on the state low-income housing tax credit at the end of this chapter.)

Section 235-110.8, HRS: This section authorizes a separate Hawaii state low-income housing tax credit, based on the federal tax credit. "The low-income housing tax credit shall be thirty percent of the applicable percentage of the qualified basis of each building located in Hawaii. Applicable percentage shall be calculated as provided in section 42(b) of the Internal Revenue Code." That is, the amount of the state tax credit is thirty percent of the federal tax credit.

Section 201E-41, HRS: Non-profit housing developers can receive a special exemption from the requirements of section 104-2, HRS, relating to the payment of prevailing wages for construction labor. However, this section has limited application only to housing projects whose total costs are less than $500,000. In addition, when federal HOME funds are used in projects of twelve or more units, the Davis-Bacon wage standards are invoked.[14]

Section 201E-130 et. seq.: Sections 201E-130 through 201E-135 constitute Subpart D, Part II, of chapter 201E, HRS, relating to the Rental Assistance Program. This subpart provides interim construction financing for the development of affordable rental housing. Non-profits are "favored" to the extent that they are accorded priority over the HFDC in receiving interim construction financing. However, sharing this priority are for-profits. That is, both qualified for-profits and non-profits receive priority over the HFDC with respect to interim construction financing.[15] The fund through which moneys are disbursed is the rental assistance revolving fund. The HFDC is required to ". . . use up to $25,000,000 plus any bond proceeds to provide interim construction financing . . . for the development of affordable rental housing . . . the corporation . . . shall give preference to rental housing projects developed by qualified sponsors who are private nonprofit or profit entities."[16] The HFDC is authorized under the same section to issue an additional $25,000,000 in taxable bonds, depending upon demand, to total a potential $50,000,000.[17]

Section 201E-160 et. seq.: Sections 201E-160 and 201E-161, constitute Subpart G, Part II, of chapter 201E, HRS, relating to the State Mortgage Guarantee Program. This subpart authorizes the HFDC to guarantee up to 100 percent of the principal balance of real property mortgage loans of single-family or multi-family housing developed under self-help or shell housing programs, made to qualified borrowers by private lenders.[18] A "self-help program" is defined as development or conservation of housing in which prospective homeowners have contributed labor, materials, or real property; provided that at least two-thirds of the participating homeowners are qualified by income for assistance and that the program is carried out under the sponsorship of a non-profit community organization.[19]

Similarly, "shell housing program" is defined as development of housing which is habitable but unfinished and can be completed or expanded; provided that at least 100 percent of the participating homeowners are qualified by income for assistance and that the program is carried out under the sponsorship of a public non-profit or private organization.[20] It is unclear why sponsorship changes from one program to the other. Ostensibly, the latter program excludes private non-profits in favor of public non-profits and private for-profits. More reasonably, the phrasing used was less than precise. The likely intent was to require a non-profit organization, either public or private, to act as sponsor. (For example, in section 201E-217(c), the phrase used is "public and private nonprofit organizations.")

The mortgage guarantee program also guarantees up to 25 percent of mortgage loan principal balances for the purchase of single or multi-family housing units and up to 100 percent for single-family home mortgages qualified under the Hawaiian Homes Commission Act. These two do not require non-profit participation and, thus, do not favor non-profits. HFDC's liability under all three components of the mortgage guarantee program is limited to $10,000,000.[21]

Section 201E-205: This section allows the HFDC to approve and certify for exemption from the general excise tax by the Department of Taxation any person involved with a newly constructed, or moderately or substantially rehabilitated project developed under the sponsorship of a private non-profit corporation providing home rehabilitation or new homes for qualified families in need of decent, low-cost housing. (This section also grants exemptions for projects developed under other programs.)

Act 303, Session Laws of Hawaii, 1992 (as amended by Act 309, Session Laws of Hawaii, 1993): This Act added a new uncodified section to chapter 237, HRS, which provides a temporary affordable housing general excise tax exemption. This exemption became effective July 1, 1992 and is to be repealed on December 31, 1994. This exemption is available to any qualified person involved with the planning, design, financing, construction, or sale of affordable housing units developed by a "private" developer. The exemption applies exclusively to the first ten thousand affordable units in projects that mix both market-rate and affordable units. An "affordable unit" is defined as a housing unit priced to be affordable to households earning up to 140 percent of the HUD-determined median income. It is also limited to actual construction started between July 1, 1992 and December 31, 1993 and completed by December 31, 1994. Although the word "private" is used, it is unclear whether the HFDC will certify non-profit developers as "qualified persons" who can receive the exemption.

Section 201E-206: This section exempts from state taxes all ". . . income earned and obligations issued by a nonprofit entity determined to constitute a 'public housing agency' pursuant to section 3(6) of the United States Housing Act of 1937, as amended, and which income and obligations are declared by the United States Department of Housing and Urban Development to be exempt from all taxation imposed by the United States pursuant to section 11(b) of such Act . . . ."

Section 201E-211: This section requires that, in developing housing on behalf of the State or with eligible developers and contractors, the HFDC must first offer to owner-builders or non-profit organizations assisting such owner-builders with construction, not less than ten percent of the total number of units in single-family projects consisting of 50 units or more that are sponsored by the HFDC.

Section 201E-217: This section allows the HFDC to make loans or grants, either before or after final subdivision approval and limited to two percent of total project costs, to cover planning, engineering, feasibility studies, and other initial costs, including the cost of options, agreements of sale, and down payments of commencing projects to provide <u>non-profit</u> low or moderate cost housing.[22] Apparently, these are the "pre-development" expenses that several non-profit respondents to the Bureau's survey worry about not being able to or have difficulty covering. Moneys to accomplish this purpose comes from the Hawaii development revolving fund. Statutorily, all repayments of principal and interest on loans and grants made by the HFDC from the fund must be deposited into the fund.

Section 201F-1 et. seq.: Chapter 201F, HRS, entitled the "Rental Housing Trust Fund," was newly enacted effective July 1, 1992. Most loans and grants made available through chapter 201F are available to both non-profits and for-profits. However, non-profits are given preference over for-profits and government agencies in allotting funds in a situation where all are equally ranked according to statutorily set criteria. In addition, pre-development grants go *only* to non-profits.

The rental housing trust fund is placed administratively within the Department of Budget and Finance (B&F) although it is under authority of the rental housing trust fund commission. Both the B&F and the HFDC are responsible for carrying out specific duties instituted by chapter 201F. The HFDC provides technical and support services but has no authority to expend funds from the trust. The B&F has expending authority but only with prior approval from the commission. Pursuant to section 247-7, HRS, effective June 30, 1993, 25 percent of all conveyance taxes within each fiscal year are to be deposited into the rental housing trust fund. The Director of Finance was also authorized to transfer $15,000,000 into the fund from the rental assistance revolving fund.[23]

The fund provides loans or grants for the development, pre-development, construction, acquisition, preservation, and substantial rehabilitation of rental housing units. Permitted uses of the fund include planning, design, land acquisition, costs of options, agreements of sale, down-payments, equity financing, or other housing development services or activities. Commission rules may provide that moneys from the rental housing trust fund be leveraged with other financial resources to the extent possible.

Moneys in the fund are used for loans or grants for housing projects where:

(1) At least 50 percent of the available units are for persons and families with incomes at or below 60 percent of the median family income; and

(2) The remaining units are for persons and families with incomes at or below 100 percent of the median family income.

Preference is given to projects that produce units in at least one of the following categories:

(1) Multi-family units;

(2) Attached single-family units;

(3) Apartments;

(4) Town houses;

(5) Housing units above commercial or industrial space;

(6) Single room occupancy units;

(7) Accessory apartment units;

(8) Employee housing; and

(9) Other types of units meeting eligibility criteria.

Activities eligible for assistance from the fund include:

(1) New construction, rehabilitation, or preservation of low-income rental housing units that meet eligibility criteria;

(2) The leveraging of moneys with the use of fund assets;

(3) Pre-development activity grants or loans to non-profit organizations; and

(4) Acquisition of housing units to preserve them as low-income or very low-income housing;

In order to assign preference for fund allocation, the commission assesses projects according to the following criteria, in descending order of priority:

(1) Serve the original target group;

(2) Provide maximum number of units for the least amount of subsidy;

(3) Are committed to serving the target population over a longer period of time;

(4) Increase the integration of income levels of the immediate community area;

(5) Meet the geographic needs of the target population, such as proximity to employment centers and services; and

(6) Have favorable past performance with fund moneys.

If the commission finds a non-profit project equally ranked with a for-profit or government project, the commission gives preference to the non-profit project in allotting fund moneys.

Section 206E-15: This section allows the Hawaii Community Development Authority (HCDA) to transfer housing fees for the provision of housing for low- or moderate-income housing residents collected from private residential developments to the HFDC to finance, develop, construct, sell, lease, or rent such housing in the State. The fees may only be used for projects owned by the State or owned or developed by a qualified non-profit organization.[24]

Other States

In general, housing statutes of other states which promote the development of housing for low-income groups offer assistance equally to for-profit, non-profit, and government agencies. This is so because development is multifaceted which requires the cooperative efforts of government's funding channels, for-profits' technical expertise, and non-profits' community-based contacts. The Bureau consulted with the housing specialist at the National Conference of State Legislatures to identify states which specifically assist non-profits to increase their capacity and strengthen their ability to provide housing for low-income persons. Non-profits who lack the administrative or technical personnel to effectively develop complex projects independently can receive special help to develop those skills or hire consultants. Assistance to the non-profit organization can either be financial or technical.[25]

In only a few states (and then, only for certain housing programs) are non-profits specifically targeted for assistance. A reading of states' statutes alone will not usually reveal that a program is reserved for non-profits. For example, Maryland's Community Development Administration (CDA) division of the Department of Housing and Community Development has four operating offices -- each of which sponsors numerous programs. Its Homeownership Programs Office includes six programs; the Rental Housing Programs Office has nine programs; its Special Loan Programs Office administers seven programs; and the Housing Subsidy Programs Office administers four programs. Non-profit organizations are targeted in at least two of these programs.[26]

The Maryland situation typifies the complexity of analyzing every state's housing statute to locate only those instances where non-profits receive special treatment. The discussion which follows examines the statutes of Maryland, Florida, Connecticut, Massachusetts, and Oregon and focuses upon those efforts designed specifically to help non-profits.

Maryland's Non-Profit Rehabilitation Program: The purpose of this program is to provide low-interest mortgage loans to non-profit organizations and local governments to rehabilitate rental housing for low-income households. Eligible housing includes rental properties, group homes, temporary shelters, and single room occupancy housing, among others.[27]

Maryland's Shelter One Program: This program provides non-profit organizations with loans to buy property, rehabilitate housing, or construct rental housing. Loans may have terms of up to forty years with flexible interest rates and deferred loan payments. The local jurisdiction in which a program project is located must approve the project (i.e., a county council resolution verifying support of the project) and make a contribution which benefits the project (such as CDBG or HOME funds). CDA staff work with the local government and non-profits to identify a suitable contribution.[28] The program also provides technical assistance to non-profit organizations with little or no experience to enable the non-profit to undertake housing projects.[29]

Florida: Florida's community development corporation support and assistance program awards administrative grants, planning grants, and loans to community development corporations (CDCs) which are non-profit corporations. This law is a temporary one, and is slated to be repealed on June 30, 1998.[30]

An award of an administrative grant enables a non-profit to hire someone to prepare grant and loan applications, fundraising letters, and other documents essential to securing additional administrative or venture funds. In addition, these grants enable the non-profit to concentrate its efforts on, among other things:

(1) Assisting service area residents in identifying and determining eligibility for state, federal, and local housing programs, rental assistance, or public housing; and

(2) Developing, owning, and managing housing designed for low-income and moderate income persons.[31]

Corporation planning grants are available to CDCs which have not received an administrative support grant at any time during the previous history of the program. These grants are used for planning and organizational purposes to enable the non-profit to submit proposals under the administrative grant program. No CDC is awarded more than two planning grants.[32]

The community development deferred payment loan program provides interest free loans to be repaid within fifteen years for, among other things, new construction or substantial rehabilitation of housing to be utilized by low-income families and individuals. Proposals for these loans are evaluated on many considerations including:

(1) The economic feasibility of the project and the capacity of the venture to repay the loan;

(2) The relative degree of distress of the target area;

(3) The ratio of private and nonstate public money committed to a project to the amount of state money to be committed;

(4) The demonstrated inability of the borrower to secure funding from conventional sources at the terms offered by the CDC; and

(5) The degree to which the project directly benefits or provides assistance to low-income or job-displaced individuals.[33]

Oregon: Oregon also provides non-profit organizations with technical assistance, pre-development cost grants, or both, from its housing development and guarantee account. Technical assistance includes such efforts as preparing loan applications. Pre-development costs include, but are not limited to, site acquisition, architectural services, and project consultants. However, no account revenue can be used by an organization for its general operations.[34]

Connecticut: Connecticut's Department of Housing operates the non-profit administrative costs and technical assistance program which offers grants, loans, or deferred loans of up to $100,000 to cover administrative expenses incurred for the development of low- and moderate-income housing.[35]

Massachusetts: The Massachusetts Housing Finance Agency may fund non-profit organizations under contract for technical assistance. These non-profits are not developers themselves but only provide consultation to potential borrowers from mortgage lenders regarding:

(1) The nature, extent, and manner of new construction, repair, remodeling, or rehabilitation to ensure a dwelling meets building codes;

(2) The contractors, subcontractors, and others to perform the work;

(3) The proper manner, mode, and method of financing the work; and

(4) The progress of the work, debt consolidation and debt management, and ongoing management of the building.[36]

In summary, some states, recognizing that non-profits are often understaffed or inexperienced in developing housing, provide technical assistance grants. Technical assistance can include assisting non-profits to apply for federal, state, or foundation grants. States also assist non-profits with special loans to rehabilitate existing housing for occupancy by low-income persons or with low interest loans to buy property for low-income housing development. In some instances, pre-development cost grants are made to non-profits to hire architects, engineers, and other consultants necessary for developing a housing project.

State Tax Credit

The State's low-income housing tax credit is authorized under section 235-110.8, HRS. The state credit "piggybacks" the federal tax credit. Essentially, the State mimics the federal program but offers thirty cents on the dollar in credits against state income tax liability. That is, the amount of the state tax credit is thirty percent of the federal amount. ("The low-income housing tax credit shall be thirty percent of the applicable percentage of the qualified basis of each building located in Hawaii. Applicable percentage shall be calculated as provided in section 42(b) of the Internal Revenue Code.") Current federal tax credits amount to $1.4 million each year. Therefore, the State provides tax credits of about $420,000. (See also Part I: chapter 5.) Credits are claimed against the eligible resident taxpayer's net state income tax or corporate tax liability for the taxable year. In addition, any credit exceeding a taxpayer's liability may be credited against liability in subsequent years until exhausted.

Regardless of whether credits are claimed against federal or state income taxes, the for-profit developer or owner would typically keep the tax credit to offset tax liability. A non-profit developer cannot use the tax credits directly and usually syndicates them to raise equity for the project, thereby reducing the necessary mortgage requirements.

Tax Credit for Financial Institutions

The state application of the federal tax credit, discussed above, is limited to claims against income tax and corporate tax liabilities only. However, effective January 1, 1993, section 241-4.7, HRS, provides for a low-income housing income tax credit under the franchise tax. This section makes the tax credit provided under section 235-110.8, HRS, operative for chapter 241, HRS, relating to taxation of banks and other financial corporations. That is, financial institutions subject to the franchise tax can also claim an income tax credit similar to the credit authorized under chapter 235, HRS. This credit can be claimed for the development of low-income housing for the taxable years beginning after December 31, 1991.

Admittedly, this new tax credit does not <u>favor</u> non-profit housing developers. Its inclusion in this section is mainly for the sake of completeness. It would help non-profit credit unions (as defined in the new chapter 412, HRS -- the "Code of Financial Institutions"), which are also financial institutions. However, the thrust of this new legislation is to encourage for-profit financial institutions to participate in the development of low-income housing.

Endnotes

1. Material on cost write-down programs from Suburban Action Institute, Housing Choice: A Handbook for Suburban Officials, Non-Profit Organizations, Community Groups and Consumers (New York: 1980), pp. 55 to 59.

2. Senia, pp. 12-13.

3. Ibid.

4. Ibid.

5. Ibid., p. 18.

6. Ibid., p. 14.

7. Ibid., p. 15.

8. Ibid., p. 14.

9. Ibid., p. 10.

10. Ibid., pp. 10, 15.

11. Ibid.

12. Ibid., p. 16.

13. Ibid.

14. Senia, p. 15.

15. Subpart D also provides subsidies to owners of affordable housing to keep those units affordable.

16. Hawaii Rev. Stat., sec. 201E-132(c).

17. Telephone interview with Scott Kami, Housing Finance Branch, Housing Finance and Development Corporation, November 9, 1993.

18. Hawaii Rev. Stat., sec, 201E-160(a)(3).

19. Ibid.

20. Ibid.

21. Ibid.

22. Hawaii Rev. Stat., sec. 201E-217(b).

23. 1992 Haw. Sess. Laws, Act 308, sec. 5.

24. Section 206E-15, Hawaii Revised Statutes, also allows the HCDA, in developing a residential project, to contract with qualified persons to construct, maintain, operate, or otherwise dispose of the residential project.

The HCDA may enter into cooperative agreements with the Hawaii Housing Authority and the HFDC for the financing, development, construction, sale, lease, or rental of dwelling units and projects.

25. Telephone interview with Dayna Ashley Oehm, Research Analyst, National Conference of State Legislatures, October 29, 1993. See also National Conference of State Legislatures, Breaking New Ground: Community-Based Development Organizations, Washington, D.C., 1991).

26. Maryland, Department of Housing and Community Development, The Community Development Administration: A Guide to Programs, Annapolis, June 1990 (hereafter referred to as "Maryland Guide").

27. Ibid., pp. 35-36; Annotated Code of Maryland, sec. 2-305.

28. Maryland Guide, pp. 35-36; Annotated Code of Maryland, secs. 2-501 to 2-509.

29. Telephone interview with James McAteer, Housing Development Officer, Maryland, Community Development Administration, November 5, 1993.

30. Florida Code, sec. 290.0301 et. seq.

31. Florida Code, sec. 290.036(g) and (h).

32. Florida Code, sec. 290.0365.

33. Florida Code, sec. 290.03.7.

34. Oregon Rev. Statutes, Oregon Housing Fund, secs. 458.600 and 458.625(b) and (c), 1991.

35. Conn. Gen. Statutes Annotated, sec. 8-219d.

36. Annotated Laws of Massachusetts, Spec. L. 7, 5C. Technical Assistance.

Chapter 5

HAWAII FINANCIAL INSTITUTIONS AND MECHANISM FOR WORKING WITH NON-PROFIT DEVELOPERS

This chapter addresses topic number 8 listed in House Concurrent Resolution No. 476, H. D. 2, which reads:

> (8) Determine whether financial institutions in the State of Hawaii have a mechanism to work with non-profit organizations.

The Hawaii Community Reinvestment Corporation

The federal Community Reinvestment Act of 1977[1] requires regulated financial institutions to demonstrate that their facilities serve the convenience and needs of the communities in which they are chartered to do business. One way the majority of financial institutions seek to discharge part of this obligation is through the funding of the Hawaii Community Reinvestment Corporation (HCRC).

The HCRC, which was formed in April 1991, is a non-profit mortgage banking consortium currently composed of nineteen financial institutions in the State,[2] modeled after the California Community Reinvestment Corporation. Its purpose is to provide permanent, long-term, fixed-rate financing for affordable housing projects throughout the State. The members' contributions have created a $50,000,000 loan pool. Loans from the pool range from $250,000 to $7.5 million. They must meet the criteria of financial viability and security set by the HCRC members and target rentals for families in the low and moderate income ranges.[3] The members make money available at the "Treasury Constant Maturities index," as set by the Federal Reserve Board, plus 3/4 percent. The HCRC charges another 3/4 percent for a total of 1.5 percent over the index. Members make no profit on these loans, making loans just under their cost of funds.[4]

HCRC accepts applications from both for-profit and non-profit entities. To date, it has made approximately $25 million in loans, but only one loan has gone to a non-profit. In fact, that non-profit was the only one to have gone through the application process. Regarding the pattern of loans, Donald L. Tarleton, President of HCRC, notes that there are more for-profit developers in general and more have applied to HCRC.[5] According to Tarleton, the biggest drawback to non-profit participation in the affordable housing area is lack of financial resources. The HCRC makes mortgage loans for affordable housing, and, like any lender in any housing loan, needs some kind of equity on which to base the loans. Non-profits in general lack that equity.

Government Programs

One way for non-profits to obtain that equity is through various government programs, after which they may become eligible for an HCRC loan. One of those state programs is the low income housing tax credit, administered by the Housing Finance and Development Corporation (HFDC). This complex program awards federal tax credits to housing developers, who can then sell them for cash to other companies to generate equity. Those revenues become the cash equity for the housing project. Hawaii receives a flat fee of $1.25 for each resident, totaling approximately $1.4 million each year, and the State contributes thirty percent of the federal amount, for a total of $1.8 million for the tax credit program each year.[6] Of this amount, federal law requires that ten percent be reserved for non-profit corporations. The remainder can be used by either non-profits or for-profits. The total annual allocation will fund about 150 to 200 housing units per year.

The only problem with the federal program is that it lapses periodically. In fact, as this chapter is being written, it is currently lapsed. According to Tarleton, an extension is expected shortly and it may be permanent.

In 1992, the State instituted a more limited version of the low-income housing tax credit for financial institutions that pay a franchise tax.[7] In addition, Act 303, Session Laws of Hawaii 1992, as amended by Act 309, Session Laws of Hawaii 1993, established a two-year affordable housing exemption from the general excise tax for HFDC-certified private developers fulfilling an affordable housing requirement imposed by the state Land Use Commission or a county land use decision-making body. (See Part I: chapter 4 for discussion.)

Another state program that can aid non-profit developers is the rental assistance program, also administered by the HFDC. Under this program, the HFDC pays a dollar amount to each project owner per unit per month, in the range of $175-250 per month. This program increases the project's revenues, which permits the developer to obtain a larger mortgage. The program favors non-profit corporations by allowing them to come within the program for a longer period of time. The maximum period for a for-profit corporation is fifteen years, while for a non-profit, it is 25 years.

However, funds are very limited under this program. There is a cap of $100 million in aggregate loan amounts and this cap has already been reached with the 18 projects currently on the books. Until the projects phase out of the program, or until the Legislature adds more funds, no new projects can be added.[8]

A third state program is the rental housing trust fund, which is operated by a separate commission and assisted by the HFDC. This program is new and as this chapter is being written, the rules for applicants have not yet been finalized. However, it is known that the trust fund will make two types of awards. The first is projects funding. Under this part, both non-profits and government agencies will be eligible for grants and loans while for-profit corporations will only be eligible for loans. The second is capacity building grants which will be made to non-profits only to enable them to "get on their feet" to develop affordable housing.

According to Tarleton, these programs may potentially fill the gap, if the State makes a full commitment to do so. In 1991, the State gave the trust fund $15,000,000 but in 1992 it merely awarded a percentage of the conveyance tax increase, which is not expected to be more than $1,000,000 or $2,000,000 per year.

The last state program is the rental assistance revolving fund interim construction financing program. This program, created during the 1992 regular session, set aside $25,000,000, to be matched by an equal amount in HFDC taxable bonds, for a total revolving fund pool of $50,000,000. (See Part I: chapter 4 discussion of section 201E-130, et. seq., HRS.) These funds will be used to make two- or three-year construction loans for affordable housing. This program has not yet begun to distribute funds as of the date of this writing.

Other Alternatives

After the HCRC lends out its $50,000,000, which it expects to do by the end of 1993, it has several alternatives to replenish its loan pool:

(1) Increasing lender contributions;

(2) Selling the mortgages to the resale market;[9]

(3) Potentially selling the mortgages to a non-profit corporation in Minneapolis that is looking into issuing bonds and buying HCRC's mortgages with the proceeds; or

(4) Issuing its own bonds.

