

Preliminary Strategic Approach to Implement Act 279 of 2022

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HAWAIIAN HOME LANDS TRUST

Department of Hawaiian Home Lands

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INTRODUCTION

Purpose of This Document

The mission of the Department of Hawaiian Home Lands (DHHL) is to develop and deliver land to native Hawaiians. The trust, created by Congress through the Hawaiian Homes Commission Act (HHCA), set aside lands to be used for the benefit of native Hawaiians.

As required by the Admission Act and as a compact with the United States, the State of Hawai'i, and the people of Hawai'i adopted the HHCA as a provision of the Hawai'i State Constitution and agreed to faithfully carry out the spirit of the HHCA for the rehabilitation of the Hawaiian race. These trust responsibilities remain to this day.

The purpose of this document is to communicate DHHL's broad preliminary strategy to utilize the \$600,000,000 (\$600M) in funds to implement Act 279 of 2022. The purpose of Act 279 as stated in the legislation is to provide a multi-pronged approach to reducing [the DHHL] waitlist. The \$600M will address the needs of those on the DHHL waitlist and those beneficiaries still waiting to get on the land.

Framework of this Document

Section 4 of Act 279 identified two main waitlist applicant preferences from the 2020 DHHL Beneficiary Study Applicant Report:

1. Applicant Preference for Homeownership; and
2. Applicant Preference to continue Renting or access Rent with Option to Purchase Opportunities.

As such, this document is organized around projects and programs that will provide **homeownership** or **rental** opportunities for waitlist beneficiaries.

Act 279 also directs DHHL to organize its proposed actions to utilize the \$600M by County. Accordingly, new lot development projects are organized by County when applicable. Individual assistance programs in this document are meant to be statewide and span across multiple Counties.

Approach to Budgeting in Uncertain Times

Given recent world events that have transpired over the previous two years such as the COVID-19 Pandemic and Ukrainian-Russia War, U.S. economic inflation and supply

chain disruptions may impact costs of labor and construction materials. Therefore, to account for the current climate of price variability and uncertainty, new lot development identified in this document may change over time. DHHL will revise its budget outlook each fiscal year to accommodate for these uncertain factors over the three-year period of this Act. Updated budgets will be presented to the HHC for approval and to the Legislature as an informational progress report.

Policy Considerations to Allocate Resources

This document is the initial articulation of the preliminary strategic approach that the Hawaiian Homes Commission and DHHL will employ to allocate the resources provided by the Legislature to benefit waitlist applicants. The following core policy considerations were identified to guide decisions to allocate resources and guide spending.

Policy Consideration #1: The majority of resources provided under Act 279 should go to homeownership activities rather than rental activities.

Rationale

The 2020 DHHL Beneficiary Study Applicant Report reported that the majority of applicants prefer a lot with a single-family home or a vacant lot for a house (76 percent) vs. those applicants that preferred to rent or rent with the option to buy in the future a single-family home, duplex, apartment, or townhouse (16 percent). (See 2020 DHHL Beneficiary Survey pages 6-8)

Projects and programs that provide homeownership opportunities will reduce the waitlist more quickly than rental opportunities or programs because an Applicant who rents remains on the waitlist.

Policy Consideration #2: Resources provided for homeownership activities should prioritize new homestead lot development.

Rationale

New homestead lot development and award of new homestead leases are existing DHHL functions that DHHL is currently set-up to do.

There are more unknowns regarding individual assistance programs. Some of the individual assistance programs identified in Act 279 by the Legislature are forms of assistance that DHHL has not previously offered widely to waitlist applicants. Additionally, DHHL beneficiary communities may identify new and innovative programmatic ideas to address the waitlist over the course of the next 12-months. Therefore, DHHL should approach these new programs as “pilots” i.e. start small and scale-up over time.

Relatedly, it will take DHHL time to stand-up the individual assistance programs. New procedures, and applications need to be created and waitlist education and orientation products related to these programs need to be developed.

Criteria to help vet potential real estate acquisitions, including land and improved real estate, should be developed to streamline the process, given the limited time-frame in which DHHL is required to encumber these funds provided by the Legislature.

