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, March 13, 2014, at 9:00 a.m.

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

Present:  
Director Ralph Mesick, Chair  
Director Paul Kyno, Vice Chair  
Director Michael Ng  
Director Betty Lou Larson  
Designee Scott Kami for Director Kalbert Young  
Designee Mary Alice Evans for Director Richard Lim  
Director Allan Los Banos  

Executive Director Craig Hirai  

Excused:  
Director Leilani Pulmano, Secretary  
Director Kalbert Young  
Director Richard Lim  

Staff Present:  
Sandy Ching, Deputy Attorney General  
Janice Takahashi, Chief Planner  
Darren Ueki, Finance Manager  
Rick Prahler, Development Branch Chief  
Ann Nakagawa, Fiscal Manager  
Stan Fujimoto, Development Section Chief  
Marlene Lemke, Real Estate Services Section Chief  
Dean Sakata, Housing Finance Specialist  
Patrick Inouye, Housing Finance Specialist  
Jocelyn Iwamasa, Housing Finance Specialist  
Ken Takahashi, Development Project Manager  
Lorna Kometani, Housing Sales Coordinator  
Christopher Woodard, Property Management Coordinator  
Lorraine Egusa, Budget Analyst  
Mavis Masaki, Planner  
Krystal Tabangcura, Procurement Specialist  
Kent Miyasaki, Housing Information Specialist  
Esa Pablo, Secretary to the Board  

Guests:  
Stacy Sur, Hawaii Housing Finance  
R. J. Martin, Green Homes  
Barbara Martin, Green Homes  
Kevin Carney, EAH Inc.  
Marian Gushiken, EAH Inc.  
Gary Furuta, GSF LLC  
Jeff Furuta, GSF LLC  
Andrew Gomes, Star-Advertiser  

A quorum was present.
Vice Chair Kyno moved, seconded by Designee Evans

That the minutes of the Regular Meeting held on February 13, 2014 be approved as circulated.

The motion was unanimously carried.

Designee Evans moved, seconded by Director Larson

That the minutes of the Executive Session Meeting held on February 13, 2014 be approved as circulated.

The motion was unanimously carried.

Chair Mesick asked that agenda items A and B, be presented together.

Vice Chair Kyno moved, seconded by Director Los Banos, that staff's recommendation be approved as follows:

That the HHFDC Board of Directors approve the following:

A. Approve Resolution No. 060, attached as Exhibit F, which provides for official intent with respect to the issuance of revenue bonds up to $11,739,000 for the Ewa Villages Phase III project subject to the provisions recommended in Exhibits C and E.

B. Reserve up to $785,363 in annual Federal Low Income Housing Tax Credit (LIHTC) and $392,681 in annual State LIHTC form the non-competitive pool (4% LIHTC) for the Ewa Villages Phase III project subject to the provisions recommended in Exhibits D and E.

C. Total fees paid to the Developer, including, but not limited to, Developer Overhead, Developer Fees, Consultant Fees, and Project Management Fees, for the Project shall not exceed $1,800,000.

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

Vice Chair Kyno moved, seconded by Director Los Banos, that staff's recommendation be approved as follows:

That the HHFDC Board of Directors approve the following:

A. A Rental Housing Trust Fund (RHTF) Project Award Loan of $5,685,197 to Ewa Homes III, L.P. or its successors for the benefit of Ewa Villages Phase III Project, as approved by the Executive Director, with the terms and conditions as shown in Section III(G) of this For Action, and the issuance of the Letter of Intent subject to the following:

1. Authorization and approval by the governor of the proposed project and the release of RHTF program funds as mandated under Chapter 15-311, Hawaii Administrative Rules.

2. Execution of documentation satisfactory to the HHFDC outlining the terms and conditions of the Project Award. The documents shall specify the standard terms and conditions as required in order to meet all statutory requirements of the RHTF program and the specific terms

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and conditions that are applicable to the Applicant’s request for Project Award funds.

3. Completion of all documentation necessary and required to secure the release of RHTF funds.

4. Certification of the applicant to comply with all applicable statutory and Program requirements, including, but not limited to, Chapters 343, 103D, §103-50 and §104, Hawaii Revised Statutes, as they may relate to the use of State funds.

5. Total fees paid to the Developer, including, but not limited to, Developer Overhead, Developer Fees, Consultant Fees, and Project Management Fees, for the Project shall not exceed $1,800,000.

6. Availability of RHTF program funds.

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

At the request of the Chair, Mr. Ueki presented the For Actions, stating that the Ewa Villages Phase III (Project) consists of 52 family units.

The Project Developer’s fee was noted to be at 8.29%, with a Contractor’s Overhead profit of approximately 12.3%.

Building permits and the start of construction is anticipated in July 2015 with Project completion anticipated in April 2016.

If the proposed Resolution is approved and the bond issue is determined feasible, staff will return to the Board at a later date for an approval of its final recommendation for the issuance, sale, and deliver of the bonds.

The recommended RHTF loan terms are as follows:

1. Loan Amount: $5,685,197

2. Interest Rate: a) 0.00% Years 1 through 2 (2-year Construction Period)  
   b) 3.00% Years 3 through 52 (Permanent Period)  
   c) 0.00% for the Construction Period recommended as (i) Project operations have not commenced, (ii) eliminates the need to establish and track an interest reserve and (iii) allows time for the Project to stabilize

3. Loan Fee: None

4. Term/Maturity: 52 Years

5. Repayment: Years 1 through 2 – No Payments  
   Years 3 through 52 – 75% of Available Cash Flow after payment of expenses, senior debt service, and other recognized expenses.