Loans have been made to projects on Oahu and the island of Hawaii; projects have been planned for Maui. One non-profit on Kauai may soon receive federal HUD funds and become eligible for a loan.[10]

Theoretically, a non-profit corporation could bypass the HCRC and apply for a loan directly with a financial institution. However, according to Tarleton, this would be difficult at best. The individual banks do not make long-term, fixed-rate loans for their own portfolios, as it is considered too risky. Banks will give up to a three-year fixed-rate loan; after that, the loan would revert to a variable rate. However, a variable rate loan is not appropriate for developing affordable housing, for as interest rates rise, raising rents to cover increasing debt service is contrary to a non-profit developer's principles and thus not feasible.

Ironically, while HCRC's loans are for a maximum of thirty years, most projects today are committed to affordable housing for only ten years.[11] Some of the federal programs ostensibly require a thirty-year commitment, but the developer can start to evade that commitment after fifteen years.[12] Projects using the state programs mentioned above have varying minimum and maximum periods of commitment.[13]

Endnotes

1. Title 12, U.S.C.A. secs. 2901 et seq.

2. Hawaii Community Reinvestment Corporation, Annual Report 1992. The 19 members are:
   (1) American Savings Bank;
   (2) Bank of America;
   (3) Bank of Hawaii;
   (4) Bank of Honolulu;
   (5) Bank USA N.A.;
   (6) Central Pacific Bank;
   (7) City Bank;
   (8) Finance Factors, Ltd.;
   (9) First Federal Savings and Loan Association of America;
   (10) First Hawaiian Bank;
   (11) First Hawaiian Creditcorp, Inc.;
   (12) 1st Nationwide Bank;
   (13) GECC Financial Corporation;
   (14) Hawaii National Bank;
   (15) Liberty Bank;
   (16) Pioneer Federal Savings Bank;
   (17) Realty Finance, Inc.;
   (18) Servco Financial Corp.; and
   (19) Standard Financial Corp.

3. Hawaii Community Reinvestment Corporation, untitled, undated, single-fold brochure. On file with Legislative Reference Bureau.

4. Interview with Donald L. Tarleton, President, Hawaii Community Reinvestment Corporation, July 19, 1993.

5. Ibid.

6. Telephone interview with Dorothy Shigemura, Housing Finance specialist, Housing Finance and Development Corporation, July 23, 1993.

7. Hawaii Rev. Stat., sec. 241-4.7, effective January 1, 1993 and applicable to calendar year 1992. 1992 Haw. Sess. Laws, Act 145.

8. Shigemura interview.

9. In 1992, the Legislature found that mortgage insurance services were not available for multi-family rental homes, and enacted the rental mortgage insurance program. By providing for this insurance coverage, HCRC's mortgages became available for the resale market. See 1992 Haw. Sess. Laws, Act 304, §2.

10. Tarleton interview.

11. Ibid.

12. Ibid. However, the process of getting out takes three years.

13. The tax credit program is in place for a minimum of 18 years and a maximum of 30 years. The rental assistance program requires a minimum of ten years and a maximum of 15 years for for-profit developers, and 25 years for non-profit developers. The trust fund specifies no specific period but a developer is given more "points" toward getting trust fund moneys the longer it pledges to keep the housing affordable. Shigemura interview.

Chapter 6

THE UNIVERSITY OF HAWAII AS A NON-PROFIT HOUSING DEVELOPER

This chapter addresses topic number 11 listed in House Concurrent Resolution No. 476, H.D. 2. Topic number 11 reads:

> (11) Determine how the University of Hawaii can utilize its status as a non-profit organization to develop housing for students and faculty.

Introduction

Impliedly, the Concurrent Resolution appears to assume that, as a non-profit organization, the University may be specially equipped to develop housing for students and faculty in ways it has not done in the past or in ways different from other non-profits which develop housing in the general community. As will be seen later in this chapter, the UH may create a non-profit development corporation to develop housing for faculty and students. But as a non-profit educational institution, the UH is not in the primary business of housing development and certainly not for the characteristically low-income persons who are the focus of this Concurrent Resolution.

While both the UH and non-profit developers have non-profit status, the UH's non-profit status is incidental to its occasional role as provider of faculty and student housing. The UH, despite its non-profit status, is not equipped nor was it intended to perform the functions or carry out the mandate of community non-profit housing developers.

Second, affordable housing, for purposes of this report is for those households earning up to approximately 120 percent of the area median income. In contrast to the homeless and other low-income individuals, it is unlikely that UH faculty would be at even the high end of "affordable" housing, given the <u>average</u> salary of over $32,000[1] for assistant professors, and a median <u>household</u> income for Oahu of about $41,000 for 1991.

Lastly, creating affordable housing is not the primary function of the University -- education is. Affordable housing for students and faculty of the University is (and has been) a recognized need, but as a corollary to providing higher education.

The pertinent question implied by the inclusion of topic number 11 in the Concurrent Resolution is: as a non-profit, can the UH build housing units more quickly, more cheaply, or more efficiently than other developers (albeit only for students and faculty) and is this ability significantly different from the manner in which the other non-profit developers build their units? Despite its non-developer status, the UH is in fact already addressing the issue of student and faculty housing.

This chapter provides a review of the University's current inventory of student and faculty residential units and plans for future development. This chapter also examines whether the UH's status as an educational non-profit organization is (or should be) different in some undefined manner from those non-profit organizations primarily involved in developing affordable housing for the general citizenry.

The UH as a Non-Profit Organization

As a body corporate, the University of Hawaii is a public corporation established by state law and the Hawaii Constitution.[2] Thus, as a governmental body the University is not a profit-making entity. The University operates under a letter from the United States Internal Revenue Service waiving exemption from FICA (Social Security) taxes which refers to "a wholly owned instrumentality of a State, or of a political subdivision thereof, . . . granted exemption from income tax as an organization described in section 501(c)(3) of the Internal Revenue Code."[3]

EXHIBIT I:6-1

SUMMARY OF HOUSING UNITS
AVAILABLE TO STUDENTS & FACULTY
UH SYSTEM
as of Fall 1993

Dormitory units for students at UH Hilo*	690
Dormitory units for students at UH Manoa**	3,202
Housing units for faculty at UH Manoa***	64

Source: * University of Hawaii-Hilo.
** Lori Furutani, Assignment and Conference Housing Officer, Student Housing Office, University of Hawaii.
*** Ed Yanai, Director, Faculty Housing Development and Assistance.

The Role of the University in Developing Housing

When university housing is provided for students and faculty, more housing units become available for other residents of Hawaii who compete for the same pool of scarce housing units. Availability of housing makes it possible for the neighbor island, foreign, or mainland student to attend the University, which promotes diversity within the student body. Housing for faculty might be offered on a temporary or short-term basis for visiting faculty, or other criteria for eligibility might be used. For example, the Dole Street faculty rentals are designated for those faculty on the low end of the salary scale.[4]

There has been growing concern that more housing assistance should be provided to faculty for purposes of recruitment and retention of qualified staff. The rationale is to attract and retain faculty who teach in fields of high demand and who might otherwise choose to teach at another university located in a city with a lower cost-of-living.

1991 Faculty Housing Assistance Master Plan

In 1991, KPMG Peat Marwick in association with Eva Klein and Associates prepared for the UH a two-volume Faculty Housing Assistance Master Plan (Master Plan). This Master Plan presented the rationale for providing affordable housing for the effective recruitment and retention of faculty members. Included in the Master Plan report is a description of housing assistance programs provided by other universities on the mainland. The Master Plan also reported the results of two earlier studies at the University of Hawaii: one in April, 1988 by Laitila, Rose, and Miller, entitled *University of Hawaii Faculty Housing Study* and the second in July, 1988 by Ordway and Cross, entitled *An Analysis of Financial Alternatives Affecting the Affordability of Faculty Housing.*

The Laitila study surveyed 1,431 full-time Manoa faculty and concluded the following major points as summarized in the Master Plan, volume II:

(1) It would be four to seven times more cost-effective to address the disparity between salary and cost-of-living by means of housing support programs than through salary increases.

(2) Faculty hired in 1977 or later face a more serious housing situation than those hired earlier.

(3) Of faculty hired after 1981, 25 to 29 percent were considering leaving due to housing costs.

(4) Most faculty have little other household income than teaching salary.

(5) Faculty renting homes reported having limited assets to make down payments to buy a home.[5]

While making similar conclusions, the Ordway study of faculty housing for UH-Manoa, College of Business faculty, also found that:

(1) Inventories of both single-family and condominium units have dropped sharply.

(2) Generally, increasing numbers of faculty were planning to leave because of housing dissatisfaction.

(3) The level of home ownership by faculty has dropped sharply.

(4) Loan programs from the Department of Veterans Affairs (VA) and Federal Housing Authority (FHA) are limited to amounts that disqualify most of the kinds of housing that faculty might want to live in.

(5) Affordable single-family homes are located far from the Manoa campus.[6]

Thus, a combination of factors such as the lack of relatively affordable housing close to the UH campus, the competitive recruitment market for qualified Ph.D.s, the overall high cost-of-living in Hawaii, and the "gap group" characteristics of faculty recruited in recent years, point to the need for the University to establish different types of faculty housing assistance programs.

Master Plan Findings

The Master Plan used mail surveys, focus group interviews, an analysis of housing prices by neighborhoods, university recruitment needs, and other factors to arrive at some major findings:[7]

(1) Recruitment needs from academic year (AY) 1990-91 through AY 1993-94 for the University would be about 1,400 faculty of whom 530 would be tenure-track appointments.

(2) The faculty attrition risk group is identified as those faculty hired after AY 1985-86 in ranks 3 and 4 for UH-Manoa, UH-West Oahu, and UH-Hilo, and for the community colleges those faculty hired at ranks 2 and 3 in the same AY 1985-86. Systemwide, those faculty at greatest risk of leaving numbered about 641.

(3) Household income may range from $38,300 for a single Instructor to $80,700 for an Associate Professor with a working spouse.

(4) Using several income and geographic area housing prices to display different housing cost scenarios, ". . . only the UH-Hilo example with an Instructor II and a working spouse, could be expected to be able to qualify for a mortgage to purchase the median priced home near to campus."

(5) There is little inventory for quality, larger three-bedroom units in multifamily housing (condominiums or townhouses).

(6) "The rental affordability gap could range from about $75 per month for Leeward Community college or UH-Manoa faculty seeking multifamily rentals, to $670

for Kapiolani Community College or UHM faculty seeking single-family housing."

(7) "Date of hire is a significant variable in the retention problem. Academic administrators believe that attrition risk is greatest for those faculty hired since AY 1985-86 . . ."

Master Plan Recommendations

Priorities for housing assistance would be directed ". . . to assisting key faculty positions in programs or units which face greatest competition in their markets or which are designated for strategic program growth or strengthening . . . Primary consideration should be given to Oahu-based programs first . . . and relatively equal priority can be given to recruitment of new faculty and retention of those faculty hired within the last three years."[8]

Housing Assistance Programs

The various options for consideration by the UH are presented in detail in volume I of the Master Plan, and summarized in chart form as Exhibit I:6-2.

Exhibit I:6-2 shows that a variety of programs might be made available to faculty in the upcoming fiscal years. These programs range from mortgage loans and down payment loans to for-sale housing.

The one area in which the UH may opt to create a non-profit development corporation to develop homes is in the area of for-sale faculty housing. This is a possible scenario where the non-profit would serve ". . . as an intermediary between the university and the faculty."[9] The Master Plan also describes the possibility of a for-profit or not-for-profit corporation created as a subsidiary of the UH Foundation in its development of faculty housing, or the option of a joint venture with the Housing Finance Development Corporation.[10] Implementation of the Master Plan is expected to take a few years, thus, the specific details for every option cannot be described. However, Exhibit I:6-3 (including the two-page narrative taken from the Master Plan) provide a list of programs and estimated dates of implementation along with additional analyses, approvals and legislative requirements, and ongoing implementation issues which must be considered to make the Master Plan a reality.

Exhibit I:6-2

Table 7
UNIVERSITY OF HAWAII
FACULTY HOUSING ASSISTANCE MASTER PLAN
SUMMARY OF PROGRAMS

PROGRAM	FUNDING SOURCE	INITIAL FUNDING	ANNUAL FUNDING
Office of Faculty and Staff Housing Services	State appropriation	$334,000	$490,000
University Rental Housing Development	University tax-exempt bonds and State appropriation	$20 million $15-20 million	None.
Joint Rental Housing Development (with HFDC/HCDA)	HFDC tax-exempt bonds and State appropriation	$20 million $15-20 million	None.
Mortgage Guarantee	Banks, with line of credit guarantee - UH Foundation	$1-5 million	Revolving.
Mortgage Loan	HFDC taxable bonds and Research & Training Funds	$10 + million $2.5 million	$2.5 million
Down Payment Loan (Short Term Investment Pool)	Short-Term Investment Pool	$2.5 million	Revolving.
Down Payment Loan (Summer Session Stipends)	Summer sessions and continuing education budget	$1 million	Revolving.
Housing Allowance	Ground lease revenue, Operating budget, and State Appropriation	$1.3 million	$3.0 million
University For-Sale Housing Development	Taxable bonds or Bank Financing	To be determined	To be determined

Source: Faculty Housing Assistance Master Plan, vol. 1, 1991, p. 18.

Exhibit I:6-3

UNIVERSITY OF HAWAII

FACULTY HOUSING ASSISTANCE MASTER PLAN

SECTION V: IMPLEMENTATION

Section V is an overview of considerations for implementation of the Master Plan. It is not intended to represent a detailed plan of implementation since decisions have not yet been made as to the specific programs to be pursued.

ESTIMATE OF TIMING

An approximate timetable for implementation, based on planning and resource considerations, would be as follows:

Table 15
ESTIMATED TIMING OF IMPLEMENTATION FOR MASTER PLAN PROGRAMS

Faculty/Staff Housing Services Office	Fall 1991
University Rental Housing Development	1994 assuming site is identified
Joint Rental Housing Development	Fall 1993
Mortgage Guarantee	Fall 1991
Mortgage Loan (through HFDC)	Spring 1991/Fall 1992 w/Shared Appreciation
Down Payment Loan (Short Term Investment Pool)	Fall 1991
Down Payment Loan (Summer Session Stipends)	Summer 1991
Housing Allowance	Fall 1991
University For-Sale Housing Development	Depending on West Oahu site assessment
Additional University Rental/For-Sale (including other islands)	1994 and/or later

ADDITIONAL ANALYSES REQUIRED

The following detailed reviews may be required, depending on which programs the Board of Regents wishes to pursue:

- Detailed analysis of liquidity needs and cash flows through the short-term investment pool, to identify more precisely the amount that may be invested long-term in down payment/second mortgages.

- Incorporation of findings of the real estate study currently under way regarding uses and income potential of University land holdings, in particular with respect to sites usable for faculty housing development, sites suitable for commercial lease income, and potential land swaps.

- Refinement of assumptions for University rental housing development costs, financing structure and costs, and rental rates. The financing assumptions need further review with a financial advisor.

- Detailed negotiations with lending institutions regarding:

  - Percentage of income that could be applied to mortgage amount qualification, with housing allowance program/payroll deductions.

  - Increased loan-to-value ratio and/or buy-down of mortgage rates, with a guarantee provided by the UH Foundation, the specific structure of credit support to be provided.

- Further negotiations with HFDC and HCDA regarding joint development opportunities for rental units at the site on Kapiolani Boulevard, including such matters as the size of units to be built and how the faculty and other portions of the development can be integrated successfully.

APPROVALS AND LEGISLATIVE REQUIREMENTS

Specific requirements for approvals and legislation are described, by program, in Section III. Overall, the approximate cycle of approvals that would be required to implement this Master Plan, as proposed, is:

- Review, amendment, adoption by the University administration.

- Review, amendment, adoption (in principle) by the Board of Regents.

- Review, amendment, adoption (in principle) by the Governor and Legislature.

- Further analysis to develop detailed program designs and an Operating/Business Plan for the set of programs as approved in principle by the Regents, incorporating organizational elements described in Section IV and additional analyses described above, in this section.

- Possible re-submission to the Board of Regents, Governor, and Legislature of Master Plan revisions and/or an outline of the Operating/Business Plan.

- Submission of budget requests and proposed legislation language to the Governor and Legislature for approval.

ONGOING IMPLEMENTATION ISSUES

In the development of the Operating/Business Plan, the following ongoing implementation elements need to be incorporated:

- Annual cycle and process for allocation of resources at level of the President.

- Process for exceptions to annual allocations or criteria, upon request by deans.

- Annual post hoc review of the allocations made by hiring units, to assure that they are reasonable and consistent with the intent of the Master Plan and criteria.

- Periodic research, by the Office of Faculty/Staff Housing Services, of the impact of the programs on faculty, and on recruitment and retention, to result in occasional recommendations for how programs should be modified, augmented, or abandoned.

- Continuous monitoring, by the Office of Faculty/Staff Housing Services, of new developments in the real estate market, in lending practices, in State programs, in federal tax and other regulations that may present new opportunities or modify existing ones.

- A structure, if the project with HFDC/HCDA is undertaken, for managing the ongoing relationship with those agencies will be required.

- Coordination with State officials responsible for land acquisition to incorporate planned sites for University faculty housing developments.

Source: Faculty Housing Assistance Master Plan, vol. 1, 1991, pp. 57-59.

The Current Status of the Master Plan

In mid-July, 1993 the University's Board of Regents approved the broad policies in the Master Plan and approval was given by the University's executive policy committee in August, 1993. Implementation is expected beginning in AY 1993-94. Thus, about 140 rental units in Manoa, 265 rental units on the McKinley High School highrise site, and perhaps thirty for-sale units may be on-line soon. Financial assistance through the university housing assistance revolving fund[11] may be available to about twenty faculty members per year for down payment loans to buy housing units. The State's Housing Finance and Development Corporation (HFDC) and the Hawaii Community Development Association (HCDA), or the State's Department of Accounting and General Services (DAGS) serve as developers for the University's housing projects and oversee selection of the architects, engineers, and other aspects of construction. This arrangement has served the University well because these agencies have the necessary expertise to facilitate financing, design, bid procedures, and other aspects of construction.[12] The Manoa housing project is being funded primarily from the sale of general obligation bonds. The Hale Kewalo project on Pensacola Street will probably also be funded by general obligation bonds. The HCDA is involved in Hale Kewalo because this project is located in the Kakaako Development District.

Student Housing

There are no immediate short-range development plans for student housing. In the long-term, perhaps by the year 2000, Johnson Hall, a low-rise on the Manoa campus may be demolished and replaced by a highrise.[13] One of the long-range goals of the Board of Regents is to provide dormitory space for at least twenty-five percent of Manoa's full-time day enrollment. This would amount to about 4,000 beds (25 percent of about 16,000 full-time students) by the year 2000. Thus, for Manoa at least, about 800 more bedspaces would have to be built to meet that goal. A master plan for student housing is being developed.[14]

In the Master Plan, rental units at the Pensacola project would be made available to married students on a first-come, first-served basis for one-year leases only, after other higher priority appointees have been placed.[15]

It is perhaps in the student housing area that a tenuous connection might be found with the intent of H.C.R. No. 476, H.D. 2. Student housing is meant to be a temporary home for the period a person is enrolled as a student. It is not intended that a student purchase a dorm unit. However, the lack of student housing has its greatest effect on the availability of low-cost rental units demanded by low-income earners who are not necessarily students. By building more student housing, the University could help the overall rental situation for other lower income residents in the community.

Other Sources for Funding Student Housing

Dormitory rooms are limited and therefore reserved for students who meet certain criteria such as being a full-time student and a resident of a neighbor island. The University does not develop housing for low-income students as a special group. According to a recent news article, however, certain low-income students might benefit from a new residential project in Manoa planned by the City and County of Honolulu.[16] The Department of Housing and Community Development of the City and County of Honolulu might purchase two parcels on Vancouver Drive in Manoa Valley for apartments for "nontraditional" university students who meet certain low-income criteria. It is still too early to specify the number of units or number of students who might be helped. In this particular instance, the University would not manage the residential quarters (as in the case of dormitories, for example) or receive any money from the rent. According to the City and County of Honolulu, the likely scenario is that federal moneys from CDBG or HOME funds would be used to acquire and develop the property through a non-profit developer to provide housing for low-income students who are returning to school after an absence of a year or more. These nontraditional students, who *may be single parents, or may be working part-time while completing a degree program*, could benefit from subsidized housing. The emphasis would be to provide housing for low-income persons who are also students.

The University's role would be advisory -- helping to formulate guidelines for tenant qualifications and identifying general conditions for the residents selected to live there. Referrals could be made by the student housing office, but also could be made by other university offices such as the Center for Adults Returning to Education. Although located near the University, it is possible that students attending private business schools downtown who can meet the residential criteria might also qualify. Thus, residents need not be restricted to those nontraditional students enrolled only at the UH. This is an example where *the University is not the developer but would be the indirect beneficiary of federal moneys* used to produce low-income housing. In this case, the University's non-profit status will have had no bearing on the production of housing, nor to the use of it by some of its students.

The University as Developer

The University's expertise and primary mission is in providing quality higher education for Hawaii's citizens. Its role as a provider or developer of housing (rental, for-purchase, temporary dormitories, etc.) remains only a tangential function related to university education. The reason for providing housing to faculty, for example, is to be able to attract and retain qualified faculty in a state with high housing costs. Dormitories for students relieve housing pressures in the general community in much the same way that military housing does and makes it possible for students who are not permanent residents of Honolulu or Hilo to attend the respective campuses.

The Master Plan pointed out that "The University benefits from having HFDC handle the development management and financing responsibilities, thus reducing the University's requirement to staff internally to provide these functions." But the Master Plan also pointed out that a "potential concern relates to the University's relative lack of control on a project developed and owned by HFDC."[17]

The possibility of the UH itself developing for-sale or rental housing for faculty or students has been raised by the Master Plan. It stated: "The University will need to decide whether to act as its own developer or to hire a developer to implement the program."[18]

Exhibit I:2-1 in Part I: chapter 2 illustrates the many actions in the various development phases of a typical housing project. The Bureau has identified several actions in which the UH is presently involved regarding the Manoa faculty housing development. What additional actions the UH would need to undertake can be seen from the chart if the HFDC were not involved. The UH is currently responsible for the following:[19]

(1) For the Planning and Design Phase: select potential site, form project's ownership entity, meet with neighborhood groups, and (probably) make final determination of feasibility;

(2) For the Construction Phase: market, sell, rent units, and close permanent mortgage loan; and

(3) In the Occupancy Phase: hire the managing agent to manage and maintain property, rehabilitate or modernize the property.

All other steps are currently the responsibility of the HFDC. If the HFDC were not involved, the University would use requests for proposals (RFPs) (to select an architect, for example), and hire consultants (to do the appraisal, for example). The University might create an in-house staff position to monitor these development tasks as long as the specific professional work is contracted out through RFPs. It is not clear that eliminating the developer role of HFDC for University projects would facilitate the construction of University faculty housing if the University were required to do its own development.

The Bureau asked and received from the Housing Finance and Development Corporation (HFDC) the following information regarding HFDC's role in University housing projects.

1. **Is the faculty housing project in Manoa the first and only project that HFDC has been involved in for the UH?**

   The UH Faculty Housing Project in Manoa is the first project that HFDC has been involved in for the UH. HFDC and HCDA will also be assisting UH on the

Hale Kewalo project which is to be developed on the site of the former Kapiolani Community College (next to McKinley High School).

