HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

MINUTES OF THE REGULAR MEETING OF THE HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION HELD AT THEIR OFFICE AT 677 QUEEN STREET, SUITE 300, ON THURSDAY, APRIL 11, 2013 IN THE CITY AND COUNTY OF HONOLULU, STATE OF HAWAII

The Board of Directors (Board) of the Hawaii Housing Finance and Development Corporation (HHFDC) met for their Regular Meeting at 677 Queen Street, Suite 300, Honolulu, Hawaii, on Thursday, April 11, 2013, at 9:00 a.m.

CALL TO ORDER/ ROLL CALL

Chair Ralph Mesick called the meeting to order at 9:03 a.m.

Present: Director Ralph Mesick, Chair
Director Allan Los Banos, Vice Chair
Director Betty Lou Larson, Secretary
Director Francis Jung
Director Leilani Pulmano
Director Paul Kyno
Director Richard Lim
Designee Scott Kami for Director Kalbert Young

Executive Director Karen Seddon

Excused: Director Kalbert Young
Director Michael Ng

Staff Present: Sandy Ching, Deputy Attorney General
Colette Honda, Deputy Attorney General
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Rick Prahler, Development Branch Chief
Stuart Kritzer, Asset Manager
Stan Fujimoto, Development Section Chief
Marlene Lemke, Real Estate Services Section Chief
Lorraine Egusa, Acting Fiscal Manager
Dean Sakata, Housing Finance Specialist
Patrick Inouye, Housing Finance Specialist
Jocelyn Iwamasa, Housing Finance Specialist
Beth Malvestiti, Housing Development Specialist
Krystal-Lee Tabangcura, Procurement Specialist
Kent Miyasaki, Housing Information Specialist
Esa Pablo, Secretary to the Board

Guests: Kevin Carney, EAH Housing
Stacy Sur, Hawaii Housing Finance
Dane Wicker, Senator Dela Cruz Office
Mike Kahikina, Kahikolu
Thomas Zizzi, Kahikolu
Bishop Soara Tupua, Kahikolu
Andy Kazane, CBRE
Scott Gomes, CBRE
Joelle Chiu, Vitus Group
Andrew Gomes, Star-Advertiser

QUORUM

A quorum was present.

II. A. APPROVAL OF MINUTES

Director Jung moved, seconded by Designee Kami, to approve the Meeting Minutes of March 14, 2013.

The motion was unanimously approved, as amended.

03/14/13
Regular
Meeting

Finance Manager Darren Ueki presented the For Information, stating that a Public Hearing was held on March 22, 2013 at the HHFDC Office.

III. A. DISCUSSION AND/OR DECISION MAKING
Information on the testimony received at the public hearing for the Proposed 2013/2014 Qualified Allocation Plan for the Low-Income Housing Tax Credit Program

After reviewing testimonies received, the Executive Director directed staff to proceed with the following non-substantive change to Criteria 1, which revises the point spread between projects with the lowest ratio from 20, 15, 12, 9, 6, and 3, to 20, 18, 16, 14, 12, and 10.

The current Qualified Allocation Plan (QAP) remains valid and in effect through 2014 based on the Executive Director's approval on April 4, 2013.

In response to Chair Mesick, Mr. Ueki stated that staff has tested and compared previous applications against the 2013 QAP and 2012 QAP, with some limitations, and seems to accomplish the Board objectives regarding the limited resources of the HHFDC.

Director Larson thanked the Executive Director for addressing the public's concern on the point spread of Criteria 1.

With no further discussion, Chair Mesick proceeded to agenda item B.

