



# **Overview of Major Financing Mechanisms for Affordable and Workforce Housing**

**July 2, 2024**

**Maui County Council**

**Budget, Finance, and Economic Development Committee**

# Agenda

- Overview of HHFDC
- County of Maui Projects
  - Past Projects
  - Under Construction
- Program Income Limits
- HHFDC Major Financing Programs
- The Financing Stack
- Annual Funding Round

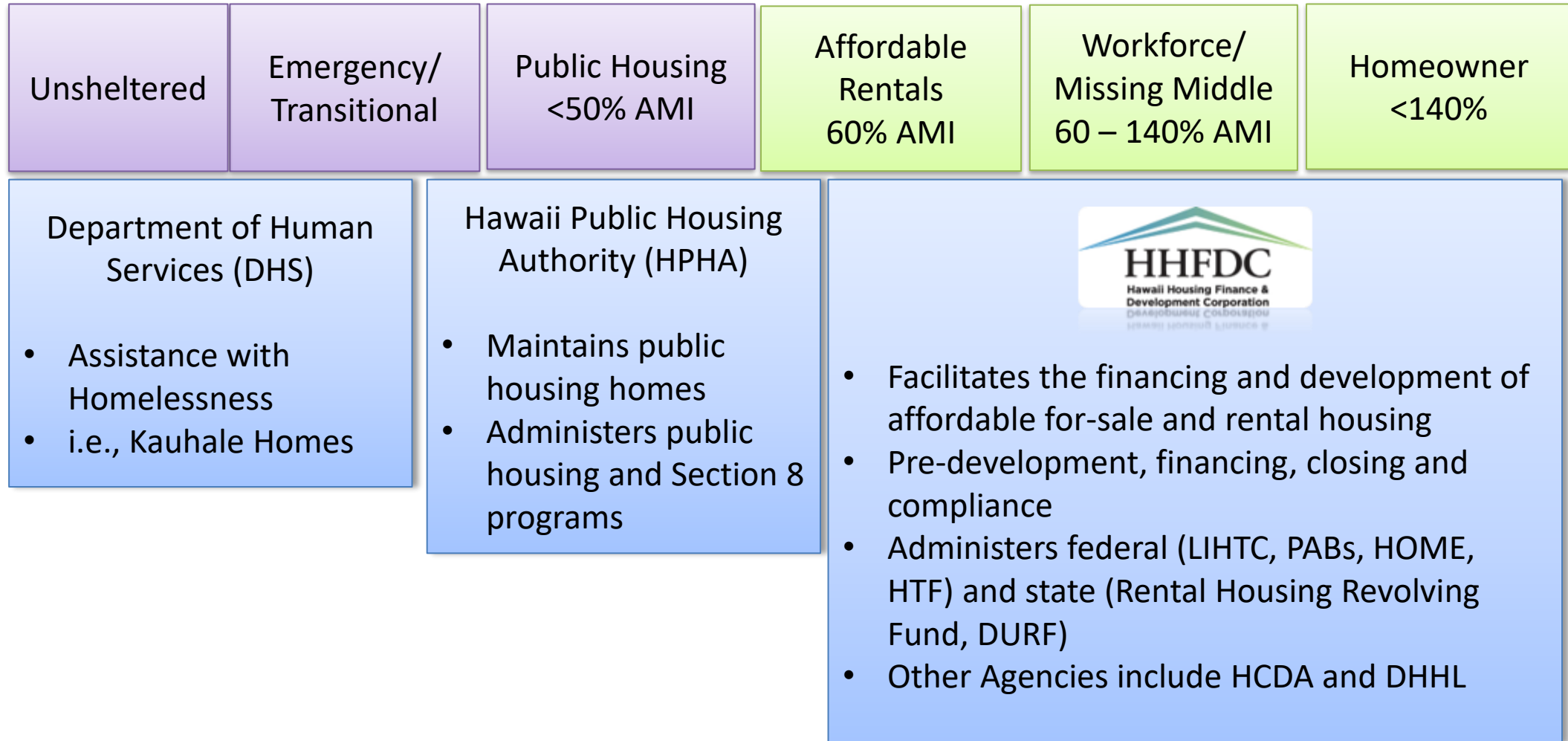
# Agency Overview

- HHFDC Mission



To increase and preserve the supply of workforce and affordable housing statewide by providing financing and development programs to facilitate housing development.