2. **We would like to receive figures on costs and staff work hours involved in developing housing for UH and whether these expenses are paid for by the UH or absorbed by HFDC.**

   The project budget is $22,810,600. $5,105,860 has been expended as of October 15, 1993. From July 1991 to September 1993, HFDC staff spent approximately 2,254 work hours on the project. These staff work hours were absorbed by HFDC. Please note, however, that the budget includes an HFDC administrative fee of $270,000.

3. **In working on the UH faculty housing project, is specialized knowledge required by HFDC to handle this type of construction, and if so, is such expertise available in-house or must it be specially acquired.**

   HFDC retained consultants for the design and engineering of the project. Our in-house staff administer consultant contracts (i.e., architects, engineering, etc.) and coordinate and manage the development of the project.

4. **Is HFDC's involvement in handling the UH faculty housing project from HFDC's viewpoint a matter of accommodation to another government agency or a policy stance, i.e., providing housing for the community, albeit a particular segment thereof?**

   HFDC is able to develop property on behalf of other government agencies pursuant to section 201E-30, HRS. We may also develop or assist in the development of employee housing pursuant to section 201E-216, HRS.

From these questions and answers, it is clear that when the University utilizes the services of the HFDC, the HFDC acts as developer for the University and the University does not need to create a position to do the monitoring tasks now provided by HFDC. It is likely that instead of being at a disadvantage, the University is at an advantage vis-a-vis private non-profits because the University lacks the expertise to accomplish some of the steps involved in the planning, design, or construction phases of the project. It works with agencies such as the HFDC or DAGS, which have had considerable past experience with feasibility studies, obtaining necessary permits and financing, selecting contractors, and supervising the construction, making inspections, and so on. Perhaps at a later date, if and when the University has multiple dormitory and faculty housing projects ongoing, it would be desirable to create a development division. For the present, however, the economies of scale available through the use of the expertise of other state agencies appear to be a wise and reasonable option.

Conclusion

This chapter described the UH as a provider of housing for students and faculty and the current status of housing projects for each group. Several projects are planned for faculty housing on Oahu and there are long-range goals for more student dormitory space at Manoa. Long-range plans for UH-West Oahu and the Big Island's West Hawaii campuses will have considerable impact on future housing programs for faculty and student housing and have not been addressed in this report or the University's faculty Master Plan. Housing projects to date have been developed for the University by the HFDC, the HCDA, or DAGS (as the project warrants) which in turn provided that expertise (in financing, monitoring architects, engineers, bid requirements, etc.) in developing housing. This is a process which the University finds has worked well up to now but might change at some later date, perhaps pending the development of the West Oahu campus or other policy decisions regarding development of for-sale housing for faculty. The Bureau believes that the University's non-profit status *per se* does not provide any special advantages to justify the University's establishing a full-service housing development office immediately.

Endnotes

1. KMPG Peat, Marwick, Faculty Housing Assistance Master Plan, v. II, Exhibit II-E (hereinafter Master Plan).

2. Hawaii Rev. Stat., ch. 304, and Hawaii Const., art. X, sec. 5

3. See IRS letter to UH dated March 7, 1969 in Appendix I:E received from Donald Lau, Director, Central Accounting Office, University of Hawaii at Manoa.

4. Telephone interview of September 8, 1993 with Ed Yanai, Director, Faculty Housing Development and Assistance, University of Hawaii.

5. Master Plan, volume II: Master Plan Analyses, p. I-2.

6. Ibid., volume II, p. I-3

7. Ibid., volume I, pp. 6-11.

8. Ibid., p. 13

9. Ibid., p. 46.

10. Ibid., p. 56.

11. Hawaii Rev. Stat., sec. 304-8.96.

12. Telephone interview with Ed Yanai, Director, Faculty Housing Development and Assistance, University of Hawaii, August 10, 1993, and with Alan Ahsan, Director, Facilities Management, University of Hawaii, August 18, 1993.

13. Telephone interview with Lori Furutani, Assignment and Conference Housing Officer, Student Housing Office, University of Hawaii, August 18, 1993.

14. Telephone interview with Geminiano Q. "Toy" Arre, Director of Student Housing, University of Hawaii, August 18, 1993.

15. Master Plan, volume i, p. 30.

16. "'Nontraditional' Student Housing Plan Considered", Honolulu Star-Bulletin, September 9, 1993.

17. Master Plan, volume I, p.29

18. Ibid., p. 46

19. Telephone interview with Ed Yanai, Director, Faculty Housing Development and Assistance, University of Hawaii, September 8, 1993; and with Dean Shigemura, Assistant Project Coordinator, Housing Finance Development Corporation, September 16, 1993.

Chapter 7

CRITERIA TO MEASURE SUCCESS OF NON-PROFIT HOUSING DEVELOPERS AND RECOMMENDATIONS

Topics number 9 and number 12 of House Concurrent Resolution No. 476, H.D. 2, are subjects for joint research. Accordingly, in addition to the material presented in Part II of this study, this chapter also addresses criteria to measure the success of non-profit developers and recommendations. Topics number 9 and number 12 read:

> (9) Determine criteria to measure the success of non-profit organizations in their development capacity.
>
> * * *
>
> (12) Develop and provide suggestions or recommendations for future legislation to further assist non-profits in the development of housing.

Criteria to measure the successful performance of non-profit developers in their development capacity are essentially **retrospective** in nature. They act as a check on how well non-profits have adhered to certain standards or actions that are likely to lead to success. However, they are included here because, taken **prospectively**, they act as guidelines (and, therefore, recommendations) for non-profits to follow in order to increase their likelihood of success.

Criteria

(1) Staff must be committed and channel that commitment into becoming technically and financially competent. To enhance a non-profit developer's competence, non-profits must seek help. They can learn to become competent themselves in-house. Otherwise, they must enlist the assistance and participation of individuals knowledgeable in relevant areas such as real estate, land use and zoning laws, government liaison (including the permitting process), finance and public source funding, government housing programs, development, construction, architecture, engineering, law, and business administration and entrepreneurship. This can be done through astute selection of members for the non-profit's board of directors or strategic advisory committees and through aggressive and persistent recruitment of volunteer staff professionals. Financial astuteness, both in securing funding and in its expenditure, will enable a non-profit to permanently raise the quality of its staff. Technical and financial incompetence squanders many of the non-

profit's natural comparative advantages such as lower-cost development resulting from free or low-cost land, labor, and capital. Incompetent and inefficient non-profits cannot pass on to consumers savings that inherently accrue to non-profits.

(2) A non-profit must be resourceful and avoid a sense of complacency or dependence. Because non-profits rely almost exclusively on "outside" sources of funding, both public and private, it may be tempting to remain passively dependent on existing sources and any conditions attached to them. Non-profits must know how to take advantage of what they have, know where the resources are, and maintain old sources while searching for new ones. Just because a certain combination of resources was adequate for a previous project does not mean other, additional sources should not be aggressively sought.

(3) To reduce overall costs of construction, non-profits must be more aggressive and opportunistic in increasing their efforts to leverage available financing and not rely on one hundred percent public-source subsidies to develop affordable housing.[1]

(4) Non-profits must be flexible in approaching the development of affordable housing and not strictly limit themselves to prior formulas or patterns of development. If the opportunity presents itself and the requisite expertise and financing can be secured, a non-profit intent on becoming a significant developer should consider alternative types of development. For example, when necessary, non-profits should consider rehabilitation as an alternative to new construction; generation of rentals rather than owner-occupied units; rehabilitation of urban in-fill sites instead of building suburban single-family owner-occupied homes; and use of sweat equity to help cash-poor prospective home-buyers overcome large down payments and to marginally reduce the cost of construction. A successful non-profit should not be stuck in its own niche, however comfortable or previously successful.

(5) To expedite development, non-profits must ensure communication with and cooperation from governmental agencies to minimize procedural obstacles such as lack or delay of approvals and permits, loss of funds, financing revisions, or changes of program policy.

(6) To nurture a sense of community and to preclude potential "nimby" (not in my back yard) reactions to development -- especially for rehabilitation projects in deteriorating neighborhoods -- and thus improve a development's chances of success, non-profits must bring people from the community into the planning process and onto the board of directors before development.

(7) To help ensure the overall success of a development, a non-profit should use a comprehensive approach combining a variety of elements, e.g., land banking and acquisition, tax abatement, section 8 housing assistance, tenant counseling, and community cooperation. The non-profit should remember to work with the consumer and fill real needs. It should avoid building inappropriate housing just because funds are available or because the same development formula has been used successfully in the past.

Recommendations

Temporary Inter-Disciplinary Training and Support Program

It is recommended that the Legislature consider creating a temporary, five-year, inter-disciplinary training and support program to be placed administratively within the Housing Finance and Development Corporation.

This program would educate, advise, train, support, and assist prospective and existing non-profit housing developers to become more competent and cost-effective in order to fully realize their natural, comparative cost advantages so that they can be passed on to consumers of affordable housing. Non-profits would be expected to become more expert and self-reliant in the various aspects of housing development as well as in the management of their own operations. As non-profits become more competitive, public sector housing agencies will have less justification not to fund non-profits in developing affordable housing. This will also reduce any inherent conflicts of interest on the part of public sector housing agencies in their dual capacities as financing source and developer.

It is recommended that the HFDC act as the lead agency for an inter-disciplinary training and support work group of professionals knowledgeable in the areas of real estate, land use and zoning laws, government liaison (including the permitting process), finance, public source funding, development, construction, architecture, engineering, law, and business administration and entrepreneurship, consisting of the heads of the following organizations or their designated representatives:

(1) Housing Finance and Development Corporation;

(2) Hawaii Community Development Authority;

(3) Department of Budget and Finance;

(4) Department of Business, Economic Development, and Tourism;

(5) Department of Accounting and General Services;

(6) Department of Labor and Industrial Relations;

(7) School of Architecture of the University of Hawaii;

(8) School of Law of the University of Hawaii;

(9) College of Engineering of the University of Hawaii;

(10) College of Business Administration of the University of Hawaii;

(11) Honolulu Department of Housing and Community Affairs;

(12) Hawaii Office of Housing and Community Development;

(13) Kauai County Housing Agency; and

(14) Maui Department of Housing and Human Concerns.

In addition, representatives from the general public, at least one of whom should be a renter of affordable housing, should be appointed.

This group of experts would work with prospective non-profits to become incorporated and to educate, train, advise, and assist their staff in the various technical aspects of successful non-profit housing development and business administration. These experts would similarly assist and train the staff of existing non-profits.

A natural extension of this group's work would be the setting up of a <u>permanent</u> affordable housing information database. This database should contain a list of non-profit housing developers in Hawaii and other states and any information regarding programs, activities, legislation, funding sources, etc., relevant to non-profits and affordable housing development. The database would serve as an accessible repository of updated information facilitating the production of affordable housing by both non-profit and for-profit developers. Such a resource would also cut down the amount of research work that currently needs to be done from scratch by each developer.

Historical information on previous contract bids, if made available to all, should increase competition and, thus, efficiency and cost-savings. A new "vendor information system" installed in 1992 in Salem, Oregon has resulted in remarkable dollar savings in state purchasing. In the first five quarters, Oregon officials reported a $17 million savings. The on-line computer-modem setup allows all vendors electronic access to requests for proposals and historical data on successful and unsuccessful bids.[2]

The inter-disciplinary work group may also conceivably use this database to learn of innovative methods elsewhere of combining and leveraging funding sources on behalf of non-profits. For example, once a source of funding is identified, the work group could assist the non-profit in the application process. Or, if a particularly novel or appropriate model for housing development is located, the inter-disciplinary group could work with non-profits to adapt it to the local situation.

An alternative to the formation of an inter-disciplinary work group would be to make appropriations to contract out such training and support services to private entities who have the requisite expertise. For example, rather than scheduling formal training of non-profit entities to enhance their organizational capacity in 1992, Honolulu's Department of Housing and Community Development provided a grant to the Institute for Affordable Housing (a non-profit) to provide technical assistance to non-profit developers and service providers.[3] Understandably, the DHCD may be stretched for personnel to carry out this training alone. Perhaps a consortium of professionals like the one proposed above would be in a better position to do so.

Capacity Building Grants

To supplement the work of the temporary inter-disciplinary training and support work group, it is recommended that the language of section 201F-3, *Hawaii Revised Statutes*, should be amended to provide greater assurance that capacity building grants be awarded to non-profit developers through the rental housing trust fund. (See Part I: chapters 4 and 5.) This would, in part, help to alleviate the pressures of low cashflows for operating expenses that non-profits often bear. These grants are meant to enable a non-profit to become self-sufficient to the point of carrying out affordable housing development independently or as a full partner in joint ventures. Additional appropriations should also be considered for the rental housing trust fund to fund capacity building of non-profits.

Funding for Pre-Development Work

Hawaii development revolving fund: It is recommended that greater consideration be given to funding pre-development work through additional appropriations to (1) the Hawaii development revolving fund (section 201E-217(b), HRS), and (2) the rental housing trust fund (section 201F-3, HRS). In addition to greater fund allocations, the respective expending authorities should either adopt flexible rules or flexibly interpret existing rules governing the qualification of non-profits and the disbursement of loans or grants for pre-development work.

Under section 201E-217, HRS, the HFDC is currently empowered, through the Hawaii redevelopment revolving fund, to:

> . . . make loans or grants, either before or after final subdivision approval, to cover <u>planning, engineering, feasibility studies, and other initial costs, including the cost of options,</u>

> agreements of sale, and downpayments of commencing projects to provide low or moderate cost housing through government assistance programs. *(emphasis added)*

That non-profits have complained of a lack of pre-development funds could mean that:

(1) They are not aware of section 201E-217, HRS;

(2) The HFDC has higher priority uses for the revolving fund;

(3) There are insufficient moneys in the fund; or

(4) Few non-profits have been able to qualify for such funds.

In order to rectify the latter three possibilities, it is recommended that:

(1) The HFDC afford a high priority to the awarding of pre-development funds to non-profits;

(2) Additional appropriations be made to the Hawaii development revolving fund for pre-development activities; and

(3) The HFDC flexibly apply the criterion of "government assistance programs" in section 201E-217(b) and (e) in order to qualify the maximum number of non-profits who might be eligible for pre-development funding.

Rental housing trust fund: Under chapter 201F, the Department of Budget and Finance, with the prior approval of the rental housing trust fund commission, is empowered to use moneys from the rental housing trust fund to:

> . . . provide loans or grants for the development, pre-development, construction, acquisition, preservation, and substantial rehabilitation of rental housing units. Permitted uses of the fund may include . . . planning, design, land acquisition, costs of options, agreements of sale, downpayments, equity financing, or other housing development services or activities as provided by rules adopted by the rental housing trust fund commission . . . .*(emphasis added)*[4]

Eligible activities under section 201F-7(b), HRS, include "Pre-development activity grants or loans to nonprofit organizations." *(emphasis added)*

As with the Hawaii development revolving fund, it is recommended that additional appropriations be made to the rental housing trust fund for pre-development activities. It is also recommended that the rules adopted by the commission relating to ensuring the full occupancy of fund projects be applied flexibly to allow maximum funding for non-profits.

(Current law requires that moneys from the fund can be used only for projects offering at least half of the units for households at or below sixty percent of the median income and the remaining units for those at or below one hundred percent of the median income. See Part I: chapter 4.) Alternatively, the commission should adopt new flexible rules.

Flexible Application of Programs

It is recommended that all state and county housing agencies adopt greater **program flexibility** on a case-by-case basis. Each agency should be flexible in implementing each specific housing program within its jurisdiction that potentially favors or assists non-profits to improve their performance in generating affordable housing. Each agency should do this to the extent possible under the existing statutes and rules. If these need to be modified, each agency should propose specific changes for the Legislature's consideration. For example, survey respondents have suggested that the responsible agencies could, on a case-by-case basis:

(1) Waive restrictions on the use of certain funds for purchase of land to include construction expenses;

(2) Waive requirements for recipients of funds to spend at least ten percent of certain moneys by year end to qualify for tax credits;

(3) Allow reasonable flexibility in relation to the time constraints within which the developer has to operate and lengthen beyond one year the time commitment for state operating funds (which would create a more stable environment for affordable housing development);

(4) Allow non-profits the flexibility to make "profits" by allowing them to report positive fund balances in order to remain competitive with for-profits; and

(5) Allow agency line staff more discretion in implementing housing development programs and encourage bottom-up program improvement.

Endnotes

1. As reported in Senia, an executive director of a non-profit developer indicated that affordable housing development must be 100% subsidized, or zero-leveraging, to be feasible. This means that public subsidies have not been used to their greatest advantage.

2. "Innovations 1993 -- Innovations in State and Local Government Awards: Ten programs that set the standard of excellence" in Governing, November, 1993, v. 7, n. 2., pp. 47-48.

3. City and County of Honolulu, Final Comprehensive Housing Affordability Strategy: Fiscal Year 1992 Performance Report, p. 2.

4. Hawaii Rev. Stat., sec. 201F-3(a).

HOUSE OF REPRESENTATIVES
SEVENTEENTH LEGISLATURE, 1993
STATE OF HAWAII

H.C.R. NO. 476 H.D. 2

HOUSE CONCURRENT RESOLUTION

REQUESTING THE LEGISLATIVE REFERENCE BUREAU IN CONJUNCTION WITH THE HAWAII REAL ESTATE RESEARCH AND EDUCATION CENTER TO CONDUCT A STUDY ON THE ROLE OF NON-PROFIT ORGANIZATIONS IN THE DEVELOPMENT OF HOUSING IN THE STATE OF HAWAII.

WHEREAS, the Legislature finds that there is a desperate need to promote the development of accessible and affordable residential housing for the people of the State of Hawaii; and

WHEREAS, in recent years, the housing situation in Hawaii has severely worsened, and there exists a critical shortage of housing units that are affordable to low- and moderate-income residents, and residents in the so-called "gap-group" in the State; and

WHEREAS, over the past decade there has been a nearly uninterrupted decline in the supply and construction of new low-income residential units; and

WHEREAS, the State of Hawaii recognizes the important role of non-profits in the provision of affordable housing, particularly because of their ability to access funds which are often set aside or available only to non-profits; and

WHEREAS, there are a growing number of non-profit housing agencies in the State of Hawaii; however, few non-profit organizations have the experience and expertise necessary to develop housing in Hawaii; and

WHEREAS, many non-profits do play an advocacy role or specialize in providing support services, and continue to focus their efforts on serving those most in need; and

WHEREAS, the potential exists for significant further expansion of their activities; now, therefore, BE IT RESOLVED by the House of Representatives of the Seventeenth Legislature of the State of Hawaii, Regular Session of 1993, the Senate concurring, that the Legislative Reference Bureau in conjunction with the Hawaii Real Estate Research and Education Center, is requested to conduct a study working with non-profit organizations to include but not be limited to the following: the Affordable Housing Alliance, the Honolulu Neighborhood Housing Services, the Hawaii Ecumenical Housing Corporation, the Hawaii Community Foundation, PATH, Self-Help Housing Corporation of Hawaii, and university graduate students on the following topics:

(1) Identify non-profit organizations which have successfully built housing developments in the State of Hawaii over the past ten years;

(2) Identify the efforts and successes of non-profit organizations in other states, such as Illinois and California;

(3) Define the role of non-profit organizations in the development of housing;

(4) Identify the type of financing available for non-profit organizations to build housing units;

(5) Identify how many private developers have a non-profit development arm;

(6) Identify Federal and State statutes which favor or assist non-profit organizations in developing housing;

(7) Determine the role of private and government entities in assisting non-profit organizations to develop housing;

(8) Determine whether financial institutions in the State of Hawaii have a mechanism to work with non-profit organizations;

(9) Determine criteria to measure the success of non-profit organizations in their development capacity;

(10) Determine how State and Federal tax credits may benefit non-profit organizations;

(11) Determine how the University of Hawaii can utilize its status as a non-profit organization to develop housing for students and faculty; and

(12) Develop and provide suggestions or recommendations for future legislation to further assist non-profits in the development of housing;

and

BE IT FURTHER RESOLVED that the Legislative Reference Bureau is requested to submit a report of its findings and recommendations to the Legislature twenty days prior to the opening of the 1994 Legislative Session; and

BE IT FURTHER RESOLVED that certified copies of this Concurrent Resolution be sent to the Director of the (Hawaii) Real Estate Research and Education Center, the Director of the Hawaii Reinvestment Corporation, the University of Hawaii Board of Regents, the President of the University of Hawaii, the Director of the Land Use Research Foundation, the Mayors of the four Counties, the Office of State Planning, the Executive Director of the Housing Finance & Development Corporation, the Director of the Hawaii Housing Authority, the Director of the Affordable Housing Alliance, the Director of the Hawaii Ecumenical Housing Corporation, the Director of the Hawaii Community Foundation, the Director of PATH, and the Director of the Self-Help Housing Corporation of Hawaii.

Appendix I:B

AFFORDABLE HOUSING DEVELOPMENT SURVEY

For the purposes of this survey, "affordable housing" means single or multiple living units built for low or moderate income owner-occupiers or renters.

1. List all developers who built or rehabilitated affordable housing units within your county in the past ten years. (please use additional sheets as necessary.)

(A) NAME OF DEVELOPER: ____________________ PARTICIPATION: _____ worked with my office; _____ did not work with my office.
DEVELOPER STATUS: _____ non-profit; _____ for-profit with a development arm; (c) _____ for profit.

Development No. 1	Affordable Units		Market-Rate Units		Cost Per Unit		Completed on Time		Number and Type of Unit	
Name:	# Planned	# Built	# Planned	# Built	Planned $	Actual $	Yes	No	Rental	Owner-Occupied
Location:										

Development No. 2	Affordable Units		Market-Rate Units		Cost Per Unit		Completed on Time		Number and Type of Unit	
Name:	# Planned	# Built	# Planned	# Built	Planned $	Actual $	Yes	No	Rental	Owner-Occupied
Location:										

Development No. 3	Affordable Units		Market-Rate Units		Cost Per Unit		Completed on Time		Number and Type of Unit	
Name:	# Planned	# Built	# Planned	# Built	Planned $	Actual $	Yes	No	Rental	Owner-Occupied
Location:										

Development No. 4	Affordable Units		Market-Rate Units		Cost Per Unit		Completed on Time		Number and Type of Unit	
Name:	# Planned	# Built	# Planned	# Built	Planned $	Actual $	Yes	No	Rental	Owner-Occupied
Location:										

(B) NAME OF DEVELOPER: ______________________ PARTICIPATION: _____ worked with my office; _____ did not work with my office.
DEVELOPER STATUS: _____ non-profit; _____ for-profit with a development arm; (c) _____ for profit.

Development No. 1 Name: Location:	Affordable Units # Planned	 # Built	Market-Rate Units # Planned	 # Built	Cost Per Unit Planned $	 Actual $	Completed on Time Yes	 No	Number and Type of Unit Rental	 Owner-Occupied

Development No. 2 Name: Location:	Affordable Units # Planned	 # Built	Market-Rate Units # Planned	 # Built	Cost Per Unit Planned $	 Actual $	Completed on Time Yes	 No	Number and Type of Unit Rental	 Owner-Occupied

Development No. 3 Name: Location:	Affordable Units # Planned	 # Built	Market-Rate Units # Planned	 # Built	Cost Per Unit Planned $	 Actual $	Completed on Time Yes	 No	Number and Type of Unit Rental	 Owner-Occupied

Development No. 4 Name: Location:	Affordable Units # Planned	 # Built	Market-Rate Units # Planned	 # Built	Cost Per Unit Planned $	 Actual $	Completed on Time Yes	 No	Number and Type of Unit Rental	 Owner-Occupied

Development No. 5 Name: Location:	Affordable Units # Planned	 # Built	Market-Rate Units # Planned	 # Built	Cost Per Unit Planned $	 Actual $	Completed on Time Yes	 No	Number and Type of Unit Rental	 Owner-Occupied

(C) NAME OF DEVELOPER: ______________________ PARTICIPATION: _____ worked with my office; _____ did not work with my office.
DEVELOPER STATUS: _____ non-profit; _____ for-profit with a development arm; (c) _____ for profit.