Policy Consideration #3: Prioritization of homestead lot development projects should be based upon: (1) timing/position in the DHHL "production pipeline"; (2) Priority areas for new homestead development identified in DHHL Island Plans; (3) Waitlist demand on each island.

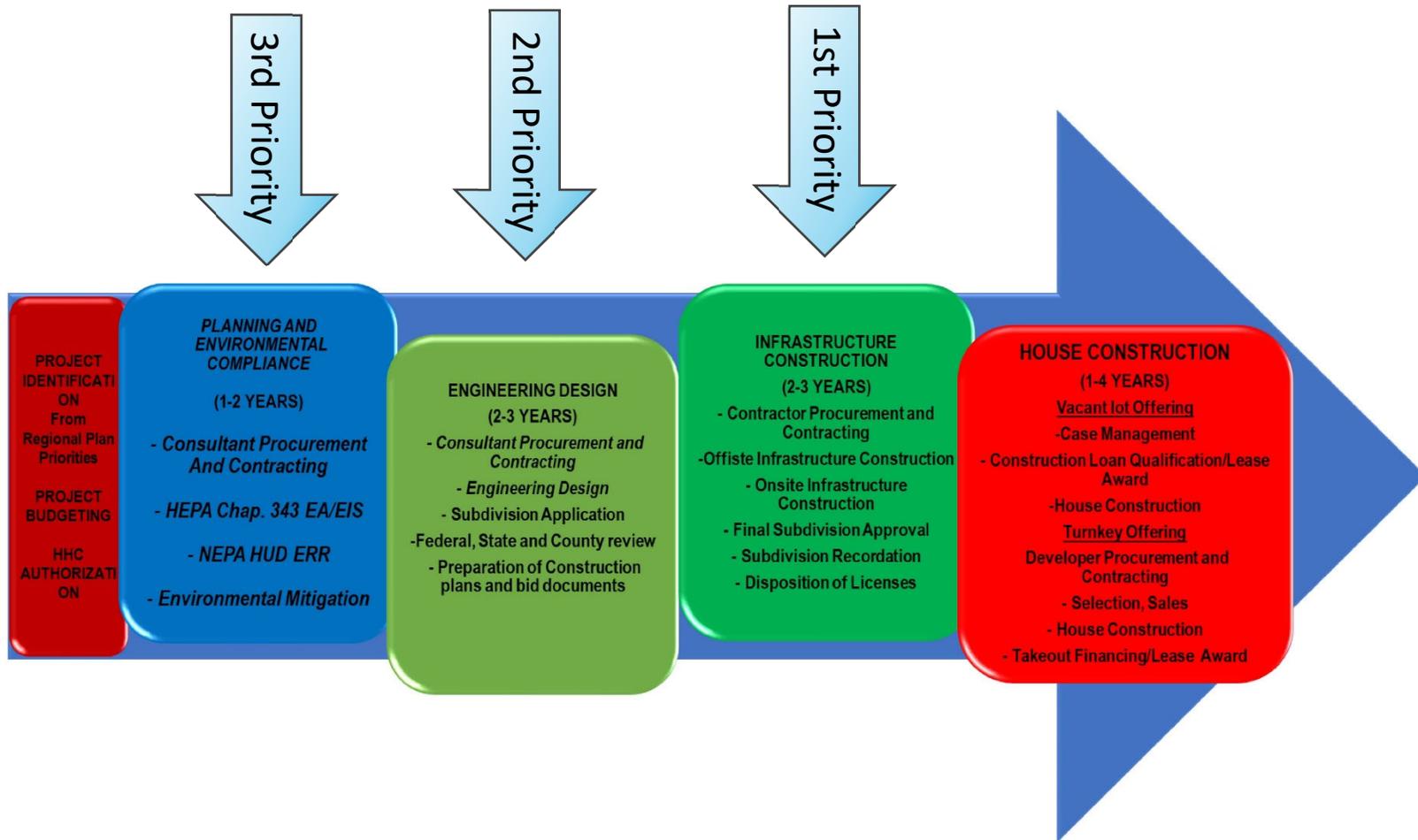
Rationale

Lot development projects that are further ahead in the DHHL production pipeline are closer to being shovel ready.