# The Continuum of Housing



# The Continuum of Housing (cont.)





# HHFDC County of Maui Projects – Under Construction

October 2024

## Kaiāulu O Kūkui‘a – Lahaina (Villages of Leali‘i)

- 200 Family Units
- 30 – 60% AMI
- **LIHTC/HMMF/RHRF**
- Developer – Ikaika ‘Ohana





# HHFDC County of Maui Projects - Planned

## 2025 (Projected)

### Hale o Piʻikea Phase I – Kihei (Closed Oct 2023)

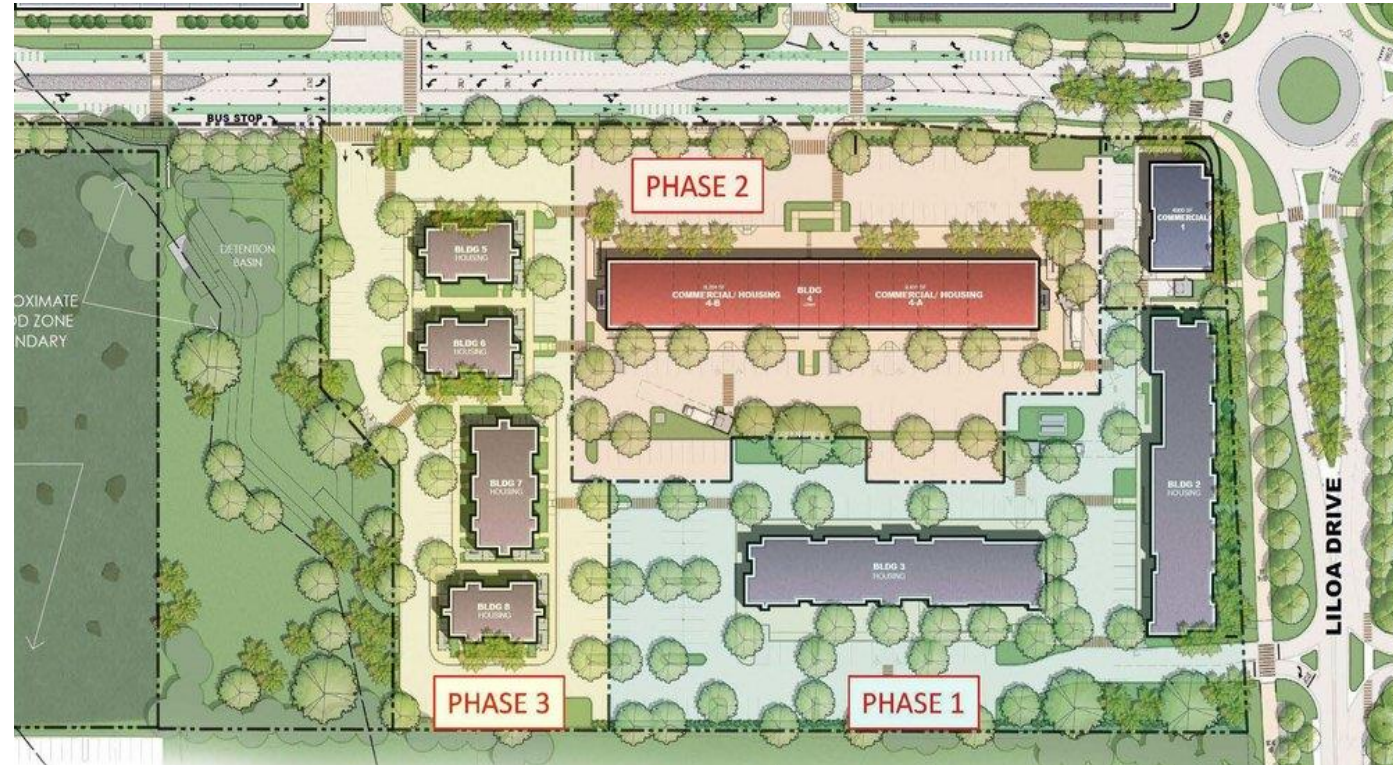
- Under Construction
- 90 Family Units
- 30 – 60% AMI
- LIHTC/HMMF/RHRF/County of Maui
- Developer – ‘Ikenākea Development

### Hale o Piʻikea Phase II – Kihei (Pending Closing)

- 97 Senior Units
- 30 – 60% AMI
- LIHTC/HMMF/RHRF/County of Maui
- Developer – ‘Ikenākea Development