Development No. 1	Affordable Units		Market-Rate Units		Cost Per Unit		Completed on Time		Number and Type of Unit	
Name:	# Planned	# Built	# Planned	# Built	Planned $	Actual $	Yes	No	Rental	Owner-Occupied
Location:										

Development No. 2	Affordable Units		Market-Rate Units		Cost Per Unit		Completed on Time		Number and Type of Unit	
Name:	# Planned	# Built	# Planned	# Built	Planned $	Actual $	Yes	No	Rental	Owner-Occupied
Location:										

Development No. 3	Affordable Units		Market-Rate Units		Cost Per Unit		Completed on Time		Number and Type of Unit	
Name:	# Planned	# Built	# Planned	# Built	Planned $	Actual $	Yes	No	Rental	Owner-Occupied
Location:										

Development No. 4	Affordable Units		Market-Rate Units		Cost Per Unit		Completed on Time		Number and Type of Unit	
Name:	# Planned	# Built	# Planned	# Built	Planned $	Actual $	Yes	No	Rental	Owner-Occupied
Location:										

Development No. 5	Affordable Units		Market-Rate Units		Cost Per Unit		Completed on Time		Number and Type of Unit	
Name:	# Planned	# Built	# Planned	# Built	Planned $	Actual $	Yes	No	Rental	Owner-Occupied
Location:										

(D) NAME OF DEVELOPER: ______________________ PARTICIPATION: _____ worked with HFDC; _____ did not work with HFDC.
DEVELOPER STATUS: _____ non-profit; _____ for-profit with a development arm; (c) _____ for profit.

Development No. 1	Affordable Units		Market-Rate Units		Cost Per Unit		Completed on Time		Number and Type of Unit	
Name:	# Planned	# Built	# Planned	# Built	Planned $	Actual $	Yes	No	Rental	Owner-Occupied
Location:										

Development No. 2	Affordable Units		Market-Rate Units		Cost Per Unit		Completed on Time		Number and Type of Unit	
Name:	# Planned	# Built	# Planned	# Built	Planned $	Actual $	Yes	No	Rental	Owner-Occupied
Location:										

Development No. 3	Affordable Units		Market-Rate Units		Cost Per Unit		Completed on Time		Number and Type of Unit	
Name:	# Planned	# Built	# Planned	# Built	Planned $	Actual $	Yes	No	Rental	Owner-Occupied
Location:										

Development No. 4	Affordable Units		Market-Rate Units		Cost Per Unit		Completed on Time		Number and Type of Unit	
Name:	# Planned	# Built	# Planned	# Built	Planned $	Actual $	Yes	No	Rental	Owner-Occupied
Location:										

Development No. 5	Affordable Units		Market-Rate Units		Cost Per Unit		Completed on Time		Number and Type of Unit	
Name:	# Planned	# Built	# Planned	# Built	Planned $	Actual $	Yes	No	Rental	Owner-Occupied
Location:										

2 Do you feel that the <u>non-profit</u> status of a housing developer affects its role as a developer in any way? ____ YES ____ NO

2.1 *If it does, do you feel that its non-profit status* <u>*helped*</u> *or* <u>harmed</u> the non-profit? ____ HELPED ____ HARMED

3 Compared to for-profit developers, how would you characterize a non-profit's ability to develop housing?
___ EASIER ___ HARDER ___ THE SAME

3.1 If it is easier, (that is, non-profits have some sort of advantage over for-profits), what makes it easier, what are the advantages?

____

____

____

____

____

3.2 If it is harder, what are the disadvantages?

____

____

____

____

____

4. If non-profits are at a disadvantage, what specific actions do you feel would help create a level playing field with respect to developing housing in Hawaii?

____

____

____

____

____

____

____

____

5. How could any disadvantages referred to in question # 4 be <u>specifically</u> remedied or alleviated by a distinct action on the part of government?

____

____

____

____

____

____

____

6. Please indicate any specific Hawaii law or rule, county ordinance or rule, or any other governmental process in Hawaii that has either helped or hindered non-profit housing developers in building affordable housing in Hawaii.

HELPED: ____

____

____

____

____

____

HINDERED: ____

____

____

____

____

____

Appendix I:C

RESPONSE FROM PACIFIC HOUSING ASSISTANCE CORPORATION

21-Oct-93

	Role	Affordable Units		Market-Rate Units		Cost per Unit		Completed on Time		Number and Type of Unit	
		# Planned	# Built	# Planned	# Built	Planned $	Actual $	Yes	No	Rental	Owner-Occupied
Development No. 1											
Name: Palolo Affordable Hsg. Proj.											
Island: Oahu	Developer		6				$79,900	X			6
Development No. 2											
Name: KEO Group Home	Housing		1				$165,000			1	
Island: Kauai	Consult.		5				$33,000	X		5	
Development No. 3											
Name: Academy Gardens (Rehab)										Cooperative Housing	
Island: Oahu	Developer		40				$33,750	X		40	
Development No. 4											
Name: ARC of Hawaii Group Homes	Housing		1				$782,000			1	
Island: Oahu	Consult.		8				$97,750	X		8	
Development No. 5											
Name: Ho'akea Subdivision											
Island: Oahu	Developer		152				$73,388		X		152
Development No. 6											
Name: Pahala Elderly Hsg. Project	Housing										
Island: Hawaii	Consult.		8				$45,625	X		8	
Development No. 7											
Name: ARC of HI #7 Group Homes	Housing		3				$266,667			3	
Island: Oahu	Consult.		19				$42,105	X		19	
Development No. 8											
Name: ARC of HI #9 Group Homes	Housing		1				$253,000			1	
Island: Kauai	Consult.		6				$42,167	X		6	
Development No. 9											
Name: ARC of HI Kamehame Grp. Home	Housing		1				$386,000			1	
Island: Oahu	Consult.		6				$64,333	X		6	

	Role	Affordable Units		Market-Rate Units		Cost per Unit		Completed on Time		Number and Type of Unit	
		# Planned	# Built	# Planned	# Built	Planned $	Actual $	Yes	No	Rental	Owner-Occupied
Development No. 18											
Name: ARC of HI #10 Group Homes	Housing		2				$350,000			2	
Island: Oahu	Consult.		10				$70,000	X		10	
Development No. 19											
Name: ARC of HI #12 Group Homes	Housing		3				$433,333			3	
Island: Oahu	Consult.		18				$72,222	X		18	
Development No. 20											
Name: Hale Malie Group Home	Housing		1				$640,000			1	
Island: Oahu	Consult.		8				$80,000		X	8	
Development No. 21											
Name: Hale 'Alohi Group Home	Housing		1				$1,200,000			1	
Island: Oahu	Consult.		13				$92,308		X	13	
Development No. 22											
Name: SHDC No. 1 Group Homes	Housing		2				$480,000			2	
Island: Oahu	Consult.		12				$80,000	X		12	
Development No. 23											
Name: Lani Huli (elderly)	Developer/										
Island: Oahu	Owner		80				$86,935	X		80	
Development No. 24											
Name: Manoa Gardens Elderly											
Island: Oahu	Owner		39				$138,462	X		39	
Development No.											
Name:											
Island:											
Development No.											
Name:											
Island:											

	Role	Affordable Units		Market-Rate Units		Cost per Unit		Completed on Time		Number and Type of Unit	
		# Planned	# Built	# Planned	# Built	Planned $	Actual $	Yes	No	Rental	Owner-Occupied
Development No. 10 Name: ARC of HI #11 Group Home Island: Oahu	Housing Consult.		2 10				$282,750 $56,550	X		2 10	
Development No. 10A Name: ARC of HI #11 Apartments Island: Oahu	Housing Consult.		13				$59,708		X	13	
Development No. 11 Name: Hale Lokahi Akahi Island: Maui	Housing Consult.		21				$75,476	X		21	
Development No. 12 Name: Ainakea Elderly Housing Project Island: Hawaii	Housing Consult.		21				$68,048	X		21	
Development No. 13 Name: Hale Ulu Hoi; Phase 2 Island: Hawaii	Housing Consult.		18				$69,056	X		18	
Development No. 14 Name: Hale Mahaolu Ekolu Island: Maui	Housing Consult.		42				$96,381	X		42	
Development No. 15 Name: Lanakila Gardens Island: Oahu	Developer/ Owner		28				$89,286	X		28	
Development No. 16 Name: ARC Wahiawa Complex Island: Oahu	Housing Consult.		10				$105,714	X		10	
Development No. 17 Name: Capt. Cook Elderly Hsg. Project Island: Hawaii	Housing Consult.		21				$102,143	X		21	

PATH Housing Development Corporation Board of Directors

PATH Housing Development Corporation
Board of Directors

11. **Department of Transportation**
State of Hawaii
Mr. Rex Johnson
Director
869 Punchbowl Street, Rm. 509
Honolulu, HI 96813
Phone: (808) 587-2150
Fax: (808) 587-2167

12. **Mr. William (Bill) Agee**
Chairman & Chief Executive Officer
Morrison Knudsen Corporation
400 Broadway/P.O. Box 73
Boise, ID 83729
Phone: (208) 386-5000
Fax: (208) 386-6421

13. **Mr. Jim Voorhees**
(Alternate for Bob Ferguson)
Vice President MK Pacific
1601 Kapiolani Boulevard, #1200
Honolulu, HI 96814
Phone: (808) 944-6633
Fax: (808) 944-6660

14. **Mr. Gary Rodrigues**
State Director
United Public Workers, Local 646
1426 No. School Street
Honolulu, HI 96817
Phone: (808) 847-2631
Fax: (808) 848-1987

15. **Mr. Donald R. Marcucci**
Executive Vice President
AEG Transportation Systems, Inc.
1501 Lebanon Church Road
Pittsburgh, PA 15236-1491
Phone: (412) 655-5218
Fax: (412) 655-5860

16. **Department of Housing and Community Development**
City and County of Honolulu
Mr. Jim Turse
Director
650 So. King Street, 5th Floor
Honolulu, HI 96813
Phone: (808) 523-4427
Fax: (808) 527-5498

17. **Mr. Kelvin H. Taketa**
Vice President, Director
Pacific Region
The Nature Conservancy
1116 Smith Street, #201
Honolulu, HI 96817
Phone: (808) 537-4508
Fax: (808) 545-2019

18. **Mr. Jack Myers**
Chairman & Chief Executive Officer
The Myers Corporation
745 Fort Street, Ste. 1500
Honolulu, HI 96813
Phone: (808) 521-9400
Fax: (808) 521-4439

19. **Mr. Will Beaton, AIA**
Vice President/Development
The Myers Corporation
745 Fort Street, Ste. 1500
Honolulu, HI 96813
Phone: (808) 521-9400
Fax: (808) 521-4439

Goals and Objectives

Goal #1: **<u>Promote the creation of residential neighborhoods where affordable housing is the leading component.</u>**

Objectives:

- To have a significant impact on the shortfall of affordable housing through the development of affordable housing.
- Work closely with the City/State planners and appropriate land use consultants to identify development opportunities where affordable housing would be appropriate and economically viable.
- Give priority to projects which serve low and moderate income families as well as projects which serve the needs of special groups which would most likely utilize transit systems, including elderly, students and those individuals with disabilities.
- Obtain political, business and community support within each community where affordable housing will be located.
- Promote neighborhood development which includes affordable housing <u>and</u> commercial and retail uses which serve neighborhood residents.
- Locate housing projects in or next to transit corridors to promote transit usage by the people living there.
- Promote the development of neighborhoods within the Primary Urban Center, thus discouraging undesirable suburban sprawl.

Goal #2: **<u>Become an aggressive, pro-active developer by designing, constructing and managing a large number of new, affordable housing projects.</u>**

Objectives:

- Locate sites which lend themselves to the development of affordable housing and acquire the property or development rights.

- Conduct economic and market feasibility analyses and design the projects to meet the feasibility parameters. This includes designing and constructing projects which are attractive, durable, environmentally sound and cost effective.

- Joint venture with owners of land, municipalities and government entities, other non-profits and for-profit developers, as appropriate opportunities arise for developing affordable housing, including possible acquisition and preservation of existing affordable housing inventory.

- Manage the design, construction and marketing of each project.

- Obtain or assist in obtaining all necessary approvals for the housing.

- Where appropriate, own or manage the housing projects after construction to ensure that the projects are properly managed and maintained.

- Monitor the projects after completion to verify that the units continue to be affordable and in decent, safe and sanitary condition.

PATH Housing Development Corporation
Executive Summary

DRAFT

PATH Housing Development Corporation
745 Fort Street, Suite 1500
Honolulu, HI 96813

What: PATH Housing Development Corporation is a non-profit 501(c)(3) entity whose sole purpose is to create and develop quality housing neighborhoods that are affordable to a broad sector of local residents. PATH's development objectives are designed to address Oahu's dominant needs for affordable for-sale and rental housing. PATH is prepared to create new opportunities for homeownership, especially for "gap" groups and first-time homebuyers, through the development of new affordable ownership housing.

Why: As a private-sector response to the Governor's 1992 "State-of-the-State Address" and the community's overwhelming need for quality affordable housing, PATH will help to fill a major void in the housing industry by becoming an aggressive non-profit developer dedicated to helping solve Oahu's housing crisis. By focusing its entire attention on the development of neighborhoods and quality housing, PATH will work closely with the City and State governments, communities, and other for-profit and non-profit developers to meet the current and future demand for quality housing.

Where: PATH's initial focus will be on the creation of quality neighborhoods throughout Oahu.

Who: PATH Housing Development Corporation was initiated by The Myers Corporation and Morrison Knudsen Corporation through their joint venture partnership, Myers/MK Partners. Modeled after the highly successful BRIDGE Housing Corporation in San Francisco, PATH is a wholly-independent development company with its own Board of Directors, President and professional staff. The Board of Directors is comprised of a broad cross-section of key Honolulu private and public officials (see attached list of Board Members). ________________, the President, is highly qualified and experienced in the development of affordable housing in Hawaii.

When: A select task force, made-up of members from Myers/MK Partners and civic and business leaders of Honolulu, began work in March 1992 to form PATH. PATH was incorporated in early September, 1992 and received IRS approval for its non-profit status on July 5, 1993. PATH's initial operating funds have been donated by AEG Westinghouse, The Myers Corporation and ________________.

Address any reply to: Federal Bldg., Honolulu, Hawaii 96813

US Treasury Department

RECEIVED

MAR 11 9 06 AM '69

UNIVERSITY OF HAWAII
BUSINESS OFFICE

District Director
Internal Revenue Service

Date: March 7, 1969

In reply refer to: Code 411

University of Hawaii
Business Office, Accounting Section
2444 Dole Street
Honolulu, Hawaii 96822

Gentlemen:

Reference is made to Form SS-15, Certificate Waiving Exemption From Taxes Under the Federal Insurance Contributions Act, and accompanying Form SS-15a filed with this office.

Your attention is called to the following paragraph in the instructions:

> "Organizations not qualified to file Form SS-15.--A wholly owned instrumentality of a State, or of a political subdivision thereof, is not qualified to file Form SS-15 even though it has been granted exemption from income tax as an organization described in section 501(c)(3) of the Internal Revenue Code. Such an instrumentality should communicate with the appropriate State official for information on reporting and acquiring Social Security coverage."

Since the University of Hawaii is an instrumentality of the State of Hawaii, no further consideration will be given to the Form SS-15 and Form SS-15a submitted by you.

Very truly yours,

T. T. DeWolf

T. T. DeWolf
Chief, Audit Division

HOUSE OF REPRESENTATIVES
SEVENTEENTH LEGISLATURE, 1994
STATE OF HAWAII

H.B. NO.

A BILL FOR AN ACT

RELATING TO HOUSING.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

SECTION 1. Chapter 201E, Hawaii Revised Statutes, is amended by adding three new sections to be appropriately designated and to read as follows:

"**§201E-A Inter-disciplinary training and support program.** (a) There is established the temporary inter-disciplinary training and support program, to be attached to the housing finance and development corporation within the department of budget and finance for administrative purposes. The program shall be implemented through the inter-disciplinary training and support work group as established in section 201E-B.

(b) The purpose of this program is to educate, advise, train, support, and assist prospective and existing nonprofit housing developers to help them become more competent in the various aspects of affordable housing development and business administration and to become more cost-effective in order to fully realize and pass on their natural, comparative cost advantages to consumers of affordable housing. It is the intent to assist nonprofit housing developers to achieve sufficient expertise in the management of their own operations as well as in at least the following areas necessary for successful development of affordable housing: real estate, land use and zoning laws, government liaison (including the permitting process), finance, public source funding, development, construction (including infrastructure), architecture, engineering, law, and business administration and entrepreneurship.

§201E-B Inter-disciplinary training and support work group; composition; term; compensation; functions. (a) There is established the inter-disciplinary training and support work group to be composed of:

(1) The heads of the following state agencies, departments, and the schools and colleges of the University of Hawaii or their designated representatives:

(A) The housing finance and development corporation;

(B) The Hawaii community development authority;

(C) The department of budget and finance;

(D) The department of business, economic development, and tourism;

(E) The department of accounting and general services;

(F) The department of labor and industrial relations;

(G) The school of architecture of the University of Hawaii;

(H) The school of law of the University of Hawaii;

(I) The college of engineering of the University of Hawaii; and

(J) The college of business administration of the University of Hawaii;

(2) The heads of the county housing departments or their designated representatives; and

(3) Two members of the general public, at least one of whom shall be a renter of affordable housing.

(b) The inter-disciplinary training and support program shall terminate and the inter-disciplinary training and support work group shall disband on June 30, 1999.

(c) The group shall function informally and shall not be subject to sections 26-35 and 26-41. All members shall serve without compensation but shall be reimbursed for expenses, including travel expenses, necessary for the performance of their duties.

(d) The group shall provide education, advice, training, support, and assistance to individuals or groups who wish to incorporate as nonprofit housing developers of affordable housing serving Hawaii, or to existing nonprofit housing developers. The group shall provide this assistance in at least the following areas relating to the development of affordable housing in Hawaii:

(1) Real estate;

(2) Land use and zoning laws;

(3) Government liaison (including the permitting process);

(4) Finance;

(5) Public source funding;

(6) Development;

(7) Construction;

(8) Architecture;

(9) Engineering;

(10) Law;

(11) Business administration; and

(12) Entrepreneurship.

§201E-C Permanent information database. The housing finance and development corporation, in cooperation with the inter-disciplinary training and support work group, shall establish a permanent information database containing information regarding nonprofit housing developers of affordable housing and any information regarding programs, activities, legislation, funding sources, and other data in Hawaii and in the other states that are relevant and useful to these nonprofits in the production of affordable housing in Hawaii. This database shall be accessible to the general public and shall be maintained by the corporation regardless of the termination of the inter-disciplinary training and support program or work group."

SECTION 2. There is appropriated out of the general revenues of the State of Hawaii the sum of $, or so much thereof as may be necessary for fiscal year 1994-1995. The sum appropriated shall be expended by the department of budget and finance to fund the operations of the inter-disciplinary training and support program and work group and the establishment and maintenance of the database.

SECTION 3. In codifying the new sections added to chapter 201E, Hawaii Revised Statutes, by section 1 of this Act, the revisor of statutes shall substitute appropriate section numbers for the letters used in the designation of the new sections in this Act.

SECTION 4. New statutory material is underscored.

SECTION 5. This Act shall take effect upon its approval; provided that sections 201E-A and 201E-B of section 1 of this Act shall be repealed on June 30, 1999.

INTRODUCED BY: ______________________

HOUSE OF REPRESENTATIVES
SEVENTEENTH LEGISLATURE, 1994
STATE OF HAWAII

H.B. NO.

A BILL FOR AN ACT

RELATING TO HOUSING.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

SECTION 1. Nonprofit housing developers require assistance in funding pre-development work for affordable housing projects. Funds from both the Hawaii development revolving fund and the rental housing trust fund can be made available for such work. Under section 201E-217, Hawaii Revised Statutes, the housing finance and development corporation is currently empowered, through the Hawaii redevelopment revolving fund, to ". . . make loans or grants, either before or after final subdivision approval, to cover planning, engineering, feasibility studies, and other initial costs . . . ." Similarly, under section 201F-3, Hawaii Revised Statutes, the department of budget and finance, with the prior approval of the rental housing trust fund commission, is empowered to use moneys from the rental housing trust fund to ". . . provide loans or grants for the development, pre-development, construction, acquisition, preservation, and substantial rehabilitation of rental housing units. Permitted uses of the fund may include . . . planning, design, land acquisition, costs of options . . . or other housing development services or activities as provided by rules adopted by the rental housing trust fund commission."

In addition, nonprofit housing developers also require assistance to begin and continue producing affordable housing and funds from the rental housing trust fund can be made available for such a purpose. Therefore, it is the purpose of this Act to make appropriations to the Hawaii development revolving fund and to the rental housing trust fund for pre-development work for affordable housing and for capacity building grants.

SECTION 2. Section 201F-3, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

"(a) The trust fund shall be used to provide loans or grants for the development, pre-development, construction, acquisition, preservation, and substantial rehabilitation of rental housing units. Permitted uses of the fund may include but are not limited to planning, design, land acquisition, costs of options, agreements of sale, downpayments, equity financing, <u>capacity building of nonprofit housing developers,</u> or other housing development services or activities as provided in rules adopted by the rental housing trust fund commission pursuant to chapter 91. The rules may provide for a means of recapturing loans or grants made from the rental housing trust fund if a rental housing project financed under the trust fund is refinanced or sold at a later date. The rules may also provide that moneys from the rental housing trust fund shall be leveraged with other financial resources to the extent possible."

SECTION 3. There is appropriated out of the general revenues of the State of Hawaii the sum of $, or so much thereof as may be necessary for fiscal year 1994-1995. The sum appropriated shall be placed in the Hawaii development revolving fund and shall be expended by the housing finance and development corporation to assist nonprofit housing developers to carry out affordable housing pre-development work.

SECTION 4. There is appropriated out of the general revenues of the State of Hawaii the sum of $, or so much thereof as may be necessary for fiscal year 1994-1995. The sum appropriated shall be placed in the rental housing trust fund and shall be expended by the department of budget and finance, with the prior approval of the rental housing trust fund commission, to carry out affordable housing pre-development work and to provide for capacity building grants to nonprofit housing developers.

SECTION 5. New statutory material is underscored.

SECTION 6. This Act shall take effect on July 1, 1994.

INTRODUCED BY: ______________________

PART II

How Nonprofit Organizations Produce Affordable Housing: The National Component of a Study in Response to House Concurrent Resolution 476, H.D. 2, Requesting the Legislative Reference Bureau in Conjunction With the Hawaii Real Estate Research and Education Center to Conduct a Study on the Role of Nonprofit Organizations in the Development of Housing in the State of Hawaii

EXECUTIVE SUMMARY

Hawaii has an affordable housing crisis both for owners and renters. The House of Representatives of the Seventeenth Legislature, Regular Session of 1993, passed H.C.R. NO. H.D. 2, requesting the Legislative Reference Bureau in conjunction with the Hawaii Real Estate Research and Education Center to conduct a study on the role of nonprofit organizations in the development of housing in the State of Hawaii.

The Hawaii Real Estate Research and Education Center ("Center") at the University of Hawaii has completed this report which is the national component of the research requested by the House Concurrent Resolution. The Legislative Reference Bureau has accepted responsibility for the Hawaii-specific component. This executive summary is only for the national component.

Affordable Housing In Hawaii.

The lack of, and need for affordable housing in Hawaii is not a new problem. One of the most important reasons for the severe worsening of the housing crisis has been the abrupt decline in the construction of rental apartments. Based on econometric housing models developed by the Center findings indicate that there is an underproduction of two categories of housing: 1) lower priced owner-occupied multi-family housing, and 2) lower priced rental housing. By failing to meet this demand, model projections indicate the strong likelihood of social stress including overcrowding, homelessness and out-migration.

The Role of Nonprofit Organizations.