Director Jung moved, seconded by Director Los Banos, to approve staff's recommendation:

III. B. DISCUSSION AND/OR DECISION MAKING
Approve the FY2013 Application Cycles for the Low-Income Housing Tax Credit and Rental Housing Trust Fund Programs

That the HHFDC Board of Directors approves the following:

A. The application cycle for the FY2013 LIHTC and RHTF Project Award programs as noted in Sections III (A) and III (B) above. With respect to the RHTF applications, all requests will be subject to the availability of funds in the RHTF program;

B. Authorize staff to begin marketing of the FY2013 RHTF Project Award application cycle; and

C. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Mr. Ueki presented the For Action, stating that the proposed FY2013 funding round for the Low Income Housing Tax Credits (LIHTC) and Rental Housing Trust Fund (RHTF) Project Award program applications are anticipated to be made available by April 26, 2013, with a due date of June 28, 2013.

Recommendations for the FY2013 LIHTC and RHTF Funding Rounds are expected in September/October 2013.

Funding requests are all submitted through one Consolidated Application.

All RHTF Funding Rounds and requests are subject to the availability of RHTF funds.

The RHTF Capacity Building Grant and the Predevelopment Loan programs were indefinitely suspended on June 19, 2003, by the predecessors of the HHFDC Board due to a lack of program funds.

Under the Hawaii Administrative Rules §15-311-31(a), the HHFDC is required to do an outreach/marketing program done in the form of a public notice, which is anticipated to be published on April 23, 2013, subject to the approval of this request.

In response to Director Larson, Mr. Ueki stated that there is a list of interested parties for both the LIHTC and RHTF that will be informed.

With no further discussion, the motion was unanimously approved.

III. C. DISCUSSION AND/OR DECISION MAKING
Approve Transfer of Ownership of the Kekuilani Gardens and Nani O Puna Affordable Rental Housing Projects via Long Term Leasehold interest to the Vitus Group

Director Jung moved, seconded by Director Lim, to approve staff's recommendation:

That the Board approve a Transfer of Ownership of the Kekuilani Gardens and Nani O Puna Affordable Rental Housing Projects to the Vitus Group via Long Term Leasehold Interest, subject to the following:

A. Authorize the Executive Director to undertake all tasks necessary to effectuate the purpose of this For Action.

Asset Manager Stuart Kritzer presented the For Action, stating that staff is proposing a sale transfer of the two U.S. Department of Agriculture – Rural Development (USDA-RD) properties, Kekuilani Gardens and Nani O Puna.

The HHFDC and the Vitus Group have agreed on a lease premium in the amount of $9,709,955 for a 75-year leasehold interest in both properties, with estimated net proceeds of approximately $1,760,385. However, the USDA-RD's appraisal and review will be the determining factor in the final value of the transfer and purchaser.

The Vitus Group is proposing the purchase of the projects through the use of the Hula Mae Multi-Family Tax-Exempt Bonds, LIHTC, and financing obtained through the USDA Section 538 Loan Program.

Existing HOME and RHTF program restrictions will be continued accordingly.

The proposed transfer of ownership is in the public interest in that: (1) it engages a private sector partner with the experience and capacity to manage the rental housing complexes well into the future; (2) it provides for capital improvements that are needed to enhance the living condition of project residents; and (3) provides a payment to the HHFDC that will be used for the development of future affordable housing units.

Executive Director Karen Seddon added that the Vitus Group was selected through the Request for Proposal (RFP) and Selection Committee process and is working with the USDA-RD in collaboration with HHFDC, being the first step within the transfer process. The final proposed transfer of ownership plan will be presented to the Board for approval.

In response to the Board, staff and Vitus Group Representative Joelle Chui, noted the following:

1. The entire sale transfer is subject to USDA-RD's discretion and approval.

2. There were of seven (7) interested parties in attendance at the property tours, resulting in two (2) bidders submitting proposals (Micon Development and Vitus Group).

3. Real Estate is not subject to procurement, and therefore, is not required to have a minimum amount of bidders.

4. USDA's standard for transfer from an owner to a new owner is that the property is not harmed in the transfer and the Vitus Group will maintain that it is not harmful, but beneficial.

5. Vitus will do a capital needs assessment and assume the repair costs.

6. Rent increases will be covered by USDA-RD's rental subsidy, remaining affordable to the 50% and below AMI for the entire 75-year lease term. Tenants will continue to pay 30% of their income for rent.

