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April 13, 2021

The Honorable Tommy Waters
Chair and Presiding Officer
and Members
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawaii 96813

Dear Chair Waters and Councilmembers:

SUBJECT: Bill 1 (2021), CD1
Grants Incentivizing the Construction of Affordable Rental Housing
Comparison of Affordability Requirements

This memo is in response to questions raised at the March 29, 2021, hearing of the Council Committee on Housing and the Economy pertaining to Bill 1 (2021), CD1, specifically on required affordability periods.

As you know, the City supports the construction of affordable rental housing, either as mandated by ordinances, discretionary land use approvals, or as a requirement of the applicable funding programs. The attached table provides a comparison of the City's regulations and programs, as well as those that the Hawaii Housing Finance and Development Corporation (HHFDC) and the Hawaii Community Development Authority oversee. Please note that the table presents the most often sought after means of obtaining affordable rental housing, it is not a comprehensive comparison of all available mechanisms.

The City's most broad-reaching program is Ordinance 18-10, codified as Chapter 38 of the Revised Ordinances of Honolulu, the Affordable Housing (AH) Requirement. This ordinance recalibrated the amount, duration and price points of units that the City would mandate, with the goal of benefiting the most people over the longest period of time.

In broad terms, Ordinance 18-10:

- Reduced the amount of AH rental units required in a City-regulated project from 30 percent to a range of 5 to 15 percent.

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- But, in a counterbalancing move, <u>lengthened</u> the period that AH rental units must remain affordable from 10 years to 30 years.
- <u>Mandated</u> 80 percent of area median income (AMI) as the target income group for AH rental units.

Prior to Ordinance 18-10, the City's predominant instrument to require AH units in private development was the unilateral agreement (UA), imposed by City Council approval of a zone change. The 2010 AH Rules for these projects require 30 percent of units to be affordable, typically distributed evenly among the 80 percent, 120 percent and 140 percent AMI households. Units -- rental and ownership -- would remain affordable for 10 years.

Analysis commissioned by the City concluded that these parameters were not producing optimal results. High-end "affordable" units approached market prices, making them both out of reach for lower-income households and unattractive to higher income buyers, who would just as soon buy market units unencumbered by affordability periods and buyback restrictions. Furthermore, the large percentage of required AH units made some projects infeasible. Meanwhile, the 10-year affordability period meant AH units would cycle into the market-priced sector relatively quickly, often benefiting only one household before no longer being affordable.

In crafting Bill 58 (2017), which became Ordinance 18-10, the Department of Planning and Permitting said it believed the public would benefit more if it required fewer AH units but kept them as affordable for a longer period. This thinking was consistent with housing consultant Mr. Rick Jacobus' analysis of AH. In a 2017 memo to the City, Mr. Jacobus noted that a 2014 study found that three-fourths of 330 AH programs surveyed in the U.S. had affordability periods of 30 years or more. *"While shorter-term restrictions were common in the 1980s, many of the programs that began with 10- or 15-year restrictions have since revised their rules to require longer periods of affordability. The reason for this change seems to be that as housing prices have risen, the discount that is necessary to make new units affordable to lower or moderate income buyers has grown so high that policymakers begin to feel that the subsidy level is too high for only one family to receive all of the benefit. Long-term restrictions allow a one-time reduction in price to create a unit that provides an affordable starter home opportunity to one lower-income family after another."*

As shown in the attached table, affordability periods vary from 10 years for projects subject to UAs to 61 years or longer for projects receiving Low Income Housing Tax Credit financing through the HHFDC. While the affordability period for UAs and Ordinance 18-10 projects were determined by the adopting ordinances, other affordability period restrictions are a requirement of the specific funding program. The original affordability period introduced in Ordinance 19-8 was understood to be for the life of the structure, however, this was changed by Ordinance 20-13 to a 15-year period. This change was introduced by Ron Menor, Chair of the Zoning and Planning Committee, in February 2020.

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

Very truly yours,

Digitally signed by Uchida, Dean
Date: 2021.04.13 10:50:55 -10'00'

Dean Uchida
Director

Attachment

APPROVED:

Michael D. Formby
Managing Director

Attachment 1
Comparison of Affordability Requirements

Regulating Program	Regulating Agency	Affordable Units Required as of % of Total Units	AMI Target	Affordability Period
Unilateral Agreements 2010 AH Rules	City DPP	30%	At least 20% of total units for 120% AMI, including at least 10% for 80% AMI; remainder of AH obligation can be for 120-140% AMI	10 years
Ordinance 18-10 Affordable Housing Requirement (Rental Units Only)	City DPP	5% or 15% for projects seeking TOD Bonuses*	80% AMI	30 years
Ordinance 19-8 Affordable Rental Housing	City BFS	80%	100% AMI	15 years (Ordinance 20-13)
Ordinance 20-9 Affordable Housing Fund	City BFS, DCS, DLM	More than 50%**	60% AMI	60 years
HUD HOME Investment Partnerships Program	City BFS, DCS	Varies based on maximum per-unit subsidy limits	50% and 60% AMI	20 years for new construction of rental units
HUD National Housing Trust Fund	HHFDC, City BFS, DCS	Varies based on maximum per-unit subsidy limits	30% AMI	30 years for rental units
Low Income Housing Tax Credit Program	HHFDC	20% or 40%***	50% AMI and 60% AMI	Varies, competitive process with most points given to applicants proposing 61 years or more
Hula Mae Multi-Family Program	HHFDC	20% or 40%***	50% AMI and 60% AMI	15 years or the term of the bond
2018 Kakaako Reserved Housing Rules	HCDA	20%	up to 140% AMI	30 years for rental units

* Only applies to TOD projects seeking bonus height and/or density through an Interim Planned Development-Transit (IPD-T), Planned Development-Transit (PD-T), and TOD Special District permit.
** More than 50% of residential rental units for households at 80% AMI and below.
*** At least 20% of residential rental units for households at 50% AMI and below; or at least 40% of residential rental units households at 60% AMI and below.