### Hale o Piʻikea Phase III – Kihei (Pending Permits)

- 36 Family Units
- 30 – 60% AMI
- LIHTC/RHRF/HOME/HTF
- Developer – ‘Ikenākea Development



# HHFDC County of Maui Projects - Planned

## 2025 (Projected)

### Liloa Hale – Kihei (Closing July 2024)

- 116 Senior Units
- 30 – 60% AMI
- LIHTC/HMMF/RHRF/County of Maui
- Developer – Highridge Costa



### Kaiāulu O Kupuohi - Lahaina (LIHTC Rebuild)

- 90 Family Units
- 30 – 60% AMI
- County of Maui/LIHTC/HMMF/RHRF
- Developer – Ikaika 'Ohana





# HHFDC County of Maui Projects - Planned

## 2029 (Projected)

### Kahului Civic Center Mixed Use

- 303 Family Rental Units
- 30 – 60% AMI
- LIHTC/HMMF/RHRF/DURF  
County of Maui
- Developer – EAH Housing



**Financing Plan is proposed, subject to Modification.**

**Phase 1 (197 Units) Financing Application pending Special Management Area (SMA) Approval.**



# HHFDC County of Maui Projects - Planned

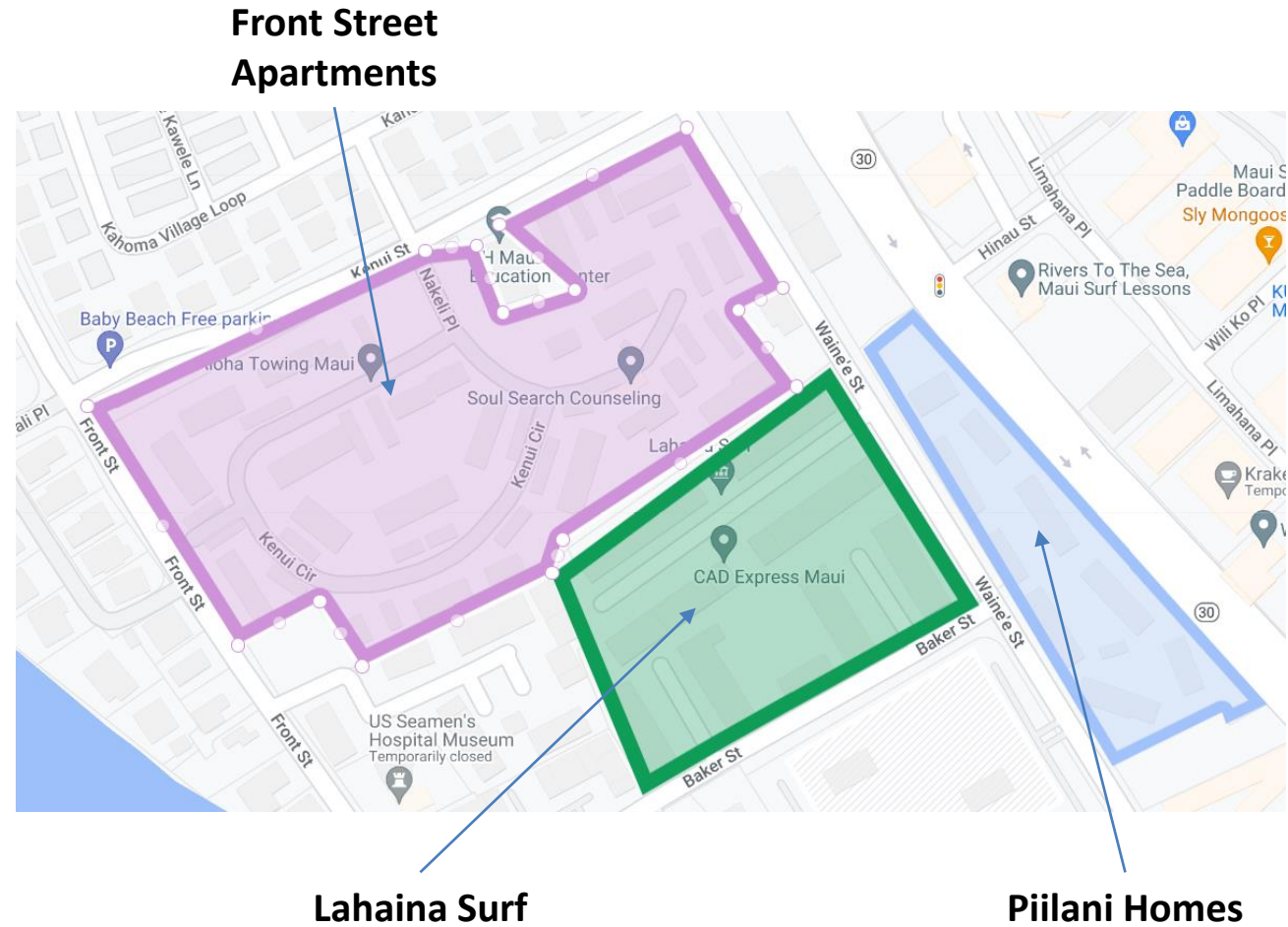
## To Be Determined

Front Street Apartments (HHFDC Rebuild)

Lahaina Surf (Hale Mahaolu)

Piilani Homes (Hawaii Public Housing Authority)

\* Currently working on SMA approval, design, and permitting.

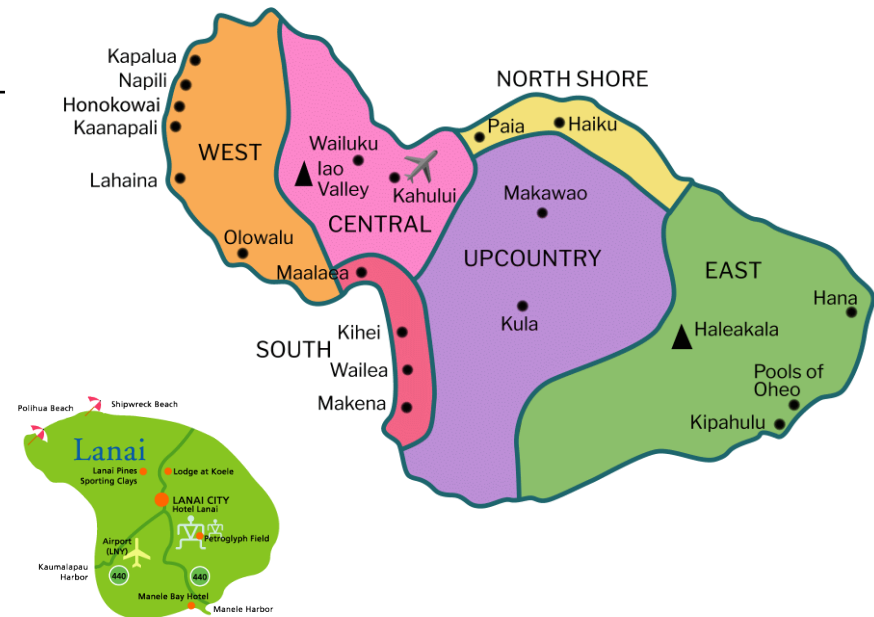


# HHFDC County of Maui - LIHTC Projects

County of Maui  
Units by Fiscal Year  
(Rentals)

2018	95
2019	0
2020	32
2021	400
2022	225*