Land areas identified as priority areas for new homestead development were based on the Island Plans which reflect beneficiary priorities.

The island waitlists are indicators of beneficiary need and preference

Figure 1. DHHL Homestead Lot Production Pipeline Diagram



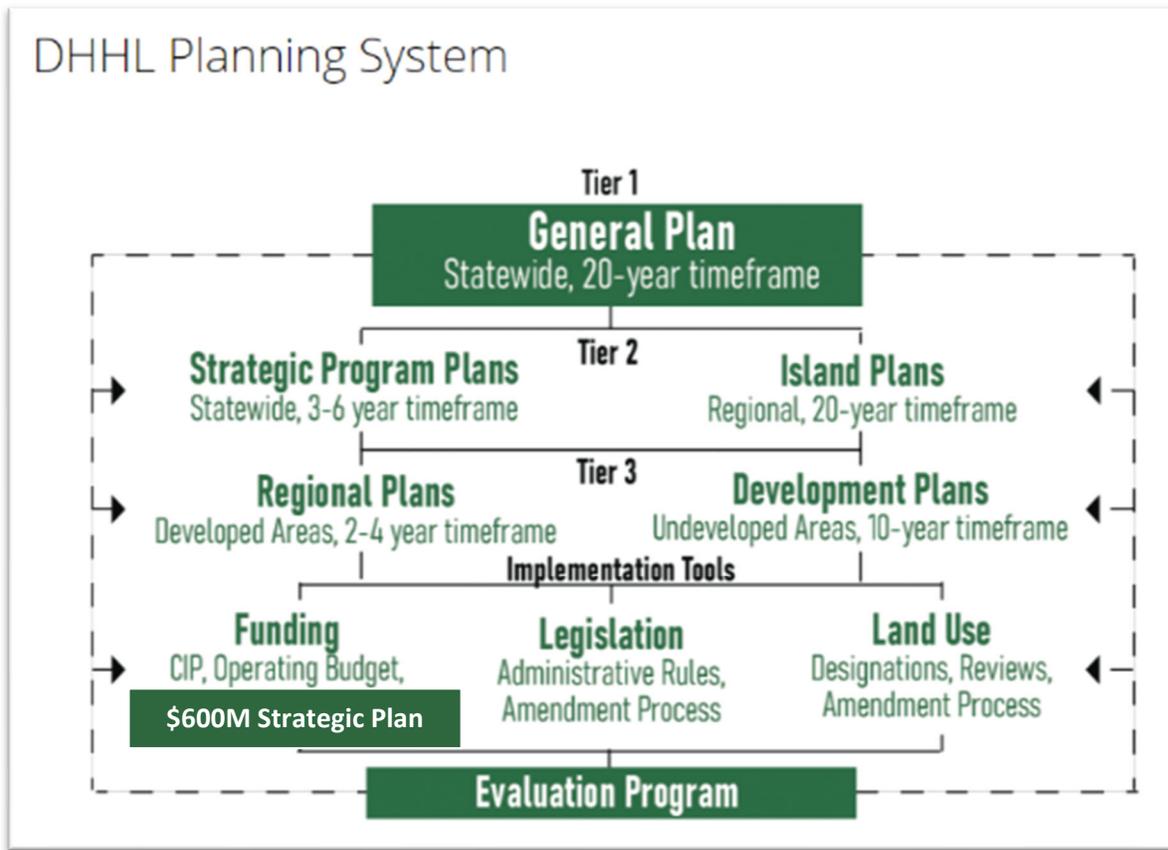
Beneficiary Input

Beneficiary input will be gathered from three sources to guide the utilization of the \$600M. These three sources of beneficiary input include:

1. Previous Beneficiary Consultations Conducted During the Development of Existing DHHL Plans;
2. 2020 DHHL Beneficiaries Study: Applicant Report; and
3. Future opportunities for beneficiaries and non-profits that serve beneficiaries to identify innovative programs for waitlist applicants.