The role of nonprofits and what it takes to be an effective producer of housing is discussed. If Hawaii were to receive its fair share based on population, a properly supported nonprofit system might be expected to produce 800 housing units annually or 8,000 during a decade.

National Intermediaries.

National intermediaries possess enormous advantages of scale investments, affording individual CDCs and projects access to tax credits and corporate equity investments, secondary mortgage markets, and lender commitments. Described in the report are the functions of four national intermediaries:

as Public Intermediaries:

1) The Neighborhood Reinvestment Corporation, and
2) The Housing Assistance Council; and

as Private Intermediaries:

1) Local Initiatives Support Coalition, and
4) The Enterprise Foundation.

Tax Mechanisms.

Since 1986, the low-income housing tax credit has been estimated to have stimulated housing units equal to 8 percent of annual housing production nationwide. The low-income housing tax credit is a business tax credit for qualified low-income residential rental property. This was originally introduced by Congress to encourage production of low-income housing in the Tax Reform Act of 1986 and it was permanently extended in 1993. This tax credit makes it possible for nonprofits to create partnerships or joint ventures with the private business sector to build affordable rental housing.

Major Federal Programs Supporting Nonprofits

Two major federal programs are described in this report - HOME funds and Community Development Block Grants.

Other States' Experiences

This report specifically focuses on the BRIDGE Housing Corporation, the East Bay Asian Local Development Corporation, and the Chinese Community Housing Corporation (CCHC) in California and the Chicago Housing Partnership (CHP) in Illinois.

Criteria for Success

This report identifies eight criteria that appear necessary for success in developing affordable housing by a nonprofit. These are:

- Strong leadership and management.
- Expertise and experience.
- Realistic expectations.
- Comprehensive community involvement.
- Access to public funding.
- Access to other public resources.
- Strong sense of how to reduce costs.
- Comprehensive system.

Recommendations

1. It is recommended that a Housing Roundtable similar to the Business Roundtable be established so that relevant stakeholders in the housing sector, including profit, nonprofit and government representation, communicate on a continuous basis.

2. It is recommended that government policy be adjusted to encourage development of more affordable rental housing rather than housing for homeownership.

3. It is recommended that the State should aggressively obtain a fair share of HOME funds and make sure that the low income housing tax credit is fully utilized to the maximum ceiling each year.

4. It is recommended that the legislature direct and fund some entity to provide a support system for nonprofits in Hawaii.

5. It is recommended that the State provide an administrative budget of $350,000 to $500,000 annually for a period of five years to set up a prototype nonprofit housing producer.

How Nonprofit Organizations Produce Affordable Housing: The National Component of a Study in Response to House Concurrent Resolution 476, H.D. 2, Requesting the Legislative Reference Bureau in Conjunction with the Hawaii Real Estate Research and Education Center to Conduct a Study on the Role of Nonprofit Organizations in the Development of Housing in the State of Hawaii

". . . the persistent inability of one-third of this nation to afford decent housing will not be overcome through the idealization of selfish individualism, but through rediscovery of social responsibility and transformation of our economic institutions."

- Michael E. Stone, **Shelter Poverty**, 1993.

I. Introduction

Hawaii has an affordable housing crisis both for owners and renters. This report is the national component of a joint effort between the Hawaii Real Estate Research and Education Center at the University of Hawaii ("Center") and the State of Hawaii Legislative Reference Bureau ("LRB") to evaluate the potential of nonprofit organizations to help solve the problem. This report provides a national perspective and is a companion to the LRB's report giving a Hawaii perspective.

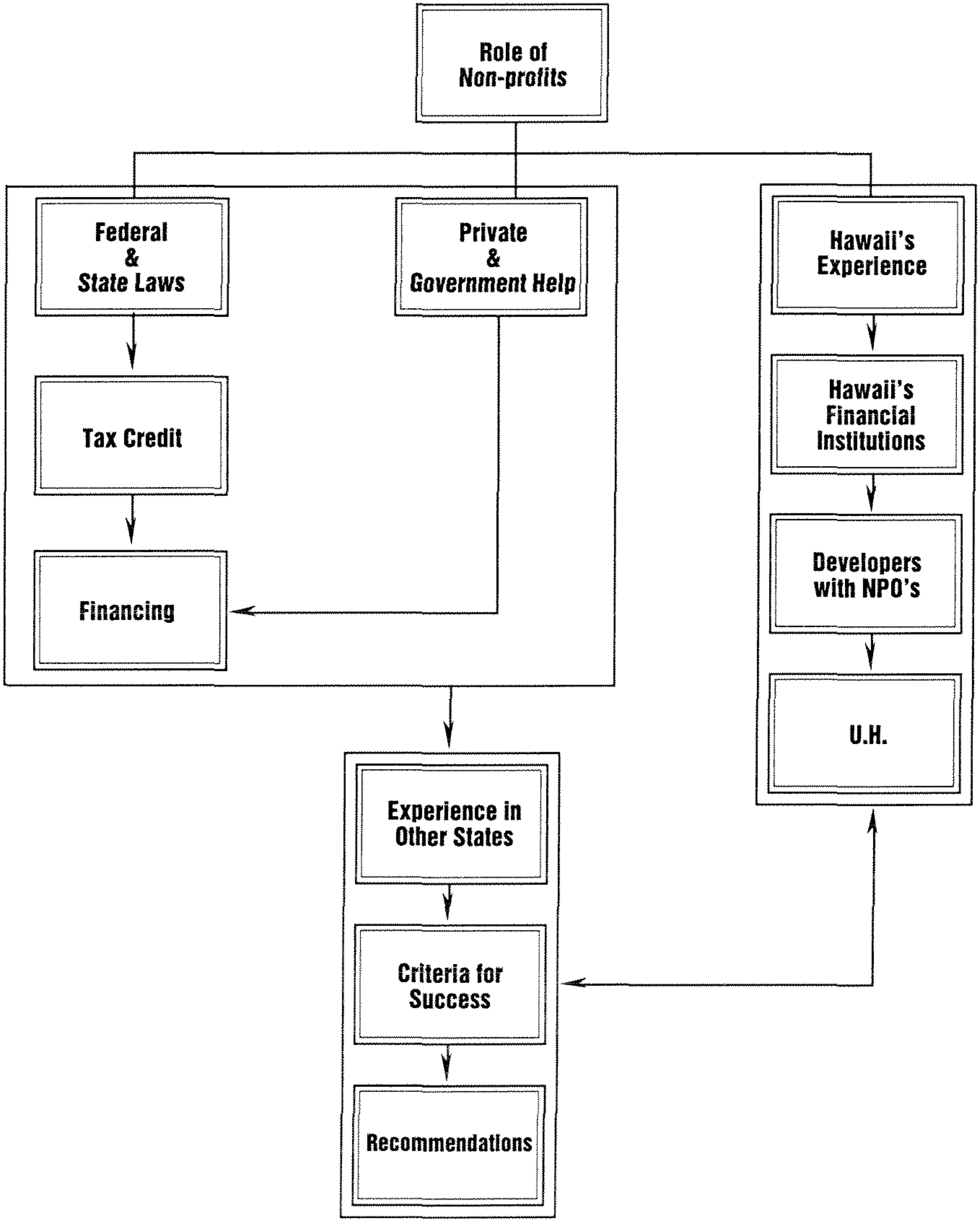
The House of Representatives of the Seventeenth Legislature, Regular Session of 1993, passed H.C.R.476, NO. H.D. 2, requesting the Legislative Reference Bureau in conjunction with the Hawaii Real Estate Research and Education Center to conduct a study on the role of nonprofit organizations in the development of housing in the State of Hawaii. The Center and LRB were requested to conduct a study working with nonprofit organizations to include, but not be limited to the following: the Affordable Housing Alliance, the Honolulu Neighborhood Housing Services, the Hawaii Ecumenical Housing Corporation, the Hawaii Community Foundation, PATH, Self-Help Housing Corporation of Hawaii, and university graduate students.

The Center does not receive any State General Funds. The primary funding source is the Real Estate Education Fund administered by the Hawaii Real Estate Commission ("Commission"). For the Center to be involved with the study, it was necessary to seek approval from the Commission for a modification of the Center's work program. After considering the nature of the resolution, it was determined that the Center's participation in the study was consistent with its real estate research mission. A time allocation for this project was approved by the Commission but no additional funds were budgeted for the project. Lack of funds limited the extent that the Center could research all of the issues.

This resolution noted several problems which motivated the concurrent resolution. These were:

1. There is a desperate need to promote the development of accessible and affordable residential housing for the people of the State of Hawaii.
2. The housing situation in Hawaii has severely worsened, and there exists a critical shortage of housing units that are affordable to low- and moderate-income residents, and residents in the so-called "gap-group."
3. Over the past decade there has been a nearly uninterrupted decline in the supply and construction of new low-income residential units.
4. The State of Hawaii recognizes the important role of nonprofits in the provision of affordable housing, particularly because of their ability to access funds which are often set aside or available only to nonprofits.
5. There are a growing number of nonprofit housing agencies in the State of Hawaii; however, few nonprofit organizations have the experience and expertise necessary to develop housing in Hawaii.
6. Many nonprofits do play an advocacy role or specialize in providing support services, and continue to focus their efforts on serving those most in need.
7. The potential exists for significant further expansion of their activities.

Figure 1
Proposed Organization of Research Topics



II. Methodology

In analyzing the issues that were allocated to the Center for study, the following steps were taken:

> On May 24, 1993 the Center received a letter from LRB Director Samuel B. K. Chang outlining 12 topics outlined in the Resolution and requested a working meeting at LRB (mid-June).
>
> In preparation for the meeting, the Center made inquiries of local experts to determine the potential research issues, database requirements and local concerns. On June 7 the Center met with Mr. Steve Ito of the Affordable Housing Alliance. This group is a nonprofit affordable housing developer. Discussion focused on their experiences with the development of affordable housing, and how their role of nonprofit developers could be enhanced by further cooperation from the State, especially the Housing Finance and Development Corporation. Problems that inhibited nonprofits in developing housing were identified and discussed. On June 14 the Center met with Mr. Chuck Torigoe, the director of NeighborWorks -Honolulu NHS. This group is affiliated with the Neighborhood Reinvestment Corporation which is a public, national intermediary which provides grants and administrative funding for NeighborWorks organizations throughout the country. Discussion again focused on how their role as nonprofit affordable housing developers could be improved.
>
> On June 16 the Center and LRB met to outline the scope of the project and assign research tasks. Attendees from LRB included Director Samuel B. K. Chang, Peter G. Pan, Jean K. Mardfin, Susan Ekimoto Jaworowski, and Ken Takayama. Attendees from the Center were Director Nicholas Ordway, Research Coordinator Grace Cayapan. The Center presented the "Proposed Organization of Research Topics" chart. (See **Figure 1**).

After reviewing available literature, it was determined that field research was necessary. Given limitations in the Center's funding, field research was restricted to one visit to Washington D.C. On July 12 - 16, in conjunction with research for another Center project, G. Cayapan traveled to Washington D. C. and was able to meet with various organizations/individuals regarding the study on the role of nonprofit organizations in the development of housing. The Center's portion of the study was to investigate the topics at the national level as designated on the "Organization of Research Topics" indicated in Figure 1.

Meetings and discussions were held with:

July 12	George Knight, Neighborhood Reinvestment Corp.
July 13	Chris Walker, Urban Institute
July 14	Marie Blanco, Legislative Aide to Senator Daniel Inouye
	Moises Loza, Housing Assistance Council
July 15	John Ross, Department of Housing and Urban Development
	Various parties at the National Association of Realtors
July 16	Local Initiatives Support Coalition
	The Enterprise Foundation

On August 2 the Center meet with LRB to discuss information gathering and progress on the project. Attendees from LRB were Peter Pan and Susan Ekimoto Jaworowski. Attendees from the Center were Dr. Nicholas Ordway and Grace Cayapan. From August 3 to September 9, the Center developed a preliminary report, analyzed data, and discussed issues with key individuals. Another work meeting was held with LRB personnel on September 9. Attendees from LRB were Peter Pan and Jean Mardfin. Attendees from the Center were Dr. Nicholas Ordway and Grace Cayapan. The Center report is a synthesis of literature reviews, discussion with national and local experts, and data analysis.

III. Affordable Housing In Hawaii.

The lack of, and need for affordable housing in Hawaii is not a new problem. This part discusses the lack of, and need for affordable housing, locally and nationwide and what Hawaii has tried to do to address the problem.

The increasing need for decent affordable housing, coupled with inadequate planning on both the state and county levels, artificial barriers created by government regulations, and other reasons paved the way for nonprofit organizations to play a more visible, vocal and involved role in the dialogue of addressing Hawaii's affordable housing crisis. As government and the private sector grapple with the responsibility of developing affordable housing, nonprofit organizations have emerged as developers of affordable housing in their own right.

The problem of producing affordable housing in Hawaii is severe. The legislature made a finding that "There is a desperate need to promote the development of accessible and affordable residential housing for the people of the State of Hawaii." It noted that "The housing situation in Hawaii has severely worsened, and there exists a critical shortage of housing units that are affordable to low- and moderate-income residents, and residents in the so-called 'gap-group.'" The legislature also observed that "over the past decade there has been a nearly uninterrupted decline in the supply and construction of new low-income residential units"

This year, the Center worked with the Housing Consortium to develop the "Hawaii Housing Policy Study." This study made the following findings:

* "Statewide, the cost of a typical housing unit in 1992 was about $350,000 for a single family attached unit, and $215,000 for a condominium apartment. Average monthly mortgage payments were about $800 per month and average rents were about $790. . . Hawaii's home ownership rate is 52% - just about 81% of the national average, and the lowest in the country."

* "Shelter costs are high and take a larger bite out of the family budget than in other states. The survey found that 33% of all households are paying more than 30% of their incomes for housing. Among new home buyers, that figure was 58%. Among renters it was 44%."

* "About 53 percent of Hawaii's people want to buy a new home in the next several years, but only 18 percent think they can afford to buy one."

* "Twenty-three percent of would-be home owners told us they were going to move out of state the next time they moved and 62 percent of those said the main reason was the high cost of housing. . . in 1990, 46% of American citizens who identified themselves as ethnic Hawaiians live outside of Hawaii."

* " . . ., since the 1960's, the level of single family units built have been decreasing with approximately 2,800 built in the 1970's, 1,800 units annually in the 1980's, and only 1,694 units built between 1990 and 1991."

* With respect to condominiums, "The entire state decreased building production in the 1980's to less than half the level in the 1970's - from 59,058 to 26,658 units. However, during the year between 1990 and 1991 production has increased. In the 1980's, an average of 2,665 condominiums were built, and from 1990 to 1991, 4,555 were built statewide." However, the increase in 1990's was related to the impact of the Japanese bubble and many, if not most, of these units were priced out of the reach of most citizens.

One of the most important reasons for the severe worsening of the housing crisis has been the abrupt decline in the construction of rental apartments. In the 1960's there were an average of 1,616 apartment units built annually on Oahu. In the 1980's this had dropped to an amazing low of 195 units per year. Only through government encouragement has this decline been reversed in the 1990's with 1,494 units built in 1990, which was nearly equal to the total production of units in the previous decade.

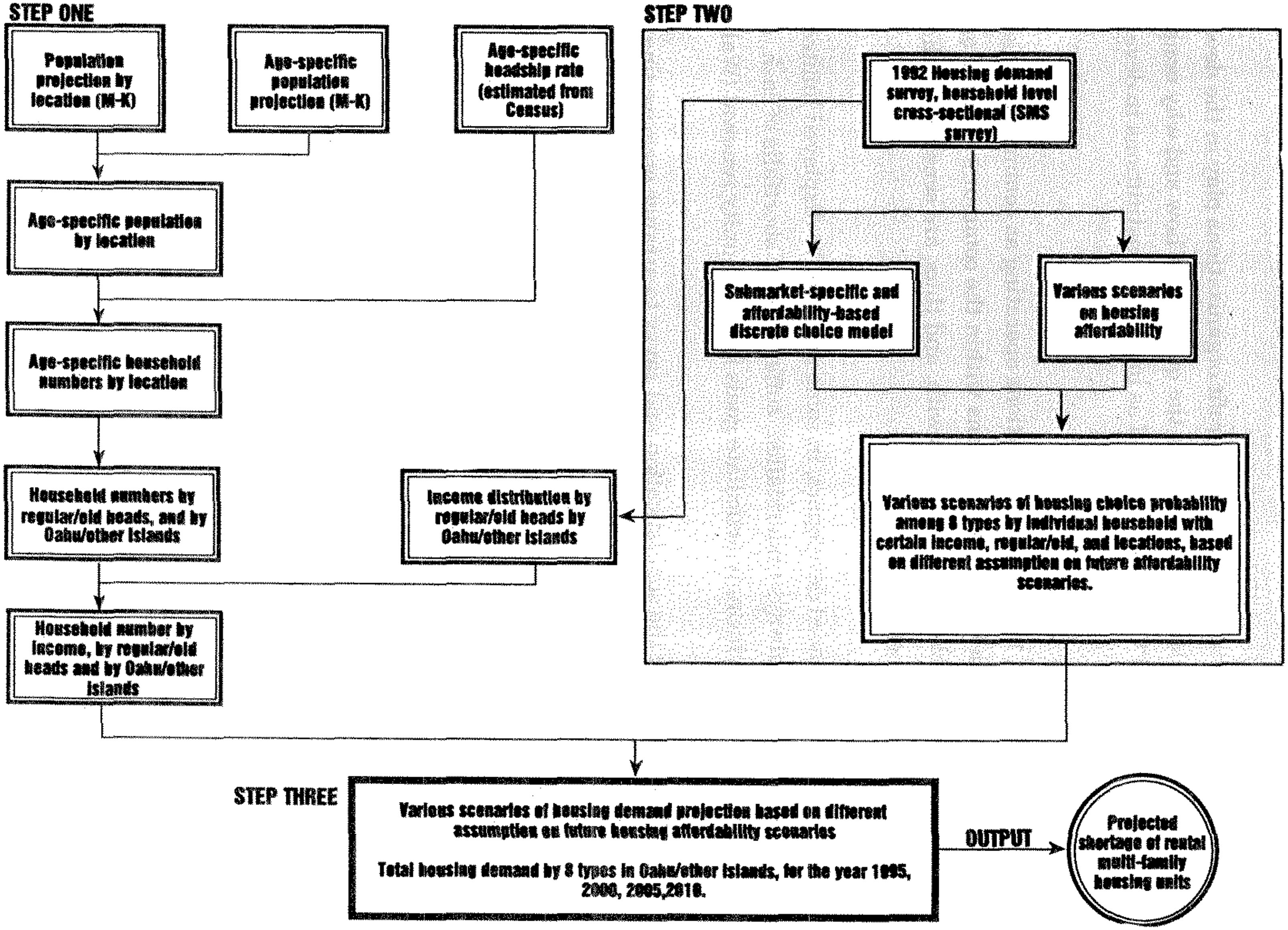
The Hawaii Housing Policy Study confirms the legislative finding that there is a desperate need to promote the development of accessible and affordable residential housing. The study also contains a number of policy recommendations, which if implemented, can lead to an improvement of the persistent housing crisis.

As a follow-up to the Hawaii Housing Policy Study, the Center utilized the data gathered in that study to build an econometric model to project housing demand. The basic structure of that model is illustrated in Figure 2 - Hawaii Housing Choice Model (**FIGURE 2**). The details of how the model works are reserved for a later technical report to be published by the Center. However important findings indicate that there is an underproduction in two categories of housing: 1) lower priced owner-occupied multi-family housing, and 2) lower priced rental housing. It is recommended that the State should, through various incentives encourage production of these two categories of housing. The projection of demand through the year 2010 will be strong.

Under current government incentives that appear to favor free-standing single family home ownership, this demand is likely to remain unsatisfied. By failing to meet this demand, other model projections indicate the strong likelihood of social stress including overcrowding, homelessness and out-migration.

One area that the Housing Consortium study and the Center projections did not address is the potential role of nonprofits in contributing to the solution. How can nonprofit organizations contribute to the solution?

Figure 2
Hawaii Housing Choice Model



IV. The Role of Nonprofit Organizations.

This part discusses the role nonprofit organizations play in the development of affordable housing. Addressed is the question of how and why nonprofit organizations ("NPO's") have emerged as important institutions to develop affordable housing.

As a segment, nonprofit organizations operating as community-based developers deal with a myriad of situations within the community. These organizations tend to identify themselves with, and thus, are sensitive to the needs and resources of the community.

Community-based developers, in some areas, have displayed limited technical capacity, are always understaffed, suffer chronic shortfalls of cash, and are unable to convincingly articulate goals for community renewal.(Walker)

They also lack the sophistication and savvy to arrange creative financial packaging in order to sustain project development. Part of the problem extends from financing required from multiple sources strung together haphazardly over a project's life. But even under those extreme circumstances, these organizations have displayed remarkable resilience and continue to operate in the best interests of the community and continue to produce housing in an arena where they often find themselves the only players. They are also the most knowledgeable and cognizant of the community's needs and through this connection, attain strong community support. Most importantly, they advocate a long-term commitment to low-income, affordable housing.

Further discussion of community-based developers and their role in developing affordable housing cannot proceed without exploring the diversity within the sector. There are many names attached to nonprofit housing development agencies including: community development corporation, nonprofit development organizations, community housing development organizations, etc.

The majority of nonprofit organizations consist of community development corporations ("CDCs"), defined as nonprofit, community-based housing sponsors or developers. Compared with other types of nonprofit agencies, CDCs more often take on non-development roles, including community organizing, social service provision, advocacy of neighborhood strategic interests, and so on(Walker). In reporting on Community Development Corporations, Walker noted the percentage of these organizations involved in other activities. These included rehabilitation (76.6%), weatherization (42.4%), property management (53.5%), homeowner's counseling (51.7%), tenant counseling (45.4%), housing for the homeless (29.3%), job training placement (28.8%), emergency food assistance (23.2%), child care (17.5%), anti-drug programs (16.4%) and others. (Walker, pp. 27-28).

In as much as a CDCs involvement in a community is extended to serve in those roles, it is a reflection of a community-oriented approach not focused solely on developing and providing low-income, affordable housing but also to address the accompanying needs that surround the basic need of housing that lies at the core.