2023	209**
2024	200
2025	629***

2024  
\* 142 Units Front St Apts.  
\*\* 89 Units Kaiaulu O Kupuohi  
\*\*\* Projected



County of Hawaii  
Units by AMI  
(Rentals)

30	32
40	50
50	318
60	1,492
70	-
80	80
90	-
100	55
110	-
120	66
130	-
140	42



# HHFDC County of Maui - LIHTC Projects



# HHFDC County of Maui Projects – Summary

County of Maui					
Placed In Service	Project Name	Units	State Financing	County Financing	District
2018	Hale Mahaolu Ewalu Phase 1	39	LIHTC/RHRF		Pukalani
	Kulamalu Hale	56		HOME	Makawao
2019	none				
2020	Hale Mahaolu Ewalu Phase 2	22	LIHTC		Pukalani
2021	Kahului Lani 1	82	LIHTC/HMMF/RHRF		Wailuku
	Kaiwahine Village Phase 1	64	LIHTC/HMMF/RHRF	HOME	Kihei
	Kaiwahine Village Phase 2	56	LIHTC/HMMF/RHRF	HTF	Kihei
	Kenolio Apartments	186	LIHTC/HMMF/RHRF		Kihei
2022	Kahului Lani 2	83	LIHTC/RHRF		Wailuku
	Front Street Apartments	142			Lahaina
2023	Kaiaulu O Halelea - Phase 1A	64	LIHTC	HOME/HTF	Kihei
	Kaiaulu O Halelea - Phase 1B	56	LIHTC/RHRF	HOME/HTF	Kihei
	Kaiaulu O Kupuohi	89	LIHTC/HMMF/RHRF		Lahaina
2024	Kaiaulu O Kukuia	200	LIHTC/HMMF/RHRF		Lahaina
2025	Hale O Piikea 1	90	LIHTC/HMMF/RHRF		Kihei
	Hale O Piikea 2	97	LIHTC/HMMF/RHRF	Maui AHF/HTF	Kihei
	Hale O Piikea 3	36	LIHTC/RHRF	Maui AHF/HOME/HTF	Kihei
	Liloa Hale	117	LIHTC/HMMF/RHRF		Kihei
	Kaiaulu O Kupuohi	89	LIHTC/HMMF/RHRF	Maui AHF	Lahaina

