

Bill 7 (2019), CD2
Additional Testimony

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May 7, 2019

Via email to info@honoluluodpp.org

Councilmember Ikaika Anderson
Chair, City Council
City and County of Honolulu
530 South King Street
Honolulu, HI 96813

Re: Bill 7 (2019), CD2, FD1 Proposed - Relating to Affordable Rental Housing

Chair Anderson and Members of the City Council,

My name is Mel Kaneshige and I am submitting testimony generally in favor of the proposed Bill 7 (2019), CD2, FD1 with the following requested amendments:

1. Delete Requirement of Maximum Rental Amounts.
 - a. The central premise of this Bill is to provide incentives for the private sector to develop underutilized land to increase the supply of badly needed rental housing on Oahu. The only restriction is that the units must be rented to tenants who are at 100% AMI or less.
 - b. Rental rates will be set by the landlords depending on the location of the units and their desirability. Units in Waikiki will likely rent for more than units in Wahiawa and units on bus lines will likely rent for more than units without convenient access to public transportation. Given the density and restricted sizes of the units as required by the Bill, the market itself will regulate the rents. There is no need for an artificial cap to be imposed as required by language stipulating that rents need to be set at or below the HUD rent limits.
 - c. Adding yet another requirement will scare off some potential owners from redeveloping their lands to affordable rentals. It will be one more impediment to getting the 10 to 15 owners per year to develop 500 affordable rentals per year which is the target of this Bill, remembering that this is a small landowner bill, not a big developer bill, and small owners are easily spooked by additional bureaucratic red tape.

2. The Penalty in Section ___-1.6 Should be Amended.
 - a. Section ___-1.6 Violation – Penalty on page 6 specifies a draconian civil fine of “10 times the amount of the real property tax assessed for the years of noncompliance”. The amount of this civil fine is clearly excessive for what could be an inadvertent violation of the rules governing affordable rental housing and, accordingly, may not be enforceable. The Bill already provides for paybacks of incentives, with interest, in the event of violations and these should be enough to deter violators.

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- b. As an example of what this penalty amounts to, we estimate that it will cost about \$4 million to construct a 25-unit affordable rental building on a small 5,000 sf lot. The 5,000 sf lot we estimate will have a value of about \$1 million (\$200 psf), so the total assessed value of the land and improvements will be \$5 million.
 - c. At the current real property tax rate of \$3.50 per \$1,000 of assessed value, the annual real property taxes will be \$17,500. If the landowner commits an inadvertent error and is in violation of the bill, the penalty for each year of the violation would be \$175,000 (10 x \$17,500). If the inadvertent error is not discovered for 5 years, the penalty would be \$875,000, an exorbitant amount which is clearly not what is intended. This penalty would in addition to the repayment of all other incentives obtained when the project was approved.
3. Affordable Rental Housing on State DOE Land Should not be Limited to Teachers.
- a. Section __-2.2 "Permitted uses" on page 7 should be amended to permit affordable rental housing to be built on real property owned by the state department of education and rented to eligible tenants earning 100% AMI or less. The renters should not be limited to "public school faculty."
 - b. The state DOE owns property that can be used for affordable rental housing. The dire need for affordable rentals is not limited to public school teachers. It goes way beyond that so why limit the eligible renters to teachers? If this currently unused land can be used to help alleviate the chronic shortage of rental housing as well as the need for affordable teacher housing, then why not allow it to be used?
 - c. Allowing a greater rental pool will make it easier for the DOE to find developers willing to build affordable rentals on DOE lands. Developers want to have as large a pool of renters as possible to be sure that the units are occupied, and rents are being paid.
 - d. Allowing a greater rental pool will also permit private financing to be used by developers that the DOE can contract with to build affordable rental buildings since private financing will need to have as broad a rental pool to draw from to be sure that the buildings are fully occupied with a steady rental stream.

Thank you for this opportunity to testify. I am happy to answer any questions.



Mel Kaneshige