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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, FEBRUARY 14, 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, February 14, 2013, at 9:00 a.m.

CALL TO ORDER/ ROLL CALL

Chair Ralph Mesick called the meeting to order at 9:00 a.m.

Present: Director Ralph Mesick, Chair
Director Betty Lou Larson, Secretary
Director Leilani Pulmano
Director Paul Kyno
Director Michael Ng
Designee Scott Kami for Director Kalbert Young
Designee Mary Alice Evans for Director Richard Lim

Executive Director Karen Seddon

Excused: Director Allan Los Banos, Vice Chair
Director Francis Jung
Director Kalbert Young
Director Richard Lim

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
Stan Fujimoto, Development Section Chief
Marlene Lemke, Real Estate Services Section Chief
Stuart Kritzer, Asset Manager
Dean Sakata, Housing Finance Specialist
Patrick Inouye, Housing Finance Specialist
Jocelyn Iwamasa, Housing Finance Specialist
Brain Davidson, Housing Finance Specialist
Lorna Kometani, Housing Sales Coordinator
Lorraine Egusa, Budget Analyst
Krystal-Lee Tabangcura, Procurement Specialist
Kent Miyasaki, Housing Information Specialist
Esa Pablo, Secretary to the Board

Guests: Kevin Carney, EAH Housing Inc.
Marian Gushiken, EAH Housing Inc.
Makani Maeva, Vitus Group
Keith Kato, Hawaii Island Community Development Corporation
Monika Mordasini, Michaels Development
Stacy Sur, Hawaii Housing Finance
Julian Lipsher, Department of Health
Maile Sakamoto, Coalition for a Tobacco Free Hawaii
Colin Kipper, State of Hawaii Homelessness Coordinator

QUORUM

A quorum was present.

Director Larson moved, seconded by Designee Evans, to approve the Meeting Minutes of January 10, 2013.

II. A. APPROVAL OF MINUTES 01/10/13 Regular Meeting

The motion was unanimously approved.

Designee Evans moved, seconded by Director Kyno, to approve staff's recommendation:

III. A. DISCUSSION AND/OR DECISION MAKING Approve Resolution No. 050, Authorizing the Issuance of Hula Mae Multi-Family Tax-Exempt Revenue Bonds for the Ewa Villages Phase II Project Located in Ewa Beach, Oahu, TMK Nos.: (1) 9-1-017: 076 and 077 (portion)

That the HHFDC Board of Directors approve the following:

A. Resolution No. 050, attached as Exhibit E, which provides approval to issue revenue bonds of up to $18,800,000 for the Ewa Villages Phase II project, subject to the provisions and conditions recommended in Exhibit D, and Governor preliminary approval to issue the increased revenue bond amount of $18,800,000; and

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

Housing Finance Specialist Patrick Inouye presented the For Action, stating that the attached Resolution No. 050 was amended by Bond Counsel to change the bond term of up to 20 years and reflect a specific bank as the director purchaser of the Series A-1 Bond. An amended copy of Resolution No. 050 was distributed to the Board.

The Ewa Villages Phase II (Project) is targeted for families in the 60% and 50% area median income (AMI) groups, consisting of 76 affordable rental units with a 61-year affordability period.

The Hula Mae Multi-Family (HMMF) Bond issuance is projected to be split into two series. Series A-1 will be a private placement of approximately $4.1 million with Central Pacific Bank and Series A-2 will be a private placement of approximately $11.6 million with US Bank.

A Tax Equity and Fiscal Responsibility Act (TEFRA) Hearing was conducted on September 19, 2012 for the bond issuance for the Project. No oral or written testimony was submitted.

Adoption of Resolution No. 050 satisfies the requirements to effectuate the HMMF Bond sale and authorized the issuance of tax-exempt bond funds of up to $18.8 million.

In response to Designee Evans, staff and EAH Vice President Kevin Carney noted the following:

1. The Project is part of the old Ewa Sugar Plantation Villages site in which EAH purchased from the City and County of Honolulu using Community Development Block Grant and Section 8 funds in 2003 and was divided into 3 phases over time, with this Project being Phase II; Phase I opened in November 2012 and was filled within 60 days.

2. There is no minimum period on the Bonds.

With no further discussion, the motion was unanimously approved.