Previous Beneficiary Consultations During the Development of Existing Plans

Per HAR 10-4-53, the DHHL Planning System consists of a three-tier hierarchy of plans. Tier One is the top tier consisting of the General Plan and shall establish overall policy. Tier Two and Tier Three are the lower tiers with increasing specificity on programs or geographic areas. The planning system also includes **implementation tools** that link with the plans. Figure 2 below provides an illustrative description of the DHHL Planning System.



During the development of each of the Tier One, Two, and Three Plans, multiple beneficiary consultation meetings were held to gather beneficiary input which ultimately guided recommendations found in these plans. This Strategic Plan document is at the Implementation Tier of the DHHL Planning System and is one of the **implementation tools** that will be used to fulfill the plan recommendations found in the higher tier plans. As such, this Strategic Plan is guided by the beneficiary input received during the beneficiary consultations held during development of existing DHHL plans.

2020 DHHL Beneficiary Study: Applicant Report

Act 279 directed DHHL to utilize the beneficiary input collected during the 2020 Beneficiary Study Applicant Report to guide DHHL utilization of the \$600M. The purpose of the 2020 Beneficiary Study was to assess the current condition and needs of DHHL beneficiaries. Data for the study was collected via survey of waitlist applicants. The applicant survey was designed to provide large-sample, statistically reliable data on all applicants who were applicants as of August 2020.

Future opportunities for beneficiaries and non-profits that serve beneficiaries to identify and also provide innovative programs for waitlist applicants

DHHL will provide opportunity for beneficiaries and beneficiary serving non-profits to suggest and provide new and innovative programs that will help waitlist applicants with homeownership or rental opportunities. The process to allow for this opportunity is still being developed as of this writing. However, once the process is developed, DHHL will provide adequate notice to beneficiaries and beneficiary serving non-profits regarding future opportunities to identify and provide unique and innovative services to waitlist applicants.

HOMEOWNERSHIP OPPORTUNITIES

The next section identifies the following allocation of resources to provide more homeownership opportunities to DHHL waitlist applicants:

1. New lot development;
2. Real estate acquisition; and
3. Homeownership individual assistance programs (preliminary considerations)

Lot development and land acquisitions are identified by County, while homeownership individual assistance programs are statewide initiatives and organized by program type.

New Homestead Lot Development

A **preliminary** listing of new homestead lot development projects by County is below. As previously noted, new lot development identified in this document may change over time due to uncertainty and variability in construction costs caused by current and potential future world events. For projects in the Engineering Design Phase, DHHL will explore **Design-Build contract agreements** utilizing **Developer Agreements** with private developers to expedite development timeframes. The Production Pipeline Status column indicates where the project currently is in the production pipeline.

At this time, the determination whether new lots will be turn-key, owner-builder, or self-help has not been made. Those decisions will be made as the projects progress further through the production pipeline prior to actual lease award.

| Hawai'i County Lot Development Projects | | |
|--|----------------|---|
| Project | Number of Lots | Production Pipeline Status |
| Honomū Subsistence Ag Lots, Phase 2 | 40 | Engineering Design |
| La'i'ōpua Village 2 and Water Source Development | 200 | Planning & Environmental Compliance (Water Development) Engineering Design (Lot development) |
| La'i'ōpua Village 1 | 200 | Engineering Design |
| TOTAL | 440 | --- |

| Maui County Lot Development Projects | | |
|--|----------------|------------------------------|
| Project | Number of Lots | Production Pipeline Status |
| Lānaʻi Residence Lots & Off-site infrastructure | 75 | Engineering Design |
| Molokaʻi Hoʻolehua Scattered Lots | 20 | Planning and Env. Compliance |
| Molokai Nāʻiwa Agriculture Subdivision | 16 | Planning and Env. Compliance |
| Maui Puʻunani Homestead Subdivision Phase 1 | 161 | Engineering Design |
| Maui Honokōwai Subsistence Agriculture Phase 1 | 50 | Engineering Design |
| Maui Leialiʻi 1B – Off-site Water Source Development | --- | Planning and Env. Compliance |
| Maui Leialiʻi 1B - Subdivision | 250 | Engineering Design |
| TOTAL | 572 | --- |