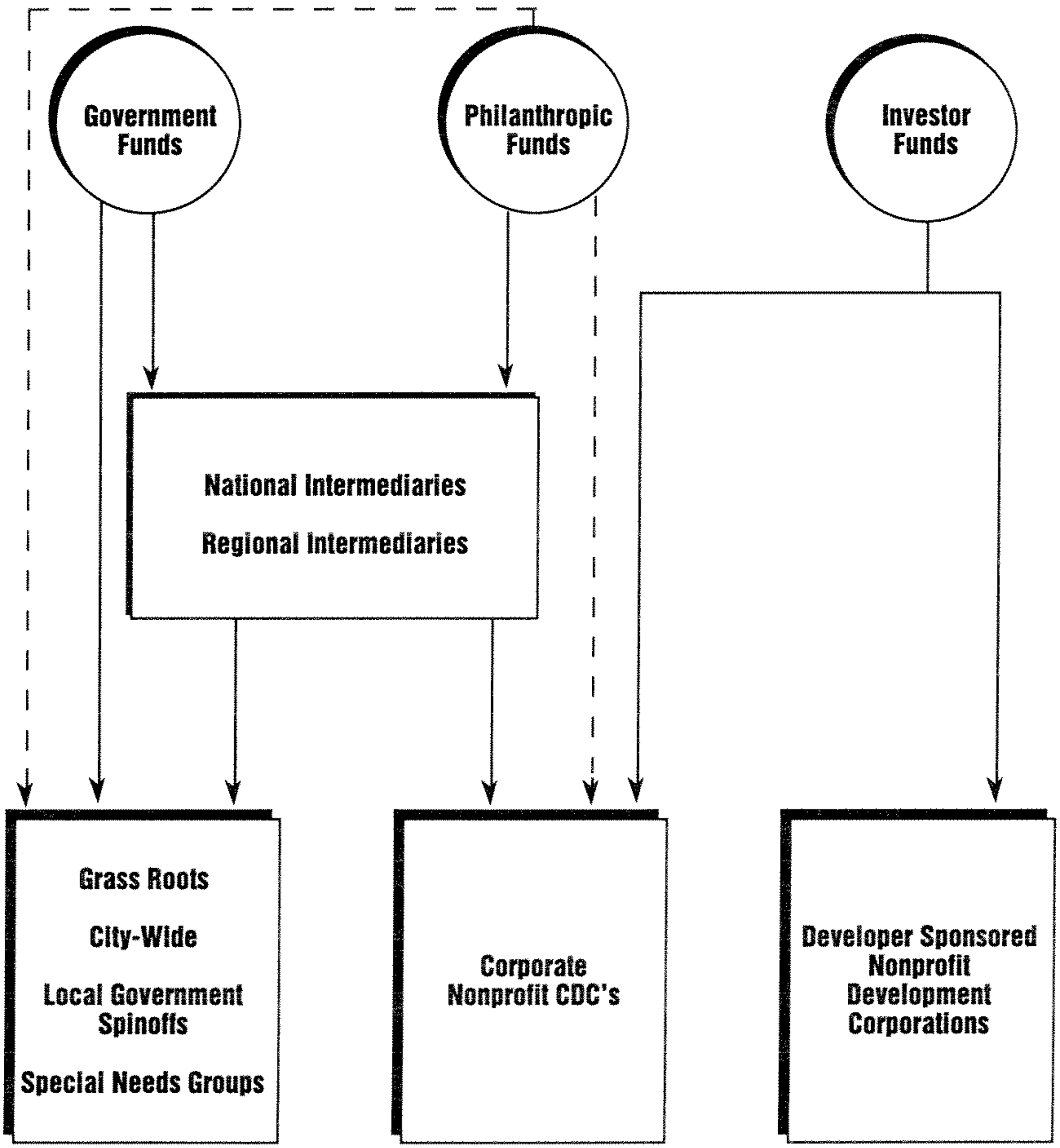
CDCs play many integral roles within the community, diverting their attention from developing housing and the all processes involved. This often leads to the problem of their needs overwhelming their means.

A review of the literature and research findings consistently identify the same factors that negatively affected CDC production of affordable housing in the past and to a certain extent, certain factors continue to do so.

Typically, CDCs need support in four specific areas including: 1) continuing administrative support, 2) predevelopment capital, 3) project capital and 4) technical assistance (EG). Figure 3 shows how nonprofits get access to development funds and indicates some of the relationship within the nonprofit housing support system. (**FIGURE 3**).

As noted in Figure 2, there are three major sources of funding available to support the activities of nonprofits. These are government funds, philan-

Figure 3
How Nonprofits Get Access to Development Funds



thropic funds and investment funds. While it is possible for nonprofits to access some of these funds directly, more and more funds are channeled through intermediaries. Investor funds normally are not available without subsidies and tax incentives such as depreciation and credits.

The recipients of these funds are nonprofits. Joseph T. Howell has classified these nonprofits into six categories (Howell, pp. 78-79). These are:

Grass-roots, community based development corporations - These groups fall within the HUD definition of community housing development organizations (CHDO's). These groups usually have defined neighborhood boundaries and maintain a local, neighborhood perspective. Much of their activity is focused on non-housing, social services and housing often is not a top priority.

City-wide, housing development organizations - These groups focus almost exclusively on housing on a broad geographical basis. Many of these groups have operating budgets in excess of $1 million annually. They receive funds from government contracts, development fees, grants and donations. Howell notes "Their staffs often include persons with considerable housing expertise. Many take a businesslike approach to development projects and produce positive bottom lines, earning the reputation of being capable, reliable developers." (Howell, p. 78)

Local government spin-offs - Creations of local or state governments, they tend to depend on on-going infusions of public dollars. Successful examples of these include the Santa Monica Development Corporation and the West Hollywood Community Development Corporation in greater Los Angeles.

Special needs groups - Housing for the homeless, the elderly and the disabled are usually the focus of these housing nonprofits. Affordable housing for the elderly is funded using such programs as the HUD section 202 program.

Corporate nonprofit CDCs - These groups have been started by corporations, banks or public utilities. Howell spotlights the effectiveness of Washington, D.C. , ARCH, a spin-off of PEPCO, a large utility.

Developer-sponsored nonprofit development corporations - Many of these are a product of the National Affordable Housing Act of 1990. These entities are set up to take advantage of incentives for owners of old Section 221(d)(3) and Section 236 properties.

CDCs and other NPO's obtain funding when it is available, without the possibility of that source being guaranteed. They also undertake projects that do not generate revenues. CDCs cannot count on a permanent source of funds to be a viable source for continuing administrative support, as might for-profit developers or most other types of businesses. As mentioned earlier, CDCs are often understaffed to begin with, causing an individual to cover tasks in many different areas.

Funding for the most essential of personnel and operating costs at times, must also be supplied by the CDC through its own fund raising efforts. Many funding programs through either the government or private foundations, are offered on a limited time basis with the funding period expiring and reapplication necessary and not guaranteed.

Perhaps the most underestimated expense a CDC may budget for is predevelopment capital. Predevelopment capital is needed to cover the costs incurred on a project even before it is launched. As with the case of administrative support, predevelopment expenses cannot be readily extracted from reserves already established. Addressing the actual funding needed for project capital, cuts to the heart of a project. Although all other components of a project are equally as important, CDCs must obtain essential low-interest financing for hard costs related to property acquisition and construction. In addition, a CDC must leverage all other possible sources to low cost, or ideally no-cost financing from the public sector, partnership or foundation.

Private foundations and intermediaries, via programs in their respective organizations, funnel low-interest financing to CDCs. Finally, before bricks and mortar, CDCs require funding for technical assistance. Going back to the issue of CDCs operating with skeletal staffs and without very much available expertise in areas across the board relating to project development, CDCs must secure external expertise in areas including, but limited to design, architectural, engineering, and/or construction. Furthermore, to ensure a project's legitimating, at some level, CDCs may opt to seek legal expertise, assistance in planning, and property management as is deemed necessary.

CDCs may receive funding from many different sources. Among them, the government, private foundations, endowment funds, or religious organization. Funding, or assistance can also appear in different forms such as monetary grants, technical assistance, etc.

An earlier observation of a CDCs overall activities and services equates to an overwhelming disparity between a funding mechanism unable to cope with multiple, unreliable sources of funds and government cutbacks in subsidies. However, this problem, which seemingly presented a major obstacle in the CDCs' progress, has allowed for the evolution of a new sector to fill the void created by a hodgepodge of financing resources and cuts in government subsidies.

The objective of this sector was to generate funds through their separate organizations and channel those funds to CDCs. Organizations involved are referred to as intermediaries and operate on a national, regional or state, and local level.

CDCs that align themselves with an intermediary (at either the national, regional or state, or local level) can expect to receive funding on a more continual basis for certain activities as prescribed by and consistent with that particular intermediary's functions.

On the whole, the emergence of national, regional, or state and local intermediaries is considered the single most important development in the nonprofit development sector in the 1980's.

> "Intermediaries as a group have performed three vital functions in the sector:
>
> 1) mobilization of capital, including project and operating support and predevelopment finance;
> 2) provision of technical assistance in financial packaging, project development, and local-institution building; and
> 3) as a result of the preceding two functions, legitimating of CDs, enhancing perceived technical competence and reducing risk to both public and private sector funders." (Walker, p. 13)

Perhaps, more importantly, as CDCs experience greater success and gain notoriety as well as attain a verifiable status as affordable housing developers and providers they can parlay that success and new-found status to re-kindle private sector and government interest in developing affordable housing.

One important national development that highlights the potential importance of NPO's is the Federal 1990 Housing Act. This act requires that 15 percent of the HOME grant funds be set aside for housing programs produced by non-profit. The importance of this cannot be overstated.

One scholar has written " . . . this provision represents the first explicit federal support for the modern generation of nonprofit developers. With greater resources, within five years the aggregate production capacity of nonprofits could probably reach an annual rate of at least a hundred thousand units." (Stone, p. 251). The same scholar also describes the housing production potential of nonprofit developers of coops. He writes " . . .their experience and capacity suggests that were there to be a major and growing commitment to production of limited-equity coops, within a few years these developers also might be able to produce close to one hundred thousand units per year (Stone, p. 251).

If Hawaii were to receive its fair share based on population, a properly supported nonprofit system might be expected to produce 800 housing units annually or 8,000 during a decade.

As noted in Table 1, 1.7% of the NPO's produced 25.3% of all housing units between 1988-1990 in the United States. Cumulatively, 10.1% of the NPO's produced 55.6% of all housing units and 24.6 of the NPO's produced 75.5% of all housing units. This suggests that there may be some characteristics that might lead to more effective production of housing.

Table 1:
ANNUAL PRODUCTION OF UNITS BY NPO'S (1988-1990)

Avg. Annual Units	**Percent of NPO's**	**Percent Units**
More than 200	1.7	25.3
101-200	2.7	14.6
51-100	5.7	15.7
26-50	14.6	19.9
11-25	26.7	16.7
1-10	48.7	7.9
All	100.0%	100.0%

Sources: Walker, p. 25; Howell, p. 79; both compiled from data by National Congress for Community and Economic Development.

Examination of the literature suggested that there is a direct correlation between the effectiveness of an NPO to produce affordable housing and its stage in the life cycle, the size of its staff and its administrative budget. The relationship between number of housing units produced and the other variables is illustrated in Table 2.

Table 2:
LIFE CYCLE SUCCESS OF NONPROFIT HOUSING PRODUCERS

Life Cycle Stage	Age (Years)	Staff	Budget	Annual Units Produced
Start-Up	0-3	1.5	Less than $100,000	Less than 10
Emerging	3-5	3	$150,000-$175,000	25-30
Mature	5+	5-7	$250,000-$300,000	50 or more

Source: Based on Howell, pp. 78-79.

The experience of an NPO appears to be very important to its effectiveness. Statistics published by Christopher Walker for the 1993 Fannie Mae Annual Housing Conference indicates that NPO's with 5 or less years of experience produced housing units at approximately half the rate of all other NPO's during 1988-1990 (Walker, p. 25). It is important to note also that housing production by NPO's in cities with 500,000 people or more, and which account for just 32.3 percent of the total U.S. population, received 58.9 percent of all the housing produced (Walker p. 26).

V. National Intermediaries.

This section identifies and discusses the major national intermediaries outlining the types of services they provide to local CDCs including: grants and funds, technical expertise, financial packaging, access to funds, set asides, etc.

At the national level, the rise of intermediaries to mobilize capital, provide technical assistance, and help create local nonprofit housing production systems dramatically improved the capacity of the nonprofit sector to undertake housing and community development projects.

National intermediaries possess enormous advantages of scale investments, affording individual CDCs and projects access to tax credits and corporate equity investments, secondary mortgage markets, and lender commitments.(Walker) As a result of an intermediary's expansion into other areas of financing beyond that of hard costs associated with land acquisition and construction costs, intermediary's have spun off subsidiaries to provide financing through its role as a secondary mortgage market. For the purposes of distinction, national intermediaries are designated as either public or private reflecting its primary funding source.

This section focuses on:

as public intermediaries:

1) The Neighborhood Reinvestment Corporation, and
2) The Housing Assistance Council; and

as private intermediaries:

3) Local Initiatives Support Coalition, and
4) The Enterprise Foundation.

A. The Neighborhood Reinvestment Corporation (NRC)

The Neighborhood Reinvestment Corporation (NRC) is a public, non-profit corporation funded primarily by Congressional appropriation. Neighborhood Reinvestment was established by an Act of Congress in 1979 (Public Law 95-557) "to revitalize older urban neighborhoods by mobilizing public, private and community resources at the neighborhood level." (1993 AR)

NRC provides funding, financing mechanisms, training, technical assistance and program oversight to keep its network of NeighborWorks organizations strong and viable.

Once a neighborhood group, city agency, business or financial institution initiates a request to NRC expressing interest in establishing a local organization, NRC staff responds by assessing local resources and then commences months of planning and development. After a series of workshops, the organization becomes a tax-exempt nonprofit and a member of the national NeighborWorks network. (Hawaii has two local affiliates, Honolulu-NHS/NeighborWorks and Nanakuli NHS/ NeighborWorks.)

Each NeighborWorks organization elects a board of directors comprised of individuals from all three sectors of the partnership created between residents, local businesses and local government, with a majority of the positions occupied by residents.

Though their activities vary, NeighborWorks organizations typically offer:

- a customized revolving loan fund to meet the needs of clients who are unable to get conventional loans;

- home-ownership counseling, energy audits and a variety of other affordable home preservation services as well as technical assistance;

- construction and rehabilitation monitoring; and

- development of and referrals to participating lending institutions.

Under the auspices of NRC, a NeighborWorks organization's basic operating and program expenses is supported through local fundraising efforts. It is a key element in an established individual NeighborWorks organization. NRC places the responsibility on local NeighborWorks for actual dollar fundraising but also offers training and technical assistance to further strengthen ties with the local resources and the community.

When a NeighborWorks organization is newly created, NRC works with the local partnership to establish a revolving loan fund (RLF). The fund is ultimately capitalized and controlled locally through businesses, foundations, states, and city governments utilizing Community Development Block Grant (CDBG) funds.

An additional $5 million dollar Congressional allocation in fiscal year 1992 bolstered NRC's RLF and equity capital projects. The RLF specifically makes loans available to individuals who otherwise fail to qualify for conventional bank financing for repairs, rehabs and home purchases.

NRC provides financial assistance in the form of two types of grants: 1) capital grants for revolving loan funds or real estate development projects; and 2) expendable grants for program services or administrative activities.

Fifty-one capital grants averaging $51,000, and 133 expendable grants averaging $28,500, were allocated in fiscal year 1992. Allocations for technical assistance, training and other field support was estimated at approximately $14 million. Funding for technical assistance, training and other field support primarily aids organizations in leveraging small grants with conventional investments.

Through it's NeighborWorks affiliates, the NRC network has grown to include 181 organizations in 151 cities in 46 states, the District of Columbia and Puerto Rico.

Production success creates additional demand. In 1992, Neighborhood Reinvestment's field offices recorded requests for new organizations from some 40 cities.

B. The Housing Assistance Council (HAC)

HAC is a national nonprofit corporation created to increase the availability of decent housing for rural low-income housing.

HAC's basic funding source is the Department of Housing and Urban Development, in addition to grants from foundations and contracts with state housing and development agencies and nonprofit housing organizations.

With a federal antipoverty grant, HAC was established in 1971. HAC provides seed money loans, technical assistance, program and policy analysis, research and demonstration projects, training, and information services to public, nonprofit, and private organizations.

HAC programs include: Technical Services, Revolving Loan Fund, Housing Program Assistance, Training, Research, Information Services, and Syndication Services.

HAC provides basic technical services to public and nonprofit organizations specifically serving the rural areas in the following areas:

- Analysis of project feasibility, including requirements related to property acquisition, housing construction and repair;

- Assistance in the preparation and review of loan and grant applications;

- Assistance with eligibility and processing requirements for FmHA, HUD, DOL, HHS, and state agency housing programs. These programs include rental, homeownership, self-help, elderly; and,

- Information and publications, sometimes specialized and technical, on topics that affect rural housing services, including proposed or existing federal and state legislation and regulations.

The Community Development Division oversees HAC's revolving loan funds primarily used to provide predevelopment loans to housing projects and developers considered high risk by commercial lenders. These loans are primarily made to offset costs of land options, site acquisition and development, and engineering, architectural and legal fees. In addition, the loans may be used for guarantees, collateralizations, and compensating deposits for developer of low-income housing to obtain private low-interest construction loans from local banks.

In 1992, HAC made fifteen loans worth a total of two million dollars. In addition, HAC provides exhaustive technical assistance, information, and training as needed by the borrowers. The assistance and training is invaluable as organizations develop skills necessary to work on other projects.

HAC's Housing Program Assistance's goal is to strengthen policy toward rural housing. HAC may conduct analyses of rural housing and community development legislation and programs for the Farmer's Home Administration, and intervene with federal agencies on behalf of state and local housing organizations. In addition to its national office located in Washington, D.C., HAC has regional offices in Georgia, New Mexico, and California.

C. The Local Initiatives Support Corporation (LISC)

The Local Initiatives Support Corporation (LISC) enables residents of low-income communities across America to improve the quality of life and economic conditions in their neighborhoods. LISC raises money from corporations and foundations, then directs those dollars to "community development corporations" (CDCs). With financing and expertise from LISC, CDCs develop affordable housing, spur commercial investment, create jobs and strengthen social services. LISC operates nationally and locally, expanding CDCs ability to transform their own diverse communities.

With a network of over 875 CDCs located in 30 "Areas of Concentration," LISC, which was founded in 1979 by the Ford Foundation, is one of the largest private nonprofit community development support organizations in the United States.

A local LISC program is served by a small staff and local advisory committee. When a new program is established, national LISC matches the dollars the advisory committee raises locally. Once a program is established, local programs recommend projects to LISC's national board of directors. After Board approval, national LISC then provides grants or loans to support these CDC sponsored ventures.

CDCs use these moneys not only to finance their development, but equally as important, to attract other private and public sector funds essential to a project's success.

Because of its flexibility, LISC can be involved in areas of risk throughout a project's development, from making low-interest loans or grants to cover such costs as architectural and legal fees, to more traditional construction loans or underwriting mortgage guarantees.

In addition, LISC has formed two affiliates, extending its financial activities and operations available to CDCs.

1. **National Equity Fund (NEF)**
   Formed in 1987, the National Equity Fund (NEF) channels corporate investments in low-income rental housing using the federal Low-Income Housing Tax Credit (LIHTC). The LIHTC provides companies and qualified individuals with a competitive return on their investment in the form of tax benefits.

2. **Local Initiatives Managed Assets Corporation (LIMAC)**
   The Local Initiatives Managed Assets Corporation (LIMAC) also established in 1987, is designed to increase the flow of dollars into low income neighborhoods by purchasing community devel-

opment loans from LISC and other institutes. LIMAC also acts as a secondary market fund. LIMAC is working with Freddie Mac to create a secondary market for bank loans on low income housing projects. The intention is to increase the amount of long-term fixed rate debt for community development projects.

Another national initiative to provide technical guidance to CDCs is LISC's Training Program. Through this program, LISC provides CDC staff with instruction in real estate development and nonprofit business management. In addition, LISC National Development Teams help neighborhoods set-up CDCs, equipping them with the tools to foster positive relationships between community leaders, local government, the private sector and philanthropic organizations. In 1992, LISC received philanthropic gifts totaling more than $20 million. LISC grants to CDCs in 1992 alone, totaled approximately $12 million.

With the inception of the Campaign for Communities program, LISC seeks to raise $200 million from private and philanthropic sources over a period of five years. The Campaign will further LISC's role into underserved areas of the country, build CDC capacity, develop financial mechanisms and programs that address community needs, and strengthen advocacy for CDCs.

In addition, the **National Community Development Initiative (NCDI)** which consists of seven foundations and one corporation, was responsible for channeling $62 million to CDCs to increase their activities/programs. Another by-product of this capital infusion was that local organizations leveraged this money to attract other funding as well. (Lilly Endowment, The Rockefeller Foundation, The William and Flora Hewlett Foundation, Knight Foundation, The Pew Charitable Trusts, John D. and Catherine T. MacArthur Foundation, the Surdna Foundation, and the Prudential Insurance Company.

Launched in February 1991, NCDI is operating in 20 cities. NCDI resources are dispersed by LISC and another community development intermediary, The Enterprise Foundation.

D. The Enterprise Foundation (EF)

The Enterprise Foundation (EF) is a nonprofit, publicly supported, tax-exempt foundation established in 1982 by Jim and Patty Rouse to provide grants, loans, and technical assistance to local neighborhood groups in order to promote the development of low-income housing.

EF works with governments of 36 cities to build and strengthen their affordable housing efforts.

A financial subsidiary of the Foundation, the **Enterprise Social Investment Corporation (ESIC)** has become the national leader in raising equity using the tax credit. ESIC has raised $220 million in equity investments by using tax credits in 1992. Enterprise has raised over $655 million to finance decent and affordable housing for low-income people through loans, grants, and tax credits investments. As mentioned earlier, the Enterprise Foundation also actively participates in the NCDI.

The Enterprise Foundation has expanded its services through its other subsidiaries including: The Enterprise Loan Fund, Inc., The Enterprise Social Investment Corporation, Enterprise Housing Financial Services, Inc., and The Enterprise Group, Inc.

Other EF programs include: Housing Plus Program, Cornerstone Housing Corporation, National Center for Lead-Safe Housing and the CityHome homeownership program in conjunction with New York City. Enterprise is working in over 100 locations and with over 300 neighborhood groups, helping to produce more than 24,500 homes since 1981.

Recognizing the need to provide continual post-development support to a project, The Enterprise Foundation is working in cooperation with the

Neighborhood Reinvestment Corporation and the Institute for Real Estate Management. The partnership created a national training program in nonprofit housing management, and in effect, stated its recognition that commitment to a project goes beyond the physical structure of the building.

E. Role of Intermediaries in Hawaii

The Center explored the question of why intermediaries are not currently involved with Hawaii nonprofit organizations except in a limited sense. Responses from interviews indicated that national experts thought that land in Hawaii is too expensive and that there is little available land that is properly classified, zoned and supported by infrastructure. The only national activity that we are aware of is with NRC; two entities have NeighborWorks affiliations. Much of the work of these two affiliates has not been in the the development of new housing, but rather concentration has been on rehabilitation of existing housing.

Because of the complexities associated with housing development in Hawaii, the State may have been written off by national organizations. For example, in a national study predicting the effectiveness of fully-funded shelter grants, Honolulu ranked near the bottom in correcting housing deficiencies and percent of housing improvements. Only New York City was consistently ranked below Honolulu (Newman, pp. 66-69). This kind of information may suggest to national intermediaries that scarce national housing dollars can be more cost effectively used elsewhere.

VI. Tax Mechanisms.

The most effective tax mechanism that is available to nonprofits is the low-income housing tax credit. Since 1986, the low-income housing tax credit has been estimated to have stimulated housing units equal to 8 percent of annual housing production nationwide. Rents are kept low and investors receive most of their returns from tax shelter benefits. Under current tax rates, high income tax payers would receive returns equal to approximately $2.00 for every $1.00 in depreciation deductions and tax credits.

The low-income housing tax credit is a business tax credit for qualified low-income residential rental property. This was originally introduced by Congress to encourage production of low-income housing in the Tax Reform Act of 1986 and it was permanently extended in 1993. This tax credit makes it possible for nonprofits to create partnerships or joint ventures with the private business sector to build affordable rental housing.

According to the August 4, 1993 **Congressional Record,** the "tax credit is allowed in annual installments over 10 years for qualifying newly constructed or substantially rehabilitated low-income residential rental housing. For most qualifying housing, the credit has a present value of 70 percent of the qualified basis of the low-income housing units. For housing also receiving other Federal subsidies (e.g., tax-exempt bond financing) and for the acquisition cost (e.g., costs other than rehabilitation expenditures) of existing housing that is substantially rehabilitated, the credit has a present value of 30 percent of qualified costs." (p. H5929). Rehabilitation expenditures qualify for the credit only if they exceed $3,000 per unit. A higher credit is allowed in the case of buildings located in certain high cost areas.