7. Net proceeds were based on the following factors, but not limited to, project financing and feasibility (weighing about 35% - 40% in the scoring criteria), types of projects, and organization experience and capability (weighing about 25% in the scoring criteria).

Director Lim stated that in terms of the overall structure, a minimum net proceeds requirement should be put in place.

Director Jung stated that his concern is not so much on how much is gained, but rather on how much is lost – "pouring money into a black hole" – that could otherwise be used for other important purposes.

9. With the approval of this For Action, the Vitus Group will proceed in submitting its applications to USDA-RD and the HHFDC for 4% LIHTC, subject to USDA-RD's approval.

10. Annual compliance monitoring will be administered by the HHFDC.

11. Renovation costs for both projects are estimated at $5 million.

Designee Kami asked to see the projects' sources and uses when staff finds out the final financial amounts.

With no further discussion, the motion was unanimously approved.

Director Lim asked to see a broader marketing effort in terms of bidders and accountability to achieve its goals.

Chair Mesick stated that the Agency should have a sense of project value and what it is costing the Agency. Director Lim concurred.

Director Kyno stated that it would be nice to know the USDA-RD's constraints and criteria in dealing with these types of transactions.

In response to Director Larson, Executive Director Seddon stated that in addition to its list of potential prospects, those on the USDA's list were also contacted.

III. D. DISCUSSION AND/OR DECISION MAKING
Approve a Request to Utilize Funds from the Dwelling Unit Revolving Fund for Payment of Expenses for the Kahikolu Ohana Hale O Waianae Emergency, Transitional and Affordable Housing Project Site in Waianae, Oahu, TMK Nos.: (1) 8-5-27:71 and 73

Director Jung moved, seconded by Vice Chair Los Banos, to approve staff's recommendation:

That the HHFDC Board of Directors approve the expenditure of up to $200,000 of DURF funds for operational and program expenses for the Kahikolu Ohana Hale O Waianae project, while under the control of PPM, substantially as described in this For Action, subject to the following:

A. Availability of DURF funds;

B. Approval and release of funds by the Governor;

C. Compliance with all rules, regulations, and such other terms and conditions as may be required by the Executive Director.

Development Branch Chief Rick Prahler presented the For Action, stating that staff is requesting up to $200,000 in Dwelling Unit Revolving Fund (DURF) funds for the Kahikolu Ohana Hale O Waianae (Project) as a precautionary measure to cover necessary operational and program expenses that may occur in the process of procuring a new property management.

In September 2005, the Housing and Community Development Corporation of Hawaii Board (Predecessor to the HHFDC Board) awarded the Hawaii Coalition of Christian Churches (HCCC) to develop and operate the Project under a 55-year ground lease and the Project was placed in service in August 2008.

Due to some management concerns with HCCC, the lease was terminated in 2009 and members of their remaining board and management reorganized and were granted a new lease for one year effective November 2009 to October 2010. Subsequent annual amendments of the lease were issued, with the current lease set to expire on July 31, 2013.

Members from the management met with the HHFDC staff on a conversion plan to align the State's overall objective of reducing reliance on emergency and transitional shelters and utilizing permanent housing as a strategy to end homelessness, and requirements under the Department of Human Services in regard to annual homeless stipends awarded.

After numerous meetings and requests for the transition plan, the HHFDC sent a letter dated April 4, 2013, to inform Project management that the lease would not be extended beyond the July 31, 2013 termination date.

The HHFDC Private Property Management Section (PPMS) will assume asset management responsibilities for the project and procure a management contract for a one-year term with 4 one-year renewal options, for a new management firm.

The Homeless Program Office (HPO) is pending conformation from their Deputy Attorney General on the transfer of the homeless stipend of $490,000 for fiscal years ending July 31, 2014 and 2015 to a new operator.

With an estimated DURF balance of approximately $89 million, there is no financial concern in funding the $200,000 request.

In response to the Board, staff noted the following:

1. The HHFDC is currently working on an RFP that will seek a property manager that can also provide the specialized services for the Project.