*Lost in Lahaina Fires*

# Program Income & Rent Limits



# 2024 Area Median Income (AMI) Limits by County - Family of 3

		30%	60%	80%	100%	140%
AMI	Oahu	\$ 37,590	\$ 75,180	\$ 100,240	\$ 125,300	\$ 175,420
	Hawaii	\$ 39,920	\$ 59,880	\$ 79,840	\$ 99,800	\$ 139,720
	Kauai	\$ 35,850	\$ 71,700	\$ 95,600	\$ 119,500	\$ 167,300
	Maui	\$ 33,690	\$ 67,380	\$ 89,840	\$ 112,300	\$ 157,220

Source: The Department of Housing and Urban Development (HUD) 2024

\*Federal Programs; not MTSP figures

2024 State Median Family Income  
\$115,000

# Area Median Income (AMI) and Rent Guidelines

- Affordability guidelines for multifamily projects are also based on annual data published by the U.S. Department of Housing and Urban Development (HUD) for the four counties
  - [https://www.huduser.gov/portal/datasets/mtsp.html#2024\\_query](https://www.huduser.gov/portal/datasets/mtsp.html#2024_query)
- Example: **County of Maui** (2024 data)
  - Annual Income Limit (**four-person** household)
    - 60% of the AMI: \$74,820
    - 100% of the AMI: \$124,700
  - Monthly Affordable Rent Guidelines Limit (**two-bedroom** unit)
    - 60% of the AMI: \$1,684
    - 100% of the AMI: \$2,807

Note: Monthly rent is inclusive of utility allowance.

# Area Median Income (AMI) and Rent Guidelines

- Looks Different?
- Multifamily Tax Subsidy Projects (MTSPs)
  - [https://www.huduser.gov/portal/datasets/mtsp.html#2024\\_query](https://www.huduser.gov/portal/datasets/mtsp.html#2024_query)
  - Used to calculate minimum set-asides for:
    - Projects financed with tax-exempt housing bonds to provide rental development under IRC Section 142
    - Low-Income Housing Tax Credit (LIHTC) projects funded with tax credits authorized under Section 42 of the Internal Revenue Code (IRC)
    - Rental Housing Revolving Fund (RHRF)



# Major Multifamily Financing Programs

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Low-Income Tax Credit Program

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Hula Mae Multi-Family Bond Program

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Rental Housing Revolving Fund Program

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Affordable Homeownership Revolving Fund Program

# Low-Income Housing Tax Credit (LIHTC) Program

Created by the Tax Reform Act of 1986 and generally serves renter households earning  $\leq 60\%$  of the AMI

- Administered by the Internal Revenue Service (IRS)
- Section 42 of the Internal Revenue Code
- Set Aside Requirement: 20/50 or 40/60

**“[T]he most important resource for creating affordable housing in the United States today,”**  
according to HUD

- Subsidizes an average of 1,411 projects with 107,000 units annually

# LIHTC Program (continued)

- Provides investors with a dollar-for-dollar reduction in federal income-tax liability in exchange for providing equity financing to affordable-housing projects
  - Annual cost to the federal government is approximately \$8 billion in foregone income-tax revenue
  - The State of Hawaii offers matching income-tax credits equal to 50% of the federal LIHTC amount
  - Developers “sell” the tax credits to limited partners in return for equity investments in projects



# LIHTC Program (continued)

## Tax credits are taken over a 10-year period

- Five (5)-year period for State of Hawaii credits
- Credits issued by Government; they are not funds given to the Project