The Internal Revenue Service (IRS) has published the formula which it uses to calculate the appropriate percentages for the 70% and 30% present value credits. The formula appears below:

Calculation of the Appropriate Percentage

Let:

AFR_m = mid-term applicable federal rate with an annual period for compounding, expressed as a percent

AFR_l = long-term applicable federal rate with an annual period for compounding, expressed as a percent

$$i = (1.0 - 0.28) \times ([AFR_m + AFR_l] \div 200)$$

$$PV = 1.0 + ([1.0 - (1.0 \div [1.0 + i]^9)] \div i)$$

If AP_{70} stands for the appropriate percentage for the 70-percent present value credit and AP_{30} stands for the appropriate percentage for the 30-percent present value credit, then, to express AP_{70} and AP_{30} as percents:

$$AP_{70} = 70 \div PV$$

and

$$AP_{30} = 30 \div PV$$

The **Real Estate Coordinator** *observes the following about these calculations* the "IRS says that the model on the basis of which the above computations are made assumes 10 equal annual credit amounts, and that the legislative history (S. Rept. No. 303, 99th Cong., 2d Sess. pp. 759-60 (1986)) contemplates that such a pattern of credits is to be used for these computations. Thus, according to IRS, the computations yield the same appropriate percentages for all buildings placed in service in a given month, regardless of whether taxpayers make the election under Code Sec. 42(f)(l) to defer the credit period and regardless of the extent to which Code Sec. 42(f)(2) causes the credit amounts actually received to deviate from the model calculation reproduced above. (Rev. Rul. 88-6, 1988-1 CB3)." (Vol. 1, p. 836, 8/3/92).

The **Real Estate Coordinator** further explains, "A building qualifies for the credit if either 20% of the units are occupied by individuals with incomes of 50% or less of area median income, or if at least 40% of the units are occupied by individuals with income of 60% or less of area median income. Furthermore, the rent charged to tenants may not exceed 30% of the imputed income limitation applicable to that unit. These requirements must be satisfied over a 15-year period known as the compliance period, and must be subject to a minimum long-term commitment to low-income housing. The penalty for noncompliance is recapture of the credit." (Vol. 5, p. 74,901, 9/14/92, references omitted). What this means is that although the tax credits are taken over a ten-year period, these are earned over a fifteen-year period. In other words, the building must be in compliance for five years after the tax credit expires.

The **Real Estate Coordinator** notes that "There is a limit on the total amount of credits available for buildings not financed with tax-exempt bonds subject to the state volume limitations of Code Sec. 146. Each state is permitted to annually "allocate" low-income housing credits with a ceiling amount equal to $1.25 per resident of the state. At least 10% of this ceiling amount must be reserved for projects developed by certain nonprofit organizations. Buildings financed with tax-exempt bonds are eligible for the credit without regard to the state ceiling, since these bonds are subject to other limitations. A low-income housing credit is allowed for the eligible basis of an existing building only of the building is rehabilitated and the rehabilitation qualifies for the credit under the minimum rehabilitation expenditure requirement of Code Sec. 42(e). This minimum rehabilitation requirement applies to acquisitions of all eligible buildings except certain federally-assisted buildings." (Vol. 5, p. 74,901, 9/14/92, references omitted).

VII. Major Federal Programs Supporting Nonprofits and Housing.

Although there are many Federal programs that are used to assist housing, most of these are not directly related to the role of nonprofits (See Suchman, pp. 12-13). Two major programs are described in this section - HOME funds and Community Development Block Grants.

A. HOME funds

The Cranston-Gonzalez National Affordable Housing Act of 1990 (NAHA) (PL 101-625) was the most extensive piece of legislation addressing housing issues since the Housing and Community Development Act of 1974 and the U.S. Housing Act of 1937. The passage of the Housing and Community Development Act of 1992 (HCDA) (PL 102-550) amended the U.S. Housing Act of 1937 and numerous other acts including the NAHA to extend and revise HUD housing and community development programs.

The objectives of the NAHA and HCDA are to reaffirm the long-established national commitment to decent, safe, and sanitary housing for every American by strengthening a nationwide partnership of public and private institutions "able to:

- ensure that all residents of the United States have either, access to decent shelter, or assistance in avoiding homelessness;
- increase the supply of decent housing that is affordable to low-income and moderate-income families and accessible to job opportunities;
- improve housing opportunities for all residents, particularly for disadvantaged minorities;
- help make neighborhoods safe and livable;
- expand opportunities for homeownership;
- provide every community with a reliable, readily available supply of mortgage financing at the lowest possible interest rate; and
- encourage tenant empowerment and reduce generational poverty in public and assisted housing by improving the means to achieve self-sufficiency."

Community Housing Development Organization (CHDO)

NAHA (as amended by HCDA) also has defined a Community Housing Development Organization (CHDO) as a nonprofit organization that:

- "has among its purposes the provision of decent housing that is affordable to low-income and moderate-income persons;

- maintains through significant representation on the organization's governing board and otherwise, accountability to low-income community residents, and to the extent practicable, low-income beneficiaries with regard to decisions on the design, siting, development, and management of affordable housing;

- has a demonstrated capacity for carrying out activities assisted under this Act; and

- has a history of serving the local community or communities within which housing to be assisted under this Act is to be located.

- in the case of an organization serving more than one county, the Secretary may not require that such organization, to be considered a community housing development organization for purposes of this Act, include members on the organization's governing board low-income persons residing in each county served."

Comprehensive Housing Affordability Strategies (CHAS)

Comprehensive Housing Affordability Strategies (CHAS) is a comprehensive, annually updated, 5-year housing affordability strategy developed by state and local governments (participating jurisdictions) that must be submitted to and approved by HUD before assistance is transmitted to a state or local government. By law, CHAS should encourage participation by as many individuals as possible with diverse interests. Crucial areas to be determined as CHAS is developed include but is not limited to fund allocation, priorities, selection of Community Housing Development Organizations, deciding provision on required matching funds. The law requires CHAS replaces both the Housing Assistance Plan (HAP) required for the CDBG program and the Comprehensive Homeless Assistance Plan (CHAP) under the McKinney Act programs.

The HOME Program falls under Title II of NAHA - HOME Investment Partnerships. As stated, the program is locally designed and administered, financed in part by federal grants to:

1) expand the supply of decent, safe and affordable housing, with primary attention to low income rental housing;
2) strengthen the abilities of state and local governments to design and implement affordable housing strategies; and
3) provide both federal financial and technical assistance to support these state and local efforts.

HOME funds can be used for moderate rehabilitation, substantial rehabilitation, new construction, site improvements, acquisition, tenant based rental assistance, financing costs and relocation benefits, for planning and administrative costs of the HOME program by participating jurisdictions (PFs), and as amended by HCDA "to provide for the payment of reasonable administrative and planning costs, to provide for the payment of operating expenses of community housing development organizations." Prohibited uses of HOME funds include non-federal match for other programs, public housing modernization annual contributions for public housing, preservation activities under the 1987 and 1990 HUD-insured preservation programs, and tenant-based rental assistance in conjunction with: Section 8 Existing subsidies, replacement of demolished public housing, preserving federally assisted housing, property disposition programs, displacement from rental rehab properties, and extending Section 8 assistance.

Funds can be used in the form of loans or grants, interest rate subsidies, equity, or other methods approved by HUD, and are awarded to participating jurisdictions. All states, metropolitan cities, and urban counties are eligible to be participating jurisdictions (PJs).

The largest of HOME fund increments are allocated to local governments at 60%, followed by state governments with 40%, and 1.00% to Indian Housing.

HOME funds are determined and allocated by formula. The formula is based on that jurisdiction's need for affordable, low-income housing. the formula assesses a jurisdiction's relative inadequacy of housing supply, substandard housing, number of low-income families in housing units likely to be in need of rehabilitation, cost of producing housing, poverty, and fiscal incapacity to carry out housing activities without Federal assistance. For states, the minimum allocation is $3 million. All states will receive at least this minimum allocation. However, states with no local governments receiving HOME allocations, will increase their HOME allocations by $500,000 or $335,000 if the annual appropriation falls below $1.5 billion. For local government, the minimum allocation is $500,000 to qualify for direct allocation. Jurisdictions whose formula-based allocations fall below $500,000 cannot directly apply for HOME funds unless it is a year when Congress appropriates less than $1.5 billion to the HOME Program. In addition, new PJs' share must be at least $335,000 by formula to receive an allocation.

States and local governments are to be notified by HUD within 20 days from the date the funds become available. In turn, jurisdictions have 30 days to notify HUD of their intention to participate and must present their CHAS to HUD for review within 90 days.

HUD holds all HOME fund allocations in a "HOME Investment Trust Fund." Funds which are recycled into, may be retained in the Investment Trust Fund as long as HUD approves.

The HOME Program also established matching requirements for:

1) Tenant-based rental assistance and moderate rehabilitation at 4-HOME to 1-state/local (25%);
2) Substantial Rehabilitation at 3-HOME to 1-state/local (33%); and

3) New construction at 2-HOME to 1-state/local (50%).

Matching sources include cash (not including CDBG funds), deferred, foregone or abated taxes or fees, value of land or real property, value of any on- or off-site improvements and administrative costs up to 7 percent of HOME allocation (CDBG funds permitted).

1. Limitations on HOME Funds

HOME funds for New Construction is permitted only under certain circumstances where there is an inadequate supply of housing with rents below the FMRs for section 8 or if there is a severe shortage of housing rehabilitation.

A provision under Neighborhood Revitalization allows new construction in any jurisdiction only if all of the following criteria is met:

1) a jurisdiction must certify that new construction is necessary for rehabilitation in a designated area;
2) housing is located in a low/moderate income neighborhood, the number of units constructed do not exceed 20 percent of total units produced under this program; and
3) homes are to be constructed or rehabilitated by a CHDO or public agency.

2. Set-Asides

Community Housing Partnerships will establish Set-aside funds. For a period of 24 months (as amended by HCDA), after funds have been made available to jurisdictions, set-aside funds must comprise at least 15 percent of every jurisdiction's HOME fund allocation and must be set-aside for projects that are sponsored by Community Housing Development Organizations. In addition, up to 10 percent of each jurisdiction's Community Housing Partnership set-asides may be allocated for predevelopment funding to Community Housing Development Organizations. "If during the first 24 months of its participation under this title, a participating jurisdiction is unable to identify a sufficient number of capable community housing development organizations, then up to 20 percent of the funds allocated to that jurisdiction under this section, but not to exceed $150,000, may be made available to carry out activities that develop the capacity of community housing development organizations in that jurisdiction" (As amended by HCDA).

In addition, under the HOME program, up to $25 million of each fiscal year's appropriation may be set aside for technical assistance and building capacity of nonprofit sponsors. These funds are divided accordingly, $14 million is available to national and statewide intermediary organizations to provide technical assistance to CHDOs. The balance of $11 million is earmarked to provide technical assistance to participating jurisdictions.

Predevelopment funding may take the form of project specific technical assistance and site control loans for activities including feasibility studies or site options. If the project fails, loans can be recast or forgiven.

After a CHDO has secured site control and has a capable development team in place, predevelopment funding in the form of project specific seed money loans for such predevelopment expenses including plans and specs, financing commitments, zoning approvals and legal assistance can be drawn. The option for the loan to be recast or forgiven is also available should the project fail.

3. Other CHDO Program Requirements

In addition to the basis defining them, CHDOs still have to comply with further program requirements. Types of eligible nonprofit organizations are restricted to bona fide nonprofits. Furthermore, participation is barred by groups who are connected in any fashion contrary to the intentions of NAHA. Limits that apply to other HOME funds also apply. In addition, CHDO's must devise and obtain approval for a plan to involve tenants in management and to develop a tenant grievance procedure. If a jurisdiction fails to use CHDO set-aside funds within 24 months, (as amended by HCDA) HUD recaptures and reallocates the funds. Reallocation is then based on priority to nonprofits who produce housing in the original jurisdiction where the set-aside was first allocated.

Organizational Support Grants are are available to nonprofit intermediaries who provide services to CHDOs. Grants may be used for operational expenses, training, technical assistance, legal, engineering and other assistance to boards of directors, staff and members of nonprofit organizations.

Further HOME Program Requirements include provisions on: recapture of funds, antidisplacement, equal opportunity, nondiscrimination, audits, record keeping, Davis-Bacon wage requirements, environmental review, and interstate agreements,

Set-asides may have both positive and negative effects. On the positive end, set-asides to nonprofit developers, consistent with provisions under the HOME program, may greatly enhance their capabilities. However, in localities where nonprofits are weak (including areas where government policy has discouraged the use of program dollars for nonprofit housing production), set-asides may do little to influence continuing relationships with local governments who historically do not support and are unsympathetic to the nonprofit housing sector. Worse, such preferences may support organizations that do not have the capacity to produce appropriate projects.

B. Community Development Block Grants (CDBGs)

Community Development Block Grants (CDBGs) are federal grants allocated to promote sound community development. There are two types of CDBGs: Entitlement and Non-entitlement CDBGs for States and Small Cities.

1. Entitlement Community Development Block Grants (Entitlement CDBGs)

Entitlement CDBGs are dispersed annually on a formula basis to entitled communities. In accordance with 42 U.S.C. 5301 et seq., Entitlement CDBGs grants may be utilized to fund a wide range of community development activities, directed toward neighborhood revitalization, economic development, and improved community facilities and services.

Entitlement communities as potential grantees, are responsible for stating their funding priorities in a plan to be submitted to HUD. Each plan must include citizen input from the prospective communities before any decisions within the plan are finalized. All CDBGs must be directed at activities that must benefit low- and moderate-income persons; or aid in the prevention or elimination of slums and blight; or address other community development needs that are detrimental to the health, safety and public welfare of the community.

Some of the activities that can be carried out with community development funds include the acquisition of real property; rehabilitation of residential and nonresidential properties; provision of public facilities and improvements, such as water and sewer, streets, and neighborhood centers; assistance to profit-motivated business to help with economic development activities; activities necessary to develop a comprehensive community development plan; activities carries out by public/private nonprofit entities, assistance to neighborhood-based nonprofit organizations, local and development corporations.

Of the CDBG Entitlement Funds that are appropriated, 70 percent is allocated to metropolitan cities and urban counties. This *total represents the remainder of the funds after allocations for* the UDAG and the Secretary's Discretionary Fund are subtracted.

Metropolitan cities and urban counties are eligible to receive annual grants and are defined as central cities of Metropolitan Statistical Areas (MSAs) or other cities within MSAs which have populations of at least 50,000. Urban counties are located within MSAs and are also authorized to undertake community development and housing activities.

2. **Non-entitlement Community Development Block Grants for States and Small Cities (Non-entitlement CDBGs)**

Non-entitlement CDBGs are also dispersed by a formula basis and may also be utilized to fund a wide range of community development activities directed toward neighborhood revitalization, economic development, and improved community facilities and services.

Applicants for Non-entitlement CDBGs, as with Entitlement CDBGs are responsible for stating their funding priorities in a plan to be submitted to HUD. Each plan must include citizen input from the prospective communities before any decisions within the plan are finalized. All CDBGs must be directed at activities that must benefit low- and moderate-income persons; or aid in the prevention or elimination of slums and blight; or address other community development needs that are detrimental to the health, safety and public welfare of the community.

1981 amendments to CDBG legislation granted the option to each state to dispense its CDBG funds for their non-entitlement areas. If states choose to exercise this option, they may allocate

CDBGs as grants to the eligible units of general local government. If the option is not exercised, HUD remains the administrator of the funds and grants funds according to a selection criteria.

Fifty States and Puerto Rico are eligible to apply to administer funds to non-entitlement units of government. These units of government are usually under 50,000 in population and are not part of a metropolitan city or urban county.

Of the Non-entitlement CDBG Funds that are appropriated, 30 percent is allocated to metropolitan cities and urban counties. This total represents the remainder of the funds after allocations for the UDAG and the Secretary's Discretionary Fund are subtracted.

3. Community Development Block Grants (Section 108 Loan Guarantee)

CDBGs (Section 108) is a loan guarantee assistance for community and economic development and serves as the guarantee provision of the CDBG program. It provides communities with front-end financing for large-scale community and economic development projects that cannot be financed from annual grants.

CDBGs (Section 108) may be utilized for: acquisition of real property; rehabilitation of publicly owned real property; housing rehabilitation; qualified economic development activities under the CDBG program; and other related relocation, clearance, and site improvements. Keeping with the provisions of the CDBG programs, all projects or activities must: benefit low- and moderate-income persons; or aid in the prevention or elimination of slums and blight; or address other community development needs that are detrimental to the health, safety and public welfare of the community.

An applicant's current and future CDBGs funds serve as the principal security for the loan guarantee. In addition, HUD may request additional security should it determine it necessary.

Metropolitan cities and urban counties that also receive entitlement grants are eligible for CDBGs (Section 108). They have the choice of being the actual borrowers or many select a public agency to receive the loan guarantee.

VIII. Other States' Experiences

The legislature has requested that we identify the efforts and successes of nonprofit organizations in other states, such as Illinois and California. Due to the fact that, other than personnel time, no budget was allocated for this study, research on this topic was restricted to a literature review and follow-up telephone calls.

In the last thirty years, nonprofit organizations have developed 750,000 to 900,000 units (Stone, p. 204; Howell, p. 78). This averages to 25,000 to 30,000 units per year. Based on information compiled by the National Congress for Community and Economic Development, it has been estimated that there are 1,000 to 1,200 nonprofit housing developers in the United States (Howell, p. 78). Another authority sets the estimate at 2,000 community based housing developers (Stone, p. 251). Depending on which estimate you accept, Hawaii would need 40 to 80 NPO's to be proportionally serviced on a per capita basis.

How successful have CDCs and other NPO's been in producing housing in other states? Have the benefits of these institutions been evenly distributed throughout the United States? One commentator on the subject has made the following observations:

> "Production has been far from uniform geographically. Most of the activity has occurred either on the East Coast or the West Coast, and

even in those areas, it is concentrated largely in big cities like Los Angeles, San Francisco, Boston, Baltimore, Washington DC, Philadelphia, and New York. Other large cities like Chicago and Minneapolis also have sophisticated and mature nonprofit housing production networks. Certain areas of the country (the South, the Rocky Mountains, and the Plains states) have seen relatively little nonprofit activity" (Howell, p. 78).

The legislative resolution made special inquiry of successes in California and Illinois. On the Center's visitation to Washington, D.C., the BRIDGE Housing Corporation,the East Bay Asian Local Development Corporation, and the Chinese Community Housing Corporation (CCHC) in California were identified as a particularly successful programs. Identified as a successful program in Illinois was the Chicago Housing Partnership (CHP).

A. CALIFORNIA:

1. Bay Area Residential Investment and Development Group (BRIDGE Housing Corporation)

In 1981, The San Francisco Foundation received a gift from an anonymous donor of $660,000, to address the burgeoning housing crisis in the Bay Area. The Foundation appointed a "Blue Ribbon" Task Force, which was presided over by Alan Stein, Secretary of Business, Transportation, and Housing in California, at the time. Stein worked in conjunction with the Bay Area Council, a group comprised of over 300 of the area's largest corporations and businesses. The task force ultimately decided to form BRIDGE, "an aggressive, nonprofit, regional development corporation." BRIDGE affordable housing projects target large volume production of high-quality homes for families earning $12,000 to $25,000 annually.

BRIDGE, a 501(c)(3) nonprofit, services the nine-county San Francisco Bay Area that includes the city and county of San Francisco and Marin, San Mateo, Alameda, Contra Costa, Napa, Sonoma, Santa Clara, and Solano Counties. BRIDGE must deal with the policies of each county and not just one jurisdiction as most nonprofit developers do.

The organization has had measurable success in developing housing. In its 1992-93 annual report, the chairman reported:

> "To date we have over 4,600 units completed or in construction, and we expect another 800 more to start this year. In addition we operate another 800 units which were built by others, and we expect to acquire over 500 more units this year which we will own and operate as mixed income housing."

The report estimates that this housing is valued at "over $500 million."

BRIDGE has been actively operating since it was accorded its nonprofit, tax-exempt status in 1983. However, in order to establish itself, BRIDGE concentrated only on providing financial or technical assistance to projects introduced by others during its first two years of operation and expanded its services to become a full-fledged developer in 1985.

BRIDGE's venture from provider to developer enabled it to evolve into an all-encompassing entity capable of providing multiple services including site selection, project planning, structuring and packaging financing, development and property management while remaining independent. This characteristic separates BRIDGE from mainstream community development corporations (CDCs).

BRIDGE is unique in that it accomplishes projects based on its ability to perform a variety of roles. In a given project, BRIDGE determines its role based on what it deems it is best suited to contribute and may serve as a private developer, take part in joint venture arrangements with for-profit or nonprofit developers, aid projects undertaken by public agencies, and provide technical expertise and assistance to nonprofit developers.

"The lifeblood of BRIDGE" is the Development Trust Fund (DTF), initialized through an ambitious and vigorous campaign aimed at a fundraising goal of $3 to $5 million. As of 1993, the DTF is projected to reach $10 million. As BRIDGE's main resource, the DTF is a revolving loan fund that provides working capital for BRIDGE projects. Analysis of their financial sources from the 1992-93 annual report indicates eight entities donated $1 million of more, 14 donated between $100,000 to $1 million, and 31 donated up to $100,000. Donors included major national foundations, banks, building industry groups, corporations, accounting firms and others.

BRIDGE has expanded its programs by forming three other nonprofit subsidiaries including:

1) BRIDGE Property Management Company which manages, maintains and operates BRIDGE projects;
2) Bay Area Senior Services (BASS), a Continuing Care Retirement provider licensed by the State of California; and
3) BRIDGE Properties Inc., a nonprofit taxable corporation formed for special activities.

The Bay Area and Hawaii share many attributes which make developing affordable housing difficult. Foremost among these are the scarcity and price of the land. Both San Francisco and Hawaii have high land values, and unfortunately, belong to the top tier of areas known to be difficult development areas across the United States. In addition, housing in both areas is scarce and expensive. Like California, Hawaii does not possess a large stock of old housing that can be rehabilitated. Demand for affordable housing continues to be strong while supply has not increased to meet the demand. Prices are much higher than a decade ago due to foreign investment, primarily Japanese. Strict environmental regulations and long development approval processes exacerbate the problem.

Reflective of California's effort to alleviate the affordable housing crisis, the state has adopted a pivotal law that assists tax-exempt, nonprofit organizations in securing developable land. BRIDGE, as a tax-exempt nonprofit organization, has the legal right to purchase surplus public property (land, abandoned school buildings, etc.) at a fair-market value before the property is offered for public sale at competitive market prices.

BRIDGE's reputation as a successful, viable player in the affordable housing arena in the Bay Area and beyond (BRIDGE has initiated projects in Los Angeles) has been invaluable. Credibility is the pillar with projects attached to the BRIDGE name.

In its role as sole developer or as co-developer, BRIDGE projects gain national and international recognition. Consider the Frank G. Mar Community Housing Development project which received the 1990 World Habitat Award in Hiroshima, Japan. BRIDGE co-developed the project with East Bay Asian Local Development Corporation (EBALDC). The organization has also won seven Gold Nugget awards from the Pacific Coast Builders Conference, the Urban Land Institute for Excellence, two Fannie Mae Awards of Excellence, and the Federal Design Achievement Award from the National Endowment for the Arts.

Perhaps one of the most useful lessons learned from the BRIDGE activities is the emphasize the entity places on achieving project economies. The following is taken verbatim from its annual report:

"During the past several years, BRIDGE has tapped new sources of capital and devised new partnerships in order to continue producing large volumes of high-quality housing, even as government programs have been cut back or terminated. BRIDGE utilized the following techniques:

- LAND PROFITS - The primary source of subsidy in BRIDGE projects was derived from BRIDGE's own land development profits, which were earned by taking land through the public approvals process and aggressively pursuing density bonuses and other land-use concessions.

In addition, BRIDGE took advantage of three tax provisions to reduce costs:

- EQUITY FINANCING - BRIDGE has successfully utilized the tax credit provisions of the 1986 Tax Reform Act to raise over $50 million directly from corporate investors.
- DEBT FINANCING - Working with both state and local government, BRIDGE has arranged over $100 million in long-term and short-term tax-exempt financing; as well as over $150 million in concessionairy financing from private lenders utilizing Community Reinvestment Act (CRA) provisions, and over $1 million in Affordable housing Program provisions.