2. With regard to the HPO initiative on permanent housing, the overall concept of this unique facility will need to be reassessed.

Director Lim commended the HHFDC for taking the risk to do this type of cutting edge work, stating that he felt this was a great concept and definitely a worthy experiment, and therefore, required a more thorough examination to determine whether or not the issues are more of a management or conceptual matter. Executive Director Seddon concurred, stating that the direction of the HHFDC is to further analyze the situation and to address the change in State policy.

3. The HHFDC has an obligation to keep the Project operational and will eventually pursue a Public-Private Partnership to avoid long-term management of the Project, as directed by the Board.

4. The HHFDC is open to collaboration between a property management company and a specialized services entity.

In reference to services, Director Lim commented that there is a difference between homeless and transitional homeless, and as such, there will need to be services to support them, tailored to their specific needs. Mr. Prahler added that the Project was uniquely built to address the original needs; however, with the future funding changes, the HHFDC will reassess and adjust accordingly.

5. The HHFDC is working closely with Ms. Lori Tsuhako, from the Homeless Program Office.

6. Current rents are as follows: Dorms - $160 per month; Studios (Transitional) - $500 per month; 2-bedrooms (Transitional) - $700 per month; and 2-bedroom (Permanent Rentals) - $1102 per month.

7. Rents will remain within the 30% - 50% HUD AMI.

8. Lease agreements are operations and are not approved by the Board.

Mr. Mike Kahikina, current executive director of the Project, asked for the opportunity to address the Board, expressing his frustration in the many struggles with funding, resulting in the delay of its conversion plan. Mr. Kahikina further discussed the management's continuous work towards completing the conversion plan and asked the Board for an extension.

In response to Mr. Kahikina's testimony, Executive Director Seddon stated that staff recognizes the challenges; however, the RFP will provide interested parties the opportunity to compete, allowing the HHFDC to select the best provider and manager for the Project.

Chair Mesick stated that there will be additional discussions due to the complexity of the situation and called for a vote.

With no further discussion, the motion was unanimously approved.

Director Lim asked that an available DURF balance be stated within the For Action.

Chair Mesick proceeded to the Report of the Executive Director.

IV. REPORT OF THE EXECUTIVE DIRECTOR

Chief Planner Janice Takahashi stated that HHFDC is doing okay and reported on the following: Both the House and Senate versions of the budget bill (H.B. 200) include CIP appropriations for the Waiahole Valley Water System ($7.8 million) and DURF ($14 million over the biennium); the Hula Mae Administrative bill remains alive, with some changes; and SB 86 HD 1 will not repeal the HHFDC's exemption from taxation for income earned and obligations, but rather provide an exemption for HPHA in Chapter 356D.

Ms. Takahashi announced that Chair Mesick and Director Larson received the Senate Economic Development, Government Operations and Housing Committee recommendation for approval on Monday, April 8, 2013.

With no further discussion, Chair Mesick asked for a motion to move into Executive Session.

EXECUTIVE SESSION
10:00 a.m.

Director Jung moved, seconded by Director Kyno, to convene in Executive Session at 10:00 a.m., pursuant to Section 92-5(a)(4) to consult with the board attorney on questions or issues regarding the board's powers, duties, privileges, immunities, and liabilities as it relates to the Public-Private preservation of the Hawaii Rental Housing System Revenue Bonds Program portfolio.

The motion was unanimously approved.

The Board reconvened the meeting at 12:13 p.m.

Chair Mesick announced that the Real Estate Portfolio Subcommittee was established in Executive Session and will consist of Directors Lim, Kyno, Designee Kami, and himself. Purpose of the Public-Private Partnership Subcommittee will be to provide input on the RFP for the Rental Housing System transfer of ownership.

V. ADJOURNMENT

With no further business on the agenda, Director Jung moved, seconded by Director Pulmano, to adjourn the meeting at 12:15 p.m.

The motion was unanimously approved.

For BETTY LOU LARSON
Secretary