## Affordability Period

- During a project's first 15 years of operation (the Compliance Period), project owners must maintain affordability or else credits are subject to recapture by the IRS
- During a project's next 15 years (the Extended Use Period), affordability must be maintained (and is monitored by HHFDC), but credits are no longer subject to recapture
- Under its Qualified Allocation Plan used to allocate LIHTC, HHFDC requires at least **45** years of affordability for new construction projects

# LIHTC Program (continued)



## 9% Credits

Subject to federal “volume cap” based on state population

State of Hawaii 2023 allocation ≈ \$3.96 million

The 2022 allocation was awarded to two housing projects for the construction of 134 new units



## 4% Credits

Less valuable, but there is no volume cap

Projects must meet the “50% test,” with a project’s eligible cost basis financed with at least 50% with tax-exempt bonds

In 2022, approximately \$26.9 million in credits were allocated to nine housing projects for the construction of 1,168 new units

# Hula Mae Multi-Family (HMMF) Bond Program

- HMMF is the private activity bond (PAB) program that provides low-interest rate financing through the issuance of tax-exempt revenue bonds for the construction and/or acquisition and rehabilitation of rental housing projects.
- HMMF bonds are tax-exempt, private-activity bonds used in conjunction with the 4% LIHTC program
  - Private-activity bonds (PABs) are municipal bonds used to attract private investment in qualified projects (such as funding student loans, airports, private universities, hospitals, and affordable rental housing)
- Bond proceeds are used to provide below-market loans to developers of affordable-housing projects

# Hula Mae Multi-Family (HMMF) Bond Program (cont.)



**Same set-aside requirements:**

**20%/50% AMI**

**or**

**40%/60% AMI**



**Only used with 4% LIHTC projects.**

Treasury requires that 50% of a project's eligible costs be paid for with private activity bonds ("the 50% test")

Example: \$39 million TDC →  
\$32 million Qualified Basis →  
\$16 million PAB financing



## Hula Mae Multi-Family (HMMF) Bond Program (continued)

- The “Bond Cap”
  - Like the 9% LIHTC, private-activity bond availability is subject to a federal volume cap
  - Determined annually by the Internal Revenue Service
    - For 2024, states will receive the greater of \$125 per capita or \$378,230,000
  - 2024 bond cap for the State of Hawaii is \$378,230,000 Per IRS Revenue Procedure 2023-34
    - “Small State Minimum”

# Bond Cap Allocation

- Pursuant to HRS Section 39B-2, the Bond Cap is allocated among jurisdictions as follows:
  - State 50.00% (approx. \$189 million)
  - City and County of Honolulu 37.55%
  - Hawaii County 5.03%
  - Kauai County 2.41%
  - Maui County 5.01% (approx. \$19 million)

# Bond Cap Allocation

- Although private-activity bonds are especially valuable for affordable-housing purposes due to the ability to leverage 4% LIHTC, **HHFDC is not statutorily guaranteed any availability of this resource**
  - The Department of Budget and Finance determines where funds will be allocated

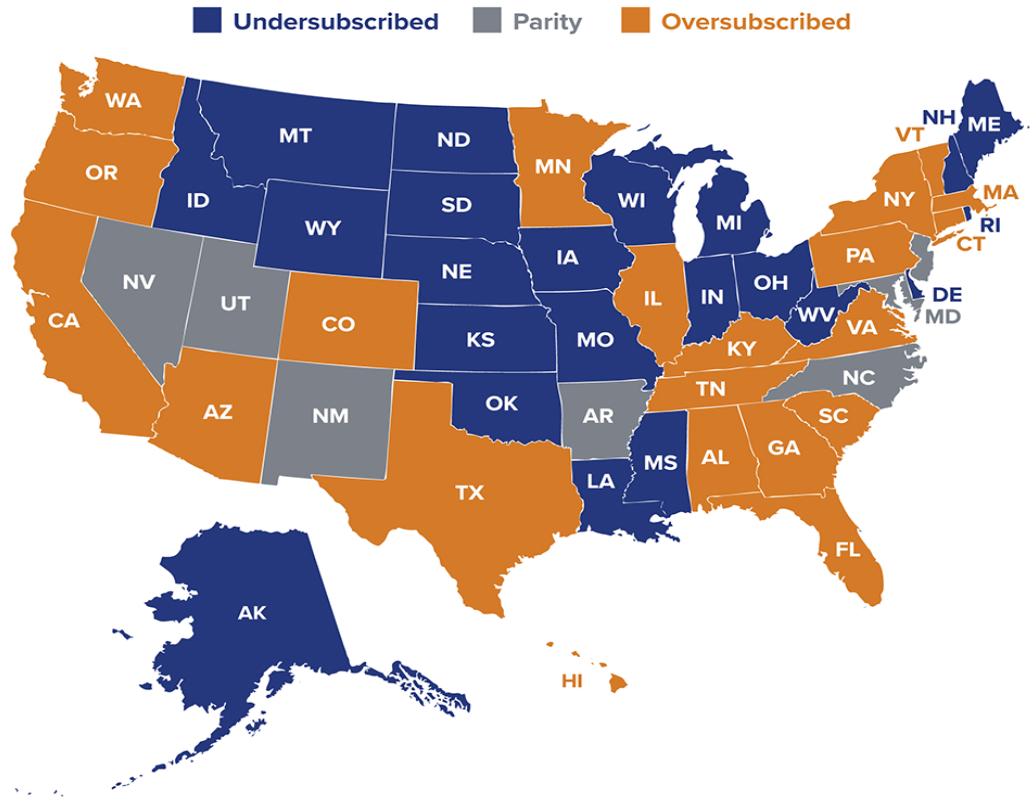
## Hula Mae Multi-Family (HMMF) Bond Program (continued)