- TAX DEDUCTIBLE GIFTS - As a tax-exempt organization, BRIDGE has accepted over $11 million in gifts of land, cash, and other assets, yielding charitable tax deductions for the donors, and direct benefits for low-income consumers.

Other techniques included:

- SURPLUS PUBLIC LANDS - BRIDGE exercised its nonprofit priority under California law to option and purchase surplus public lands at fair market value.

- DEFERRED-RETURN INVESTMENTS - In some cases, BRIDGE invested directly in projects and deferred its return to increase affordability.

- RISK REDUCTION - BRIDGE cooperated with private and nonprofit sponsors in attaining community approvals, thereby reducing predevelopment risk and saving considerable amounts of money and time.

- LAND SALES AND LEASE-BACKS -BRIDGE has worked with local governments which have agreed to buy land from BRIDGE, and to lease it back to BRIDGE with low front-end lease payments. The lease payments increase over time, yielding a fair rate of return to the city, but conserve scarce cash for BRIDGE at the front end of the deal.

VALUE ENGINEERING
In addition to the techniques listed above, BRIDGE expends considerable effort with staff, consultants, and architects in pre-construction value engineering, to assure maximum efficiency and economy during the construction phase. Emphasis is also placed on rigorous construction management to assure on-time and on-budget production. The consistent objective of all of these efforts is extraordinary value for the consumer."

Its board of directors consists of 14 individuals who display a wide range of talents associated with the real estate industry. Included are the Commissioner of Real Estate, a retired dean from Berkeley, a Berkeley planning professor, attorneys, the president of the Urban Housing Institute, and government officials. One interesting organizational feature is that BRIDGE has a separate fund-raising committee which consists of 20 individuals. Virtually all of these are chairpersons or presidents of financial institutions or foundations. No real estate experience is evident from their job titles, unlike the Board of Directors which consists primarily of real estate experienced individuals.

2. The East Bay Asian Local Development Corporation (EBALDC)

The East Bay Asian Local Development Corporation (EBALDC) is another example of a successful nonprofit CDC developing affordable housing. EBALDC is dedicated to "the betterment of the East Bay community, particularly the low income and Asian and Pacific Islander population, through development of physical, human, and economic assets for individuals and community organizations."

EBALDC's commitment to community development was sparked by its initial concept of providing various social services in a central location. The Asian Resource Center (ARC) emerged from that concept and is now one of the buildings owned by EBALDC. In addition to EBALDC, the ARC leases space to nonprofit community organizations and other businesses.

In its mission statement is an expression of its scope of activity: "EBALDC is a Community Economic Development organization dedicated to the betterment of the East Bay community, particularly the low income and Asian and Pacific Islander population, through development of physical, human, and economic assets for individuals and community organizations."

EBALDC has also undertaken renovation of one project and is in joint ventures with other local neighborhood-based organizations. EBALDC provides low interest loans for expansion or start-up costs through its Gerbode Revolving Loan Fund.

An examination of the group's information brochure indicated an impressive set of organizations providing financial support.

These included national and local intermediaries, banks, foundations, a HUD Housing Development Action Grant, and the San Francisco Bay Area Rapid Transit among the 31 entities listed. Their 15-person board of directors included one C.P.A, one planner, one financial analyst, two attorneys, two real estate developers, one property manager, five administrators, a Director of Community Investment, and a retired businessman. The diversity of real estate focused skills on the board should be carefully noted.

3. The Chinese Community Housing Corporation (CCHC)

The Chinese Community Housing Corporation (CCHC) is another example of a private nonprofit housing development group located and serving the San Francisco Bay Area. Founded in 1978 by the Chinatown Resource Center, CCHC operates "to preserve affordable rental housing in San Francisco." CCHC has received national awards recognizing their efforts including the 1992 nonprofit sector achievement award, presented annually to one nonprofit nationally, given by the National Alliance to End Homelessness. Of local interest, the current Director of CCHC had been associated with the Pacific Housing Assistance Corporation, a Hawaii-based nonprofit housing development organization.

CCHC programs include project acquisition and development, housing rehabilitation loan packaging and technical assistance, construction management and property management.

Like BRIDGE, CCHC plays a variety of roles including sole developer, partner with for-profit and nonprofit organizations in project development, provider of technical assistance to private building owners seeking rehabilitation loans. CCHC owns eight projects as a general partner and is a limited partner for a total of 567 Single Room Occupancy (SRO) and apartment units. Two current CCHC projects in progress with projected completion dates in December 1993 and September 1994, will add another 238 units.

Sources of CCHC's administrative funding include foundation grants, project income, CDBG grants from the City of San Francisco and private donations. A variety of city, state, and federal programs, financial institutions, private foundations and donations are sources of CCHC project financing.

B. ILLINOIS:

1. The Chicago Housing Partnership (CHP).

The Chicago Housing Partnership (CHP) was created in 1985 and is an unincorporated partnership comprised of Chicago's major banks, the Community Investment Corporation, the Illinois Housing Development Authority (IHDA), the Chicago Department of Housing, corporate investors through the Chicago Equity Fund, and technical assistance providers such as the Local Initiatives Support Corporation and the Community Equity Assistance Corporation (CEAC).

CHP arose out of the Chicago Housing Abandonment Task Force which worked together between 1982 and 1984 and also brought together delegates from government, the private sector, financial institutions and advocacy groups. The Task Force set out to find solutions to low-income housing but were confronted with the problem of the lack of long-term financing associated with rehabilitation projects. (Unlike Hawaii and the Bay Area, Chicago possesses a vast quantity of old, deteriorating units of housing stock.)

Chicago United, a group of Chicago corporations dedicated to helping solve the city's social and economic problems created the Chicago Equity Fund, Inc. (CEF), as an integral part of CHP.

CEF is a nonprofit corporation that solicits and manages corporate investments in low-income housing.

CHP has no office, staff, budget, or bylaws. However, two committees oversee CHP activities. The 14 member Coordinating Committee is made up of representatives from the public and private organizations that provide financing and technical assistance to Chicago CDCs. CEF acts as the staff of the Coordinating Committee. The 25 member Oversight Committee includes representatives of neighborhood advocacy groups, local foundations, real estates syndications and developers, public officials, and executives of Chicago-area banks and corporations. The Oversight Committee convenes to make policy-level decisions.

CHP sets specific criteria which must all be met to qualify for project financing. The projects must be:

1) multifamily projects,
2) developed by either a nonprofit neighborhood organization, a joint venture of a nonprofit and for-profit developer, or a neighborhood organization,
3) able to provide affordable housing for lower-income families, whose income does not exceed 60 percent of the area's medium income, and
4) contribute to the revitalization of the communities in which they are located.

CHP works closely with CEF to secure permanent financing for projects from three sources including: private commercial banks, the Illinois Housing Development Authority and the city.

CHP provides area CDCs with financing to produce housing. There are approximately 12 to 15 CDCs operating in the Chicago area capable of producing multifamily units that can receive support from CHP.

IX. Criteria for Success

Consideration is given to the question of can the same success CDCs have experienced in developing affordable housing across the United States be parlayed in Hawaii or do circumstances unique to Hawaii, i.e. high land costs and unavailability of land, deter that success from being realized?

A review of the literature and interviews with national experts provides the basis for identifying criteria for successful nonprofits in housing.

1. Strong leadership and management. A nonprofit must have a person who has a strong sense of commitment, direction, competence and who is respected by the community. This person must be supported by a strong board of directors who include leadership of key organizations, agencies, and institutions.
2. Expertise and experience. One researcher has also advised "Hire an experienced, entrepreneurial, tenacious staff . . .and pay them well." (Suchman, p. 4). This experience can also be enhanced by the selection of a diverse board of directors with skills in a broad spectrum of real estate related areas.

3. Realistic expectations. Nonprofits cannot be expected to produce large amounts of affordable housing immediately. It typically takes five years for a new nonprofit to gain the necessary experience and maturity to become effective.

4. Comprehensive community Involvement. Lessons derived from the California and Illinois successes indicate the involvement from the corporate, banking, service, government and others is required. Every relevant stakeholder must be involved in creating the solution. An effective community based nonprofit must establish a relationship of trust. This requires a person-to-person, non bureaucratic responsiveness to community needs.

5. Access to public funding. One commentator has urged "Keep housing subsidy dollars flowing to local governments. Subsidies are the engine that drive the affordable housing machine. Without capital cost write-downs, affordable housing projects are not feasible." The same commentator has urged the creation of nonprofit development loan funds (Howell, p. 83).

6. Access to other public resources. The Illinois experience indicates that a real plus is the ability of the nonprofit to acquire public lands for development. With the cost of land in Hawaii so prohibitively high, without the ability to acquire inexpensive land, the concept of developing affordable housing by a nonprofit is a pipe dream.

7. Strong sense of how to reduce costs. For the nonprofit to meet the goal of building affordable housing it has to behave like a for-profit organization with respect to efficiency and cost-cutting.

8. Comprehensive system. A successful provider of affordable housing has a complete real estate system that begins with land acquisition and development and continues involvement through tenant selection and operations management.

X. Recommendations

The purpose of this section is to report recommendations based on conclusions reached by the Center with respect to the national component of this study that was requested by the State Legislature.

Nonprofits throughout the United States have achieved some success in producing affordable housing units. This success does not come overnight. Success requires patience and adequate resources. Referring to Michael Stone's quote at the beginning of this report, we must rediscover social responsibility and transform our economic institutions. In light of this, the following recommendations can lead to the transformation that Hawaii needs to begin solving its housing problem:

1. It is recommended that a Housing Roundtable similar to the Business Roundtable be established so that relevant stakeholders in the housing sector, including profit, nonprofit and government representation, communicate on a continuous basis. The existing Housing Consortium already serves as a foundation for such an organization.

2. It is recommended that government policy be adjusted to encourage development of more affordable rental housing rather than housing for homeownership. Implementation of the thirteen policy statements defined by the Housing Consortium would also contribute to the effectiveness of nonprofit housing organizations (See Appendix).

3. It is recommended that the State should aggressively obtain a fair share of HOME funds and CDBG funds. The State should should also make sure that the low income housing tax credit is fully utilized to the maximum ceiling each year.

4. It is recommended that the legislature direct and fund some entity to provide a support system for nonprofits in Hawaii. This support system can be within the framework of the HFDC (which already provides some support services), a new state nonprofit housing intermediary, a research unit at the University of Hawaii or some combination based on functional tasks assigned. This support system (whether it be one or more entities) should include:

    a. Information about funding possibilities from government and private sources. This includes HOME funds and the availability of low-income housing tax credits. This information should be kept current and accessible through an on-line computer network such as Hawaii, FYI, Inc.

b. Information and training on how to set up a successful nonprofit organization.

c. Maintenance of a network of nonprofits in Hawaii and nationally, allowing for quick transfer of new information, building technologies, etc.

d. Training workshops for grant applications, housing development, building permitting procedures, etc.

e. Annual forecast of housing demand and inventory by island and by price range. The annual forecast and an assessment of housing needs should be published and submitted to the governor and the state legislature 20 days before the beginning of each legislative session.

f. Capital seed money grants of up to $100,000 and a revolving loan fund should be available through this entity to assist start up nonprofits which meet legislatively prescribed criteria.

5. It is recommended that the State provide an administrative budget of $350,000 to $500,000 annually for a period of five years to set up a prototype nonprofit housing producer. This money should fall within the supervision of the HFDC or other responsible State agency. Awarding of this money should be based on an RFP process that specifies performance standards expected to be met during each year of the five-year funding cycle.

BIBLIOGRAPHY

Anonymous, "East Bay Asian Development Corporation." Oakland, California: East Bay Asian Development Corporation, current brochure (1993?).

Anonymous, "Frank G. Mar Community Housing." San Francisco: East Bay Asian Development Corporation and BRIDGE Housing Corporation, current brochure (1993?).

Brophy, Paul, "Improving City Government Housing Efforts: Important 'Home' Work." *Cut Costs*, The Enterprise Foundation, Vol. 10, No. 1, June 1993, pp. 1 - 3.

Cheeks, James E., *Real Estate Coordinator*, New York: Research Institute of America, 1993.

Chinatown Resource Center and Chinese Community Housing Corporation, "Past, Present, Future: Fifteen Year Report, 1977-1992." San Francisco, California, 1992.

Cloar, James A., "Who Speaks for Growth Centers?" *Urban Land*, November 1988, p.p. 10 - 11.

Congressional Record - House, "Real Estate Investment Provisions." August 4, 1993, pp. H5928 et seq.

Duncan, Bill, "Ways Local Governments Can Help Nonprofit Housing Producers." *Cut Costs,* The Enterprise Foundation, Columbia, Md., Vol. 10, No. 1, June 1993, pp. 10 - 11.

Finkle, Jeff and Munkacy, Kenn, "The Next Wave for Public/Private Development Partnerships." *Real Estate Finance Journal*, Summer 1985, pp. 22 - 26.

German, Brad, "Win-Win Partnerships." *Builder*, March 1993, pp. 132-141.

Grogan, Paul S., "From Within Our Cities." 1992 LISC Annual Report, New York: Local Initiatives Support Corporation, 1992.

HAC, "Housing Programs for Rural America." Washington, D.C.: Housing Assistance Council, (Current brochure, (1992 ?)

Howell, Joseph T., "The Economics of Nonprofit Housing Producers." *Real Estate Review*, Vol. 23, No. 3, Fall 1993.

Kelly, Christine Kuehn, Donald C. Kelly, and Ed Marciniak, *Non-Profits With Hard Hats: Building Affordable Housing*, Washington, D.C.: National Center for Urban Ethnic Affairs, 1988.

King, John, "Bridging the Housing Gap." *Planning*, February 1990, pp. 16 - 19.

Kingsley, G. Thomas, and Margery Austin Turner, *Housing Markets and Residential Mobility*, Washington, D.C.: The Urban Institute Press, 1993.

Meyer-Flanagan, Diana, "Shaping State and Local Housing Policies Through The CHAS." *Cut Costs*, The Enterprise Foundation, Vol. 10, No. 1, June 1993, pp. 4 - 5.

Miles, Mike E., Emil E. Malizia, Marc Weiss, Gayle L. Berens, and Ginger Travis, *Real Estate Development: Principles and Process*, Washington, D.C.: The Urban Institute Press, 1991.

Newman, Sandra J. and Ann B. Schnare, *Beyond Bricks and Mortar: Reexamining the Purpose and Effects of Housing Assistance*, Washington, D.C.: The Urban Institute Press, 1992.

Okigwe, Carla, "Nonprofit Developers and Neighborhoods: Likely Partners." *Guide to Neighborhood Housing Strategies: A Collaboration of Seattle Neighborhood Representatives and Nonprofit Housing Developers*, Seattle-King County Housing Development Consortium, 1991.

Peiser, Richard B., *Professional Real Estate Development*, Chicago: Dearborn Financial Publishing, Inc., 1992.

Quinn, Thomas M., "Nonprofit Housing Production in the 1980s." *Urban Land*, November 1988, pp. 6 - 9.

Roundup, Low Income Housing Information Service, Washington D.C., No. 159, June 1993

Rouse, James W., "Seeds of Change." 1992 Annual Report, Columbia, Maryland: The Enterprise Foundation, 1992.

Sikelianos, Irene, "HAC Fiscal Year 1992 Annual Report." Washington, D.C.: Housing Assistance Council, 1992.

Sklarz, Michael et al., "Hawaii Housing Policy Study: A Report to a Consortium of Private Developers, Landowners & State and County Housing Officials." Honolulu, Hawaii: Locations, Inc. Research & Consulting Division, and SMS Research & Marketing Services, May 1993

Stegman, Michael A., *More Housing, More Fairly: Report of the Twentieth Century Fund Task Force on Affordable Housing*. New York: The Twentieth Century Fund Press, 1991.

Stegman, Michael A., and J. David Holden, *Nonfederal Housing Programs*, Washington, D.C.: The Urban Institute Press, 1987.

Stein, Alan L., "BRIDGE, 1992-1993 Annual Report." San Francisco: BRIDGE, 1993,

Stone, Michael E., *Shelter Poverty: New Ideas on Housing Affordability*, Philadelphia: Temple University Press, 1993.

Suchman, Diane R., *Public/Private Housing Partnerships*, Washington, D.C.: The Urban Land Institute, 1990.

United States. Department of Housing and Urban Development. *Programs of HUD 1989-1990.* Washington D.C., October 1989.

Walker, Christopher, "Nonprofit Housing Development: Status, Trends, and Prospects." Fannie Mae Annual Housing Conference, 1993.

Zigas, Barry, National Affordable Housing Act of 1990, Washington, D.C.: Low Income Housing Information Service, January 1991.

Appendix A

"Housing Policy Statements"

HOUSING POLICY STATEMENTS

The thirteen policy statements presented in this section are the culmination of the research and deliberations of the Housing Policy Consortium in 1992. They are offered by the Consortium for consideration by all parties interested in resolving Hawaii's housing problems.

STATEMENT 1: The Consortium endorses streamlining of the planning, zoning, and permitting process. Act 227, 1992 Hawaii State Legislature mandates that State and County governments enact the necessary legislation to reduce the time required for planning, zoning, and permitting processes, and the Consortium supports the State and counties in their efforts to develop implementation details.

Rationale: Government housing agencies and private developers both agree that there is a need for streamlining the process, i.e., shortening the process, reaching final go/no go decisions quickly, and keeping development costs down.

Specifically, Act 227 sets the following limitations:

1. Maximum of 6 months total time for state agencies to review and, if appropriate, grant approvals to construct housing.

2. Maximum of 12 months for counties "to review and, if appropriate, grant, all general plan, development plan, community plan, zone change, and discretionary permit approvals to construct housing in that county."

3. Maximum of 6 months total time for counties to process and approve subdivision, grading, building, and other ministerial development permits.

4. Maximum of 6 months total time (running concurrently, not in addition to, county processing time for ministerial permits) for state agencies to process and approve other state permits required in connection with housing projects such as permits for wastewater treatment facilities.

Act 227 empowers the counties and state agencies to develop the necessary procedural changes and ordinances required to work within the new time frames. State and County task forces have been formed to develop the necessary policies and procedures.

STATEMENT 2: The Consortium endorses impact fees as a valid way of paying for off-site infrastructure. Act 282, 1992 Hawaii State Legislature, enables counties to adopt impact fees provided that impact fees are assessed on the basis of "proportionate share" and "rational nexus".

Rationale: Prior to the 1970s, off-site infrastructure costs were accepted as being the responsibility of government as the representative of all taxpayers in the jurisdiction. When new areas or projects were developed, government paid for the off-site infrastructure that was required.

Since the 1970s, infrastructure has become more expensive and more of the costs have been shifted to developers. Ultimately, the buyer in the new development pays these costs. The concept of fair and equitable sharing of off-site infrastructure costs by government and developers (and ultimately new homeowners in those developments) should be pursued.

STATEMENT 3: The Consortium urges the continued discussion of "Who pays?" for infrastructure. The Consortium further recommends that *government and new developments explore* the sharing of off-site infrastructure costs so that the cost of growth is shared between purchasers in the new development and the entire community.

Rationale: The question of "Who pays?" is critical. If, as some say, the government should pay, how does government pay? It is a philosophical question of public financing. The Consortium believes continued discussion is necessary to fully explore the question and to jointly develop reasonable ways to finance new infrastructure and the rehabilitation of old infrastructure.

STATEMENT 4: The Consortium urges the counties to enact ordinances authorizing community facilities special tax districts as a means of financing capital improvements within the county.

Rationale: The Consortium supports this new financing tool. The establishment of community facilities special tax districts would give the counties and the developer the ability to front-end infrastructure costs through the sale of bonds paid for through special taxes.

STATEMENT 5: The Consortium strongly supports the re-instatement of federal and state tax credits for developers who build rental housing.

Rationale: The Federal Tax Reform Act of 1986 removed many of the incentives available to private developers of rental housing. The Low Income Housing Tax Credit Program has been the only significant federal incentive available in recent years for the construction and rehabilitation of low income rental housing. Since the federal government eliminated tax credits for building rental housing and the state followed suit, interest in development new rental units has diminished. New rental housing construction is essential to resolving Hawaii's housing problems. The state has already indicated that it will reinstate state tax credits once the federal government has re-established the federal tax credit program.

STATEMENT 6: The Consortium urges the development of policies, laws, and financial and development incentives to encourage the construction of rental housing in Hawaii.

Rationale: The 1992 Housing Demand Model indicates the ongoing need to increase rental housing stock in Hawaii. Public and private sectors need to come together to develop policies, laws, and financial and development incentives that will result in the construction of the needed number of units.

STATEMENT 7: The Consortium urges that the federal government develop an appropriate formula for the allocation of housing funds to Hawaii that takes into account high development costs and the higher cost of living and results in Hawaii getting its fair share of federal funds.

Rationale: The federal government applies the same funding and other formulas to Hawaii as it applies to other states. This results in an inequitable distribution of resources because the formulas do not take into consideration Hawaii's unique conditions, including the high cost of living. Equity would result only with appropriate adjustments to the existing formula based on Hawaii's unique conditions.

STATEMENT 8: The Consortium urges that the federal government provide more funding for the construction of new affordable units in Hawaii, and not restrict use of available funds which are geared primarily for the rehabilitation of existing units.

> Rationale: Present federal policies provide funding primarily for the rehabilitation of existing affordable units. It is aimed at rehabilitating inner city neighborhoods. Hawaii has very little existing plant to rehabilitate but has a pressing need for new affordable units.

STATEMENT 9: The Consortium urges Congress to increase direct appropriations for military housing.

> Rationale: Part of the demand for affordable housing in Hawaii is generated by active duty military personnel stationed in Hawaii. Direct appropriations for military housing would allow the military to build housing for its personnel which would, in turn, remove them from the civilian housing market. The Consortium supports increased levels of direct appropriations for military housing.

STATEMENT 10: The Consortium urges the federal government to appropriate funds to assist states in bringing infrastructure up to new federally mandated minimum standards.

> Rationale: In several cases, Congress has authorized new or more stringent standards with which the state and counties are expected to comply, but without appropriating any additional funding to assist in bringing infrastructure up to the new standards. Example: The re-authorization of the Clean Water Act did not include any additional funding to implement the Act or bring infrastructure into compliance.

STATEMENT 11: The Consortium urges the counties to consider legislation authorizing the use of voluntary development agreements as allowed by state law.

> Rationale: Development agreements can provide more predictability for the developer and greater public benefit for the county. For the developer, the development agreement vests his or her rights. For the counties, it provides the opportunity to negotiate for appropriate contributions by the developer. Development agreements involve the participation of both sides and must be voluntary on the part of both the government and the developer.

STATEMENT 12: The Consortium recognizes that not all zoned land gets developed. Therefore, the Consortium urges the state and counties to develop adequate allocation ratios or alternative strategies for zoning land for housing.

Rationale: Allocation ratios are the ratio of land zoned for housing to the land needed to produce housing units to accommodate projected population. Not all land zoned for housing is developed when expected or even at all. To ensure that a targeted number of housing units is produced over a given time interval, it may be necessary to allocate more land than the exact amount that will mathematically produce the target or to develop alternative strategies to reach the desired result. Whether there is sufficient zoned land needs to be addressed by each county and by the state.

STATEMENT 13: The Consortium recommends the expansion of interagency coordination of housing and development projects.

Rationale: Both public and private sector members have experienced delays and frustrations which may point back to the lack of effective interagency coordination of projects. Such coordination exists on government development projects but needs to be expanded to all affordable housing projects. Coordination could include the assignment of a lead government agency to shepherd the project through the approvals process and to stay in communication with all agencies concerned. The Consortium recommends a complete review of interagency relationships and procedures including laws affecting them.