| City & County of Honolulu Lot Development Projects | | |
|---|----------------|----------------------------|
| Project | Number of Lots | Production Pipeline Status |
| Kaupeʻa, Phase 2 | 60 | Engineering Design |
| East Kapolei II Backbone Infrastructure | -- | Engineering Design |
| East Kapolei IIA | 300 | Engineering Design |
| East Kapolei IID | 124 | Engineering Design |
| East Kapolei IIE | 142 | Engineering Design |
| East Kapolei IIF | 155 | Engineering Design |
| Māʻili Development | 144 | Engineering Design |
| Ewa Beach | 600 | Planning & Env. Compliance |
| TOTAL | 1,525 | --- |

| Kaua‘i County Lot Development Projects | | |
|--|----------------|----------------------------|
| Project | Number of Lots | Production Pipeline Status |
| Hanapēpē Residence Lots, Phase 2 | 75 | Engineering Design |
| Anahola Kuleana Homestead Lease Agriculture & Pastoral | 115 | Engineering Design |
| TOTAL | 190 | --- |

| Summary of Lot Development Projects Statewide | |
|--|----------------|
| County | Number of Lots |
| Hawai‘i | 440 |
| Maui | 572 |
| City and County of Honolulu | 1,525 |
| Kaua‘i | 190 |
| TOTAL | 2,727 |

Land acquisition for homestead lot development or water source development

At present, DHHL is currently pursuing an acquisition of a 9-acre parcel in Kapolei next to DHHL's Kaupe'a homestead from the State Housing and Finance Development Corporation. The parcel is in an area that is surrounded by existing residential use and off-site infrastructure (sewer, water, telecommunication, electricity) is available. Over the course of the implementation of Act 279, DHHL will entertain opportunities to acquire new lands with similar characteristics (i.e. close to existing infrastructure and suitable for residential use).

DHHL may also entertain acquiring property needed for water source development in areas where DHHL lands do not have sufficient water for homestead development.

Homeownership Individual Assistance Program Preliminary Considerations

In addition to its traditional homestead lease program, Act 279 also authorized DHHL to explore new alternative individual assistance programs to assist waitlist beneficiaries with their housing needs. Per the policy considerations discussed in the Introduction of this plan, the majority of funding will go to new homestead lot development. However, DHHL also plans to set-aside roughly 10 percent of Act 279 Funding for new and innovative programs that may be identified by beneficiaries and/or housing stakeholders that could help individual waitlist applicants address barriers to homeownership. Also mentioned previously, the actual cost to develop and construct new homestead lots may vary depending upon current and future world events. As such, the amount of potential funding that could be available for individual assistance programs is dependent upon actual construction costs and amount of available funds remaining.

Participation in these potential future programs would be entirely voluntary and no change to an individual's DHHL application will occur if they choose not to participate.

Common barriers that may prevent beneficiary homeownership include:

- Lack of sufficient savings for a down payment;
- High debt;
- No credit history or low credit score;
- Periodic challenges with monthly mortgage payments and/or past due mortgage payments because of unemployment or other unfortunate circumstances affecting household income or household expenses.

Additional programmatic ideas from the beneficiary community to identify and address barriers to homeownership can be put forth by the community and housing assistance stakeholders for DHHL and the Hawaiian Homes Commission's consideration over the next 12-months.

A **preliminary** idea that would provide programmatic assistance to individual waitlist applicants currently being considered by DHHL staff is a Down Payment Assistance Program. A Down Payment Assistance Program could assist interested waitlist applicants who are first-time home buyers with the down payment required for the mortgage of a turn-key home or owner-builder project on a homestead lot. Program participants could be eligible to receive a "yet to be determined" amount for down payment assistance. However, program participants would be expected to make their own contributions to the down payments as well.

Innovative Partnerships

DHHL will also consider innovative partnerships with other county and state entities that could expedite development schedules for DHHL projects. An example could be upsizing an ongoing county off-site infrastructure project and sharing in the cost. Public private partnerships may also be considered, to the extent they do not violate any statute, regulation, or procurement code.