- HMMF Metrics
  - Average \$291k/unit
  - Approximately 649 units with the State 50% allocation
- Demand
  - Requests for bond cap in FY 2024 Funding Round was 6:1
  - “Oversubscribed”

# Hula Mae Multi-Family (HMMF) Bond Program (continued)

## Volume Cap Scarcity

AS OF FEBRUARY 28, 2022



Source: Tiber Hudson; Novogradac





# Rental Housing Revolving Fund Program

- Provides loans or grants to fill project capital-stack gaps when total development costs exceed available LIHTC equity and senior debt sources
  - Below-market interest rates
  - Debt-service payments during the loan term are cash-flow contingent
  - Loan terms often coincide with a project's affordability period to maintain project feasibility
- Allowable uses include activities relating to the development, pre-development, construction, acquisition, or preservation of affordable rental housing

# Rental Housing Revolving Fund Program (cont.)

- Generally, provides funds to LIHTC projects where:
  - 50% of the units are at or below 80% AMI, with 5% of the total units affordable at or below 30% AMI; and
  - The remaining units are affordable at or below 100% AMI
  - This is the Tier 1 Priority Group
- As a second priority (“Tier II”), funds are available to projects where all the units are available at the 140% AMI level or below (the “missing middle”).
  - An exception must be legislatively appropriated.

# Rental Housing Revolving Fund Program (cont.)

- Tier II was funded by the Legislature for the first time in FY 2022 (Act 236 SLH 2022), when a \$150 million appropriation was made for such projects (80 -100% AMI)

Current County of Maui Units by AMI (Rentals)	
30	32
40	50
50	318
60	1,492
70	-
80	80
90	-
100	55
110	-
120	66
130	-
140	42

# Rental Housing Revolving Fund Program (cont.)

- Act 164 SLH 2023 (the General Appropriations Act of 2023) includes a \$280 million infusion for Fiscal Years 2024 and 2025 combined

**Put it all together...**

# **The Capital Stack**

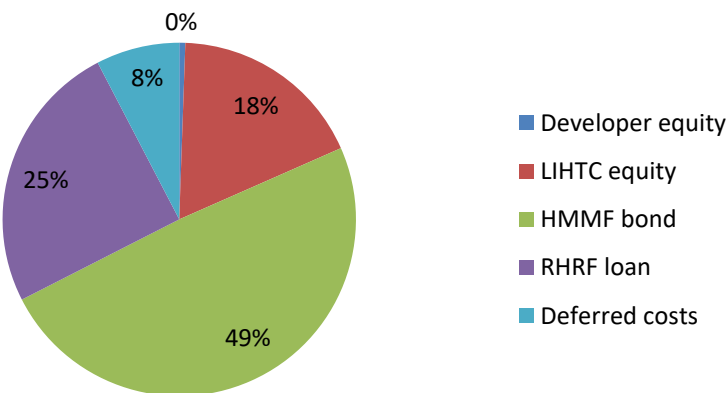


# Sample 4% LIHTC Project Capital Stack

- Construction/Interim Financing

Developer equity	\$ 250,000
LIHTC equity	8,115,000
HMMF bond	22,331,000
RHRF loan	11,305,000
Deferred costs	<u>3,474,000</u>
Total development cost	\$ <u>45,475,000</u>