Designee Evans moved, seconded by Director Kyno, to approve staff's recommendation:

III. B. DISCUSSION AND/OR DECISION MAKING Approve an Extension to Resolution No. 015,

That the HHFDC Board of Directors approve the following:

A. Extend the deadline to issue HMMF Bonds for the Ewa Villages Phase II project to June 30, 2013; and

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

Which Provides for Official Intent with Respect to the Issuance of Hula Mae Multi-Family Tax-Exempt Revenue Bonds for the Ewa Villages Phase II Project Located in Ewa Beach, Oahu, TMK Nos.: (1) 9-1-017:076 and 077 (portion)

Mr. Inouye presented the For Action, stating that the request before the Board is for a 3-month extension to Resolution No. 015 for the Ewa Villages Phase II Project, set to expire on March 31, 2013, with bond closing anticipated in the later part of February 2013.

In response to Director Larson, Mr. Inouye stated that the final amount of unused RHTF monies will be determined at the time of the closing of the bonds and made available for the next funding round of applications.

With no further discussion, the motion was unanimously approved.

III. C. DISCUSSION AND/OR DECISION MAKING
Approve an Extension to the Rental Housing Trust Fund Letter of Intent for the Ewa Villages Phase II Project Located in Ewa Beach, Oahu, TMK Nos.: (1) 9-1-017:076 and 077 (portion)

Designee Evans moved, seconded by Director Kyno, to approve staff's recommendation:

That the HHFDC Board of Directors approve the following:

A. Extend the LOI dated May 18, 2007 for the RHTF Loan for the Ewa Villages Phase II project to June 30, 2013, subject to the requirements as set forth in the For Action dated April 12, 2007 and June 9, 2011; and

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

Mr. Inouye stated that this For Action requests a 3-month extension for the RHTF Letter of Intent for the Ewa villages Phase II Project as a precautionary measure.

With no further questions, the motion was unanimously approved.

III. D. DISCUSSION AND/OR DECISION MAKING
Approve Resolution No. 051, Authorizing the Issuance, Sale and Delivery of Single Family Mortgage Purchase Revenue Bonds, 2013 Series A and Release of Pledge of Whole Loans from Bonds and Establishment of Accounts in the Indenture

Designee Evans moved, seconded by Director Kyno, to approve staff's recommendation:

That the HHFDC Board of Directors approve the following:

A. Adopt Resolution No. 051, effectuating the sale of the Single Family Mortgage Purchase Bonds, 2013 Series A, authorize the execution of all required documentation for the bond sale, and amendments to the Trust Indenture;

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

Housing Finance Specialist Dean Sakata presented the For Action, providing the Board with the program facts on the Hula Mae Single Family Mortgage Program (Hula Mae Program) and reiterated the HHFDC's plan to refund approximately $43 million in outstanding bonds (bond series of 1998 A, B, and C, 2000 A, and 2002 A and B (Bond Series)) through the public issuance of taxable bond and cash withheld within the indenture associated with the Bond Series using the Mortgage Backed Securities (MBS) pass-through bond structure as previously discussed at the December 2012 and January 2013 Board Meetings.

The HHFDC is also working with its rating agencies (Moody's, Fitch, and Standard and Poor's) to update the rating of the bond issues and indenture.

The HHFDC estimates a present value of savings of approximately $3.8 million based on the market analysis report prepared by CSG Advisors and Morgan Stanley.

The HHFDC anticipates to issue the Bonds on March 28, 2013, with full redemption of the Bond Series anticipated on April 29, 2013.

Three investment agreements have been identified to terminate due to the refunded bonds, with a fourth agreement redeeming the 2002 Bonds, with an investment ability limited to the 2005 Series Bonds.

The pledge of the Whole Loans from the repayment of the bonds is anticipated to be removed, transferring the Whole Loans within the indenture to a new account that is not tied to the repayment of the Bonds, allowing for the bonds to be more marketable to investors.

Mr. Sakata noted an amendment to the For Action, on page 4, Section H, which should read: Resolution No. 051; not 059.

Resolution No. 051 authorizes: (1) the issuance, sale, and deliver of the 2013 Series A Single Family Mortgage Purchase Revenue Bonds; (2) the execution and delivery of a Thirty-Seven Supplement Trust Indenture providing for the issuance of the 2013 Series A bonds to be entered into by the HHFDC and US Bank National Association, as successor trustee; (3) the preparation and distribution of a Preliminary Official Statement and Final Official Statement to said bonds; and (4) the Chairperson, Secretary, Executive Director and staff of the HHFDC to perform such further actions as necessary in order to effectuate issuance of said bonds, and certain other matters.

In response to Designee Evans, Mr. Sakata clarified that the HHFDC will use the higher interest received on its MBS pass-through bond structure to repay the outstanding bonds at a lower interest rate, reaping the cash received over time from principal payments.