RENTAL OPPORTUNITIES

While the majority of waitlist applicants indicated a preference for homeownership opportunities compared to rentals, a portion of the waitlist applicant pool (16 percent of applicants) identified that they desired some form of rental housing as a stepping-stone to homeownership. The following section identifies the types of rental products DHHL intends to provide via the Act 279 funding. These rental products include:

1. New construction units for rental housing;
2. Renovation of existing units;
3. Rental assistance programs (preliminary considerations); and
4. Innovative financing.

It is important to note that unlike the homeownership opportunities identified under the previous section that have programmatic actions to reduce the waiting list, *none of the rental opportunities identified below will immediately reduce the waitlist. Applicants who elect to participate in these rental opportunities will remain on the waitlist and keep their waitlist rank-order.* Nonetheless, DHHL felt it important to offer these rental opportunities to its waitlist applicants as it will offer more immediate housing security to these beneficiaries and may eventually enable these waitlist applicants to become homeowners.

New Rental Unit and Renovated Unit Development

A listing of new rental unit development is below. At this time, only a portion of the Mā'ili Development in Wai'anae, O'ahu is slated for rentals. In addition, there is a potential for a portion of other residential homestead lot development projects listed in the previous section to be considered for rental opportunities depending upon beneficiary preference. Also at this time, the determination whether new rental units will be rent-to-own, long-term rentals, or transitional housing has not been made. Those decisions will be made as the projects progress further through the production pipeline.

| City & County of Honolulu Rental Unit Development Projects | |
|--|-----------------|
| Project | Number of Units |
| Mā'ili Multi-Family (Voice of America) | 136 |
| Coolidge Street | 31 |
| | |
| TOTAL | 167* |

Rental Assistance Program Preliminary Considerations

The following section provides a brief overview of preliminary considerations with regard to potential future rental assistance programs that could be offered by DHHL. As previously noted in the discussion of homeownership individual assistance programs, a small percentage of the Act 279 funding will be reserved for individual assistance programs with the majority of funding being utilized for new homestead lot development.

Common issues that impact beneficiaries who are currently renting include:

- Potential housing insecurity due to fluctuations in rental prices;
- Periodic challenges with monthly rent payments and/or past due rent payments because of unemployment or other unfortunate circumstances affecting household income or household expenses; and
- Access to personal finance training and education to build savings and wealth.

New and innovative ideas put forth by beneficiaries to address some of these rental housing barriers may be considered in the next 12-months by DHHL and the Hawaiian Homes Commission.

Housing counseling is a **preliminary** idea being considered by DHHL staff that would provide programmatic assistance to individual waitlist applicants that are currently renting. Through a housing counseling program, waitlist beneficiaries that are renting would be provided opportunities to work with a service provider that would mentor them on personal finance decisions and budgeting.

Innovative Financing for Rental Housing

Affordable rental housing is a critical need that faces our entire state. As a result, federal and state funding resources that affordable housing developers use to build affordable rental units, (e.g. Low Income Housing Tax Credits, Community Development Block Grant (CDBG) funds, etc.) are limited, coveted, and highly competitive. Because there are not enough financing dollars from these programs to allocate across all the project requests, very good affordable housing projects do not get funded and, therefore, do not move forward to construction.

For the projects that are selected, sometimes the income restrictions are set very low (in order to score well for project financing) excluding many families that earn slightly more but cannot afford market rents and are in need of decent, safe, and affordable housing.

Two DHHL projects currently under contract with developer partners, are facing these challenges: Ulu Ke Kukui on O‘ahu, and the future phases of the Rent with Option to Purchase project in La‘i‘ōpua, Kona, Hawai‘i. Innovative financing programs could address some of the challenges DHHL’s current partners are facing and ensure that the units proposed by the developer partners are built.

Further, an additional financing pot for affordable housing may attract worthy projects that are unsuccessful in securing financing through other existing affordable housing programs. If DHHL purchases the land under such projects, it provides the opportunity to grow the land base with “shovel-ready” affordable rental units.