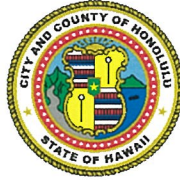


DEPARTMENT OF PLANNING AND PERMITTING
CITY AND COUNTY OF HONOLULU

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March 25, 2021

The Honorable Esther Kia`āina, Chair
and Members
Committee on Housing and the Economy
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawaii 96813

Dear Chair Kia`āina and Councilmembers:

SUBJECT: Bill 1 (2021), CD 1, Relating to Grants Incentivizing the Construction of
Affordable Rental Housing

Bill 1 (2021), CD 1 is a proposed amendment to the original Bill 7 (Ordinance 19-08). The original intent of Ordinance 19-08 was to establish a temporary program to accelerate the construction of affordable rental housing in the apartment and business mixed-use zoning districts by relaxing certain zoning and building code standards, and offering certain financial incentives.

The original bill targeted a specific potential untapped resource to create more affordable rental units on Oahu. The bill focused on existing apartment zoned properties up to 20,000 square-feet in size. The proponents of the bill believed that with the appropriate "incentives," landowners would be motivated to develop more affordable rental units on their properties.

Ordinance 19-08 allowed for significant increases in height and density, reduced setbacks, reduced zoning, parking and loading requirements and some building code requirements, and waived permit fees, park dedication fees, and real property taxes¹, for projects that meet the following qualifications:

- 80 percent of the units must be rented to households earning 100 percent Area Median Income (AMI) or less; while 20 percent of the units may be rented at market rate or occupied by family members.

In 2020, the Ordinance 19-8 was amended (Ordinance 20-13) to further incentivize eligible landowners. The lackluster response to the original Ordinance 19-08 was probably due to the requirement that the affordable units be kept affordable in perpetuity.

¹While real property taxes are frozen for the entire property during construction, the ongoing annual property taxes are waived only for the units rented to households earning 80 percent AMI or less.

Reducing this requirement to 15 years would motivate eligible landowners to create more affordable rental units.

To date, the Department of Planning and Permitting (DPP) has approved two permits under these ordinances with another thirteen in process. The administration seeks an economic model that will significantly stimulate and increase investment in affordable housing by proposing to provide an additional financial incentive of \$11.25 per square foot of floor area (not to exceed \$9,000.00 per unit), for affordable rental projects rented to households earning between 60 percent AMI and 100 percent AMI, to developers of affordable rental housing, to accelerate construction under current economic conditions. The aggregate of grant payments made under this article shall not exceed \$10 million dollars. Under this proposal, presuming the full \$10 million dollars in payments are made, Honolulu would realize no less than 1,111 new additional affordable rentals.

The CD 1 adds another incentive targeted at lower income units. It would provide for an additional financial incentive of \$15.00 per square foot of floor area (not to exceed \$15,000.00 per unit), for affordable rental project rented to households earning 60 percent and below AMI, to developers of affordable rental housing.

The administration sees this as another “tool” to address our critical need for more affordable housing, especially as it attempts to incentivize the investment of private capital. By comparison, the cost to the City of two recent City housing projects breaks down as follows:

806 Iwilei:

Total Cost: \$17,200,000
Homeless Resource Center: \$8,341,201
Residential Tower (27 units): \$8,858,799
Cost per unit: \$328,103
Residential sq. ft.: 15,586 sq. ft.
Cost per sq. ft.: \$568.38

West Loch Modular:

Total Cost: \$20,550,000 (including commercial kitchen with dining room)
Cost per unit (58 units): \$354,310
Total sq. ft.: 28,551
Cost per sq. ft.: \$719.76

The proposed \$9,000.00 or \$15,000.00 per unit direct subsidy would be a worthwhile investment for the City to partner with the private sector to provide more affordable units when compared to City funded affordable projects.

The administration believes that the current economic and social effects of the COVID-19 pandemic have and continue to exacerbate that shortage, and there is a near-term need to consider a multitude of different models to increase the supply of affordable housing on Oahu. It still appears that owners and developers considering the development of affordable rental housing projects under Ordinances 19-8 and 20-13 are hesitant to move forward due to the economic uncertainties presented by the COVID-19 pandemic. Government subsidies are usually focused on the lower income groups, less than 60 percent AMI. In our view, this latest initiative is a “Pilot Project” to see how government might stimulate the production of more

affordable rental units through direct public subsidies to smaller projects, and incentivize landowners and developers to build more affordable rentals.

We would also like to provide responses to questions that were raised at the prior hearings. The following questions were raised by various Committee members during the hearing:

1. Would every project receiving funding through this program have to comply with prevailing wages?
 - a. We will need to have further discussions with Corporation Counsel on this issue. As the program is currently contemplated, receipt of the incentive grant in and of itself does NOT seem to trigger Hawaii Revised Statutes 104 (prevailing wage requirement). Such MAY be triggered by receipt of a GET exemption but that is a separate issue from this incentive program.
2. Where is the \$10 million in the Budget coming from?
 - a. The \$10 million will come from the General Fund, when appropriated.
3. Is the \$10 million in the proposed Budget for Fiscal Year (FY) 22?
 - a. For FY22, \$300,000 is appropriated for this program. Bill 1 includes an "intent to claim" requirement to be submitted upon the filing of a building permit application, which allows the Department of Budget and Fiscal Services to plan for future payments and make the necessary appropriation requests in the respective year's budget up to the remainder of the \$10 million.
4. Is the \$10 million going to be funded annually or limited for the entire five (May 2019 to April 2024) year pilot program (original Bill 7)?
 - a. The \$10 million is the aggregate cap on incentive payments for the duration of the program. The amount to be appropriated in a given FY will be calculated based on the number of "intent to claim" requests submitted in the preceding FY.
5. While the tenants need to meet income restrictions, the rent charged the tenants is not set for the income group (i.e. Similar to HUD funded programs)?
 - a. Ordinance 19-08 requires the annual filing of a certification affirming that at least 80 percent of the total units in the affordable rental housing are affordable rental housing units. Bill 1 is intended to provide additional incentives and does not contemplate modifying the program requirements.
6. Building Permit Applications for Bill 7 projects take over 90 days to process, how can we process faster?
 - a. DPP is processing all Bill 7 permits as quickly as possible once they are complete and accepted for processing. Delays may also be attributed to the time it takes the architect/engineer to revise or address the comments made by various agencies during the permit review process.

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Should this initiative, targeted at a limited number of properties, result in an increase in the number of affordable rental units on Oahu, then perhaps similar types of government subsidies should be considered for other types of affordable rental housing projects. As such, the DPP supports Bill 1 (2021), CD 1, as proposed.

Should you have any questions, please contact me at 768-8000.

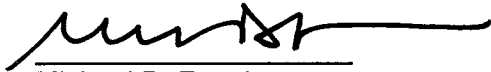
Very truly yours,



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Dean Uchida
Director

APPROVED:



Michael D. Formby
Managing Director