In response to Director Larson, Mr. Sakata stated that the HHFDC is looking at its options in its use of the estimated $3.8 million in savings, which includes, but are not limited to, program reserves and/or funds to further assist first-time homebuyers within the Hula Mae Program, and/or fund its Downpayment Assistance Program.

In response to Designee Evans, Mr. Sakata stated that the financial advisors are compensated on an hourly basis, with specific items on a fixed fee schedule like proving indenture cash flow reports and advisory services per issuance.

With no further discussion, the motion was unanimously approved.

III. E. DISCUSSION AND/OR DECISION MAKING
Approve up to $365,000 from the Dwelling Unit Revolving Fund for Asbestos Abatement at Kamaaina Hale, 78-5837 Kuakini Highway, Kailua-Kona, Hawaii TMK No.: (3) 7-5-009:57

Director Larson moved, seconded by Designee Evans, to approve staff's recommendation:

That the HHFDC Board of Directors approve the expenditure of funds from the Dwelling Unit Revolving Fund not to exceed $365,000.00, which includes a contingency of approximately 10%; subject to:

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.

Asset Manager Stuart Kritzer presented the For Action, stating that staff is requesting for funding for asbestos abatement work for the remaining 68 units within the Kamaaina Hale (Project) from the Dwelling Unit Revolving Fund (DURF).

A total of four bids were received for the abatement work, with the lowest qualifying bid being selected.

There is no significant impact to the DURF with the proposed maintenance expense requested, with asbestos remediation work expected to take approximately 2 months to complete with unabated units being currently vacant.

A nearing property owner has expressed interest in taking over the Project at completion of the proposed asbestos remediation work, providing the HHFDC with a possible option to either move forward with the renovation of the units for occupancy or convert the project to a public private partnership.

In response to Designee Evans, Mr. Kritzer stated that the original Ground Lease is set to expire in 2031 and if the University of the United Nations School decides to purchase the Project, they will be taking over the Ground Lease as well. Executive Director Karen Seddon added that negotiations are ongoing.

In response to Director Kyno, Executive Director Seddon stated that the asbestos is in the floor tiles and popcorn ceilings, with most of the units previously gutted.

In response to Designee Evans, Executive Director Seddon restated that all unabated units are currently vacant.

In response to Designee Kami, Mr. Kritzer stated that unit renovation costs are estimated at $3.6 million.

With no further discussion, the motion was unanimously approved.

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III. F. DISCUSSION AND/OR DECISION MAKING
Approve the Developer As an Eligible Developer pursuant to Section 15-307-24, Hawaii Administrative Rules, and a Dwelling Unit Revolving Fund Interim Loan for the Pokai Pay Self-Help Housing Project Located in Lualualei, Waianae, Oahu, TMK Nos.: (1) 8-6-027:001 – 004, 049-054, 064-123, and 126

Chair Mesick deferred action on Item F until the March 14, 2013 Board Meeting and proceeded to Item G.

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III. G. DISCUSSION AND/OR DECISION MAKING
Approve the Proposed 2013/2014 Qualified Allocation Plan for the Low-Income Housing Tax Credit Program

Director Kyno moved, seconded by Designee Evans, to approve staff's recommendation:

That the HHFDC Board of Directors approve the following:

A. Approve the proposed amendments to the 2013/2014 QAP, subject to a public hearing;

B. Authorize the Executive Director or designated representative to conduct a public hearing on the proposed amendments to the 2013/2014 QAP;

C. After the public hearing, authorize the Executive Director to approve the Final 2013/2014 QAP, provided that no substantive amendments are made.

D. Authorize the Executive Director to establish the funding around for the State's 2014 LIHTC volume cap subject to the 2013/2014 QAP;

E. Authorize the Executive Director to take all action necessary to effectuate the purpose of this For Action.

Finance Manager Darren Ueki presented the For Action, stating that Section 42 of the Internal Revenue Code (IRC) requires: (1) each housing credit agency allocate the tax credits in accordance with the Qualified Allocation Plan (QAP); (2) certain selection criteria must be used and set forth within the QAP; and (3) the QAP must go through a (30-day) public hearing process.

On September 8, 2011 the Board approved the proposed amendments to the 2012/2013 QAP subject to a public hearing and authorized the Executive Director to approve the final 2012/2013 QAP provided that no substantive amendments were made to the QAP following that public hearing. No substantive testimony was received at the public hearing held on October 20, 2010 under the Executive Director's discretion and the 2012/2013 QAP was approved on November 2, 2011.