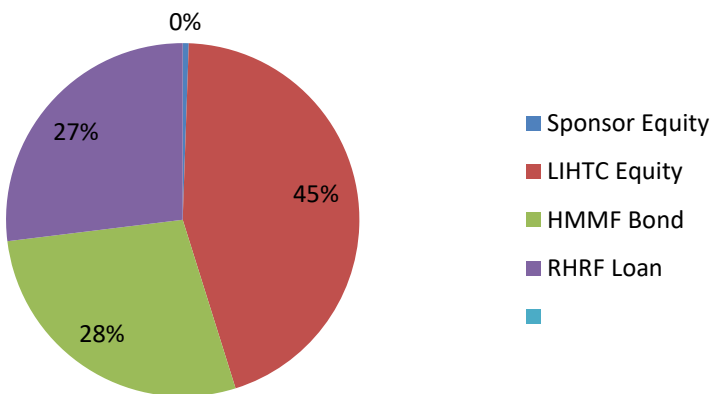
Construction/Interim Financing Capital Stack



- Permanent Financing

Sponsor Equity	\$ 250,000
LIHTC Equity	20,287,000
HMMF Bond	12,688,000
RHRF Loan	<u>12,250,000</u>
Total development cost	\$ 45,475,000

Permanent Financing Capital Stack



# Pathway to Closing



## Permits

Need all permits (demo, grading, building) ready to issue



## Rental Housing Revolving Fund Documents

1<sup>st</sup> Draft Submitted to HHFDC for review



## Bond Counsel Contracted



## Refreshed Budget and Commitment Letters

# Key Legislation - Act 035, Session Laws of Hawaii 2024

- Hula Mae Multi-Family (HMMF) Bond Program
  - HB1760 HD1 SD1 CD1
  - Relating to State Finances
  - Authorizes HHFDC or a county to establish a “Bond Recycling” program for its private activity bond volume cap.
- Program preserves and recycles prior year(s) tax-exempt private activity bond volume cap that would otherwise expire upon repayment of construction period financing (redemption of bonds) for multifamily affordable housing development.
- Rules under Section 142(d) of the Internal Revenue Code limit uses
  - Cannot be used to satisfy the LIHTC 50% test
  - Most commonly used in 80/20 projects
    - 20% of multifamily units at 50% AMI or below and 80% of units at market rents.

# Key Legislation - Act 030, Session Laws of Hawaii 2024

- Relating to Taxation
  - SB1099 SD1 HD2 CD1
  - Clarifies the authority of the counties to use county surcharge on state tax revenues for housing infrastructure costs for county-appropriated housing infrastructure costs.
- Authority to use GET surcharge for housing infrastructure costs is specifically only for county-appropriated infrastructure costs.
- Adds language that housing infrastructure costs includes pedestrian paths or sidewalks on a county road near or around a public school, and water, drainage, sewer, water reuse, waste disposal, and waste treatment systems that connect to county infrastructure.
- Includes financing costs, including any related debt service and financing agreement costs in the definition of housing infrastructure.

# Key Legislation - Act 034, Session Laws of Hawaii 2024

- Relating to Housing
  - SB2133 HD1 CD1
  - Authorizes the HHFDC to issue bonds for housing project infrastructure and finance the development of regional state infrastructure projects
- Authority to issue bonds to finance regional state infrastructure facilities for housing and mixed-use transit-oriented development projects.
  - Includes regional sewer systems, water systems, drainage systems, roads, telecommunications and broadband.
- Specifies that the cost of providing regional infrastructure improvements may be assessed against housing and mixed-use transit-oriented development projects specifically benefitting from the improvements.
- Authority to issue bonds using income from infrastructure from housing projects, not just from the projects themselves.



# Key Legislation - Act 045, Session Laws of Hawaii 2024

- Relating to Housing
  - SB2337 SD2 HD2 CD1
  - Expands the counties' authorization to exercise the same powers as the Hawai'i Housing Finance and Development Corporation for purposes of developing, constructing, financing, refinancing, or providing mixed-use developments. Applies to bond proceeds expended by a county after 12/31/2023.
- Adds “mixed-use development” to the county housing powers under HRS §46-151
- Includes financing and refinancing authority to developing housing developments.

**Questions?**

# Mahalo!



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