**CITY COUNCIL**

**SPECIAL MEETING**

**Thursday, October 11, 2012**

**Testimony of Chuck Wathen**

**Hawaii Housing Alliance and Pier Management Hawaii LLC**

Mr. Chairman and Honorable Members of the Council, my name is Chuck Wathen, President of Pier Management Hawaii, LLC and founder of Hawaii Housing Alliance. I have worked in more than 44 different States, 300 cities and communities and been involved in the development as either a consultant, owner or operator of more than 20,000 affordable housing units.

About ten years ago, I worked with the City on financing to buy what was at that time Honolulu’s largest rental housing project, Moanalua Hillside Gardens with 700 units. Moanalua was viewed by many experts to be a prototype for social integration for diverse income stratas which include persons receiving Section 8 assistance, those at 50% of AMI, 80% of AMI and up to 140% and market. Because of the mixed income structure, we were able to renovate every unit at a cost of approximately $11 million hard costs, including upgrading all of the common areas and facilities and make a profit

I believe this is the best way to ensure long-term sustainability for rental projects of this kind. So, my partners and I put in a bid on this RFP. We were not selected, which was a disappointment. But the winning bid was different enough from the terms of the RFP, that I thought I would express my concerns.

First, there seems to be an undue rush to approve a socially and economically irresponsible bid to sell the 1,257 units of mixed income housing owned by the City and County of Honolulu. A favorable bid, which should meet the requirements originally setup by the City Council itself, would close before the end of 2012 and be a financial success for the city. Unfortunately, the City Council is prepared to accept an offer that could cost the City millions of dollars and may negatively impact various neighborhoods throughout the city.

The City Council has been supplied with documentation that proves the current bid should have been deemed unacceptable since it deviates from the terms of the RFP. It eliminates 719\* units of workforce housing in favor of adding more lower income units. Rather than pausing to assess the impact of this change on the neighborhood and on long-term sustainability, there appears to be a rush to approve the sale, even though there is a vacant seat in the council district, where most of the properties are located. Citizens in the area affected have no representation in the decision.

Additionally, the hypothetical sales figures associated with the current bid, including all the direct and hidden costs, show a significant loss could be created for the City. Some additional issues are as follows:

* In Chinatown, 524 units of existing mixed income units designed and approved for workforce residents will be removed and lost for at least 65 years and replaced with a like number of low- and very low- income residents. The income group being eliminated represents policeman, firefighters, teachers, and other essential workers. The removal of so many workforce housing units could create a shortage that would cause rents to skyrocket overnight. Even if some of this group is allowed to stay at their current home, they will be classified as market rate units. As such, their rent increases are only restricted for 5 years versus 10 years for affordable units. This means that in just 5 years families in the Moderate and Gap housing categories could be priced out of their homes.
* We have been told by the administration that time is of the essence, primarily citing today’s historically low interest rates. Early in the bidding process, potential bidders were informed of a requirement to close (the sale) by October 31, 2012. However, the current bid being entertained by the City Council allows for closing to be extended to March 2014 *and* with no risk to the buyer’s deposit! This extension of time was not offered to the other bidders.
* The support of a key group, Faith Action for Community Equity (FACE) allowed the resolutions to start moving. FACE thinks they have negotiated a rental subsidy for many of the units from an administration that will not be in office in a few months. Moreover, the maximum subsidy the City can give is $170 per unit if the city had the money, which it doesn’t. To cover all 971 units, it would cost the taxpayers $2,000,000 per year.

However, if the City Council instead chooses to subsidize only those families between 60% and 80% AMI which reside in the Mod, Gap and Market units this would cover approximately 350 units, and it would cost the taxpayers $714,000 per year. If these families had to find new homes, we estimate their rents will increase approximately $1,000 per unit per month. Where is this subsidy going to come from and how are these Mod and Gap residents going to afford this increase over and above the rental subsidy? If, instead, all 719 units require a subsidy, the cost doubles to $1.4 million per year.

FACE has suggested the City take a portion of the sales proceeds and create a fund. Well, the math does not work. Depending on how many families are affected and how many years the subsidy is offered, the City would be required to invest between $10 million and $60 million in US treasuries at today’s interest rate. Lastly, we hear there is another proposal being discussed that contemplates subsidizing those between 60% AMI and 80% AMI and not subsidizing below 60% AMI or above 80% AMI. No one knows for sure because these negotiations happen behind closed doors and are presented to the Council and the public only at the last minute.

* FACE is also concerned about the three properties that can be redeveloped. So far, no non-profit will agree to shoulder the financial risk when the current proposal allows for only $450,000 in renovations per all three properties. To turn these properties around and make them financially viable, it is estimated it will cost $2,000,000 in renovations. As a point to note, several of the other bidders had a non-profit partner on the team to take over these properties -- a sale was never going to be necessary.
* The City says it needs to pay the outstanding bonds that were used to build and acquire these units (about $63 million) plus pay back Federal Community Development Block Grant (CDBG) funds (could be up to $50 million). With all the cutbacks in City and State funds to cover other necessary social services there will be line a mile long for the funds. Can these funds even be used for rental subsides? Other questions are whether the State is willing to put in $30 million dollars in tax credits and whether the Hawaii Housing Finance and Development Corporation (HHFDC) is willing to eliminate so many workforce rental units?
* To replace the 719 workforce-housing units in core Honolulu that would be eliminated by the current bid, it would cost tax-payers at least $175 million in direct subsidies, even if free, appropriately zoned and titled land were available . If the elimination of workforce housing is an option, it would be only fair to let the other bidders resubmit new bids that are in-line with these updated RFP requirements.

In closing, it was my intention to point out the potential financial loss that the current bid represents to City taxpayers. In the best case, the net proceeds equate to an almost $11 million loss which includes a $6.2 million rental subsidy that will last for only 10 years. In the worst case, if the City decides to offer a rental subsidy for the entire 65 years, the net proceeds equate to a loss of nearly $100 million. Please see the following tables for details. The City should take a lot more time to consider the financial aspects of this complex deal and, furthermore, we urge a financial analysis be performed prior to passing the resolutions.

Thank you in advance for your consideration and please let me know if you have any questions.

Charles P. Wathen

Hawaii Housing Alliance

Pier Management Hawaii LLC

\* - Current Mod and Gap Units

 Chinatown Gateway Plaza – 120

 Chinatown Manor – 90

 Harbor Village – 59

 Marin Tower – 161

 Winston Hale – 94

 Kulana Nani – 120

 Manoa Gardens – 8

 Westloch – 67

 **TOTAL - 719**

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