The current QAP remains valid and in effect through 2013 based on the Executive Director's approval on November 2, 2011. However, staff is recommending changes to the QAP to take effect for the 2013 through 2014 time period in order to recognize the input provided from the Executive Director and the Board, with greater emphasis placed on overall project efficiency and location.

The current QAP contains 20 criteria by which projects are reviewed and/or awarded points, having a point structure based on a total of 100 points; staff is proposing a point structure of 18 criteria and a total of 121 points. A comparison chart of the restructuring of the QAP points was cited, showing the contrast between the existing point structure versus the point structure being proposed.

The Board addressed the following areas of the QAP:

Criteria 1, Project's total tax credit equity and other permanent HHFDC financing/low-income unit ratio.

> Director Larson expressed concern on the large amount of points given on Criteria 1, commenting that this would urge developers to build smaller units with fewer amenities to save on cost, resulting in the development of more senior 1-bedroom units versus 3-bedroom family units. Chair Mesick and Mr. Ueki responded that the 20-point intent on the Criteria was to clearly separate projects based on the use of state resources. <u>Director Larson expressed concern that this may also result in higher rents and asked the HHFDC staff to monitor this issue</u>.

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> Designee Kami suggested to set a scoring range (e.g. The top 2% = 20 pts, and allocate down) for those with ratios close in number.

Criteria 3, The ratio of developer fee as a percentage of total project cost.

> Designee Kami commented that clarification is needed within Criteria 3 to clearly state how the percentage numbers are rounded, avoiding someone from coming in at 13.99% versus 14%. Mr. Ueki clarified that the percentage decimal points are not rounded down, but rather taken at face value; however, staff will review.

Criteria 7, Project location and market demand.

> In response to Director Larson, Mr. Ueki clarified that "immediate vicinity of the project site" would take into account amenities available within walking distance and/or near public transportation.

Criteria 9, Project will provide low-income units for a longer period than is required under Section 42 IRC.

Director Larson expressed concern for the significantly less points awarded for Criteria 9, suggesting that 3 points be added for those who elect 61 years or more, for a total of 9 points. Chair Mesick questioned the enforcement of a 61-year affordability period. Executive Director stated that statistics show that tax credit projects tend to remain affordable, adding that an affordability period of 61 years or more continues to get the highest amount of points and therefore, still encourages developers to elect for a longer time period.

Criteria 11, Project serving tenants with special housing needs.

Director Larson asked if senior housing with services would qualify as a special need housing. Mr. Inouye clarified that the hurdle rate would be higher, addressing specifically the type of services or items within the unit or project that would be provided to specifically address that need (e.g. hearing or vision impaired or veterans with posttraumatic stress).

Director Larson commented that developers design for the points and questioned the settling for the development of straight housing as opposed to trying to get projects that would improve the lives of people. Chief Planner Janice Takahashi pointed out that Criteria 2, overall project feasibility, would address that concern by giving points to projects that provide "services and amenities provided to tenants that will enhance the livability of the project."

Criteria 13, Project will provide a greater percentage of low-income units than required under Section 42 IRC.

Director Larson asked for the rational on the decrease in points. Mr. Ueki stated that more emphasis was placed on the overall project efficiency and location. Chair Mesick added that the desired result is to have more units for the subsidies that are put in the system.

Ms. Marian Gushiken, EAH Housing; Ms. Makani Maeva, Vitus Group; Mr. Keith Kato, Hawaii Island Community Development Corporation; Mr. Stacy Sur, Hawaii Housing Finance; and Mr. Julian Lipsher, Department of Health provided public testimony on the proposed QAP, respectively.

Director Larson moved, seconded by Director Kyno, to recess the meeting at 10:47 am.

RECESS
10:47 am

The motion was unanimously approved.

Chair Mesick reconvened the meeting at 10:59 am and continued with public testimony from Mr. Kato, Mr. Sur, and Mr. Lipsher.

RECONVENED
10:59 am

The Developers and Public addressed the following areas within the QAP:

Criteria 1, Project's total tax credit equity and other permanent HHFDC financing/low-income unit ratio.

Ms. Maeva suggested that the total tax credit "equity" be changed to "annual credit request" due to the uncertainty of what one's tax credit equity will be. Furthermore, the type of tax credit should be indicated, whether it is a "Federal" tax credit requested or an indicated benchmark (e.g. "assuming 85 cents on the dollar").

Criteria 2, Overall project feasibility

Ms. Gushiken commented that she felt this criteria to be unclear, lacking details needed to properly know how to assess the weight in points. Executive Director Seddon stated that the clearest and the most information provided of the overall representation of a project would result in awarding of the full points.

Ms. Maeva concurred with Ms. Gushiken, on its lack of details.

Criteria 3, The ratio of developer fee as a percentage of total project cost.

In reference to Designee Kami's comment on Criteria 3, Ms. Maeva stated that was her plan of action.

Criteria 4, Project will be receiving project-based rental assistance subsidies for the first time.

Ms. Maeva commented that such subsidies are very difficult to obtain, especially in the neighboring islands and would favor the City and County of Honolulu existing portfolio with rental assistance.

Criteria 10, Project will give preference to tenant populations.

Ms. Maeva commented that a more modern senior apartment would consider 2-bedrooms – one for its owner and caregiver – but would be penalized rather than get the full points. Therefore, suggested that it would rather read: "Elder or elderly households and/or Individuals with children and large families or whichever is greater."

Mr. Kato commented that this criterion not only increased the preference for 2-bedroom non-elderly projects, but is also mathematically unrealistic, suggesting that elderly projects be given 4 points rather than 2 points.

Criteria 12, Project's federal tax credit/low-income rental unit ratio

Ms. Maeva questioned the scaling dollar amount, being unrealistic with what construction costs are and would favor rehabilitation projects and suggested that the dollar amounts be scaled higher.

Mr. Sur expressed his concern in terms of the delay in the applications, commenting that such a delay would create a lot of pressure on the developers to figure out and adjust to the proposed changes to the QAP in such a short timeframe, suggesting that the Board use its current QAP and limit acquisition/rehabilitation projects, further working on the proposed QAP into a more conformed package for next year. Furthermore, Mr. Sur commented that efficiency with less subsidies results in lean projects and an unhappy community.

In reference to his previous testimonies given in October 2011 and December 2012, Mr. Lipsher reiterated and asked the Board to consider, perhaps as a tie breaker, adding 1 point to the QAP for developers who elect voluntarily to create a smoke-free housing.

The Board revisited discussion on the approval process and timeline of the QAP, comments stated, and concerns raised.

After much discussion, the Board, along with staff, made the following amendments to the QAP:

Page 2 of the For Action, Section E, within the Criteria 1 of the Proposed QAP Point Restructuring Chart, should read: LIHTC, RHTF, DURF, and RARF/Total ~~Cost~~ **Units**.

Criteria 1, on pages 6 and 7 should read: "Project's total **Federal** tax credit ~~equity~~ **requested** and other permanent HHFDC financing/low-income rental unit ratio.

Criteria 10, should read: "Elderly projects receive ~~2~~ 3 points.

Director Kyno moved, seconded by Designee Evans, to make the stated amendments as discussed.

The motion was unanimously approved.

With no further discussion, the main motion was unanimously approved, as amended.

IV. REPORT OF THE EXECUTIVE DIRECTOR

Chair Mesick proceeded to the Report of the Executive Director.

Chief Planner Janice Takahashi reported on the following:

SB 1025/HB 795, regarding the Hula Mae Single Family (HMSF) mortgage loan program, allowing for broader program participation by potential homeowners, adding downpayment assistance as a program feature, and make housekeeping and conforming amendments. Bills are alive and a decision was made today by the Ways and Means (WAM) Committee.

HCR 16/HCR 17 approves the Sale of the Leased Fee Interest for the one remaining lot in Kuliouou and one condo unit in Mililani. Finance hearing is pending.

There are a several bills proposing to provide more funding to the RHTF and Capital Improvement Program, while other bills, like those that would affect the conveyance tax, are being monitored.

In reference to SB 809, authorizing the issuance of General Obligation Bonds and making an appropriation for the construction and improvement of low- and moderate-income housing, Executive Director Seddon stated that although she appreciated the effort, the HHFDC did not instigate the bill.

In reference to SB 1283, SD1, providing a total of $3 million for the Waiahole irrigation system, Executive Director Seddon stated that that those funds are greatly needed.

Designee Kami suggested that staff would identify: (1) which bills listed within the Legislative Report under Exhibit C were "testified" on, "opposed" to, or being "monitored"; and (2) what the actual budgets are for each project within the Asset Management Branch Status report, Exhibit D.

With no further discussion, Chair Mesick asked for a motion to adjourn.

V. ADJOURNMENT

Designee Kami moved, seconded by Designee Evans, to adjourn the meeting at 11:52 am.

The motion was unanimously approved.

Betty Lou Larson

BETTY LOU LARSON
Secretary