6. Collateral: Junior Mortgage on Project’s leasehold interest

7. Other Terms: a) The Project’s loan to value ratio (on the
RHTF loan and all debt senior to the RHTF loan) shall not exceed 100%

b) No disbursement of Developer’s Fee until satisfactory completion of the Project
c) The RHTF Project Award is subject to the availability of funds.

Mr. Kevin Carney and Ms. Marian Gushiken, with EAH Inc., were introduced and available for questions, along with staff.

Designee Evans commented that she is very pleased with the area median income levels and with the changes made within the loan terms of the Project, commending staff for its efforts in collaboration with the developer to further negotiate project proposals. Furthermore, she commented on the 15% national standard, stating that she preferred that percentage not be used as a benchmark against which the HHFDC measures by, but rather strives to get project costs down as much as possible.

In response to Director Larson, Mr. Ueki stated that if awarded, the RHTF balance would be approximately $10 - 15 million (depending on the proceeds received from the Conveyance Tax). However, staff is looking to utilize the remaining RHTF balance to move forward on prior commitments as well as applications received in April 2013.

Designee Kami asked about the commitment and repayment of the HOME Investment Partnership Program (HOME) and Community Development Block Grant (CDBG) funds. Ms. Gushiken stated that both the HOME and CDBG funds have been committed to the Project, with a structured surplus cash flow repayment of subordinate debt.

With no further discussion, both agenda items A and B were unanimously approved.

Designee Evans moved, seconded by Vice Chair Kyno, that staff’s recommendation be approved as follows:

That the HHFDC Board of Directors approve the concept of HHFDC acquiring the Property in fee simple from GSF LLC and leasing the Property back to the Developer at $1/year for 70 years for development of the Meheula Vista Senior affordable rental housing project on approximately 7.5 acres of land at 95-1080 Lehiwa Drive in Mililani Mauka, Oahu, Hawaii, TMK (1) 9-5-002: 032 (portion), substantially as discussed in this For Action, and authorize the Executive Director to take all actions necessary to effectuate the purpose of this For Action, subject to compliance with all rules and regulations and such other terms and conditions as may be required by the Executive Director.

Director Larson recused herself from voting due to her affiliation with Catholic Charities.

Development Section Chief Stan Fujimoto presented the For Action, stating that Meheula Vista (Project) is a 301-unit senior rental located in Mililani, Mauka.

Deadlines for the Dwelling Unit Revolving Fund (DURF) loan and the City Council zoning exemptions are February 11, 2015 and August 17, 2015, respectively.

Due to unsuccessful applications for financing, the Developer, Catholic Charities Housing Development Corporation (CCHDC), in collaboration with GSF LLC, is proposing the following:

III. C. DISCUSSION AND/OR DECISION MAKING

Approve Concept to Acquire the Project Site in Fee Simple and Leaseback to the Developer for Development of the Meheula Vista Senior Affordable Rental Housing Project Located in Mililani Mauka, Oahu, TMK No.: (1) 9-5-002: 032 (portion)

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1. Conveyance of the project site to HHFDC in fee simple in return for a reduction of the DURF loan by its acquisition price of $6.75 million;

2. The lease back of the property at a $1/year for 70 years to CCHDC or other related entity for development of the Project in phases; and

3. Assumption of the DURF loan by CCHDC.

Additional approvals necessary to implement the proposed concept will be addressed in a future For Action.

Mr. Gary Furuta and Mr. Jeff Furuta, with GSF LLC, were introduced and available for questions.

In response to Chair Mesick, Mr. Fujimoto concurred, noting that appraisals were done, with the value of the land in excess of the amount of the loan reduction and that provision on the DURF loan terms and conditions for development progress will be addressed in a future For Action to the Board.

With no further discussion, the motion was approved. Director Larson recused herself from the vote.

Designee Evans moved, seconded by Director Los Banos, that staff's recommendation be approved as follows:

That the HHFDC Board approve an amendment to a Project proposal previously approved under Chapter 20 I H, HRS, to allow a reduction in the number of units subject to affordability restrictions, substantially as described in this For Action, subject to the following:

A. Thirteen (13) units shall be subject to all affordability restrictions currently in place. The remaining twelve (12) units (or lots) shall be prices at or below the 140% area median income (AMI), but not be subject to buyer restrictions (i.e., Buy Back and Shared Appreciation Equity restrictions); however, each lot shall be first offered to qualified residents for a minimum of thirty (30) calendar days pursuant to Subchapter 5 of Chapter 15-307, Hawaii Administrative Rules. Developer's entire sales program shall be subject to HHFDC’s review and approval to ensure compliance with HHFDC's Affordable Sales Program Guidelines, as applicable;

B. Approval by the City Council;

C. Approval and execution of necessary amendments to the Development Agreement and Declaration of Land Use Restrictive Covenants by the Executive Director and Developer, or other successor in interest entity approved by the Executive Director; and

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

Development Branch Chief Rick PraWer presented the For Action, reporting that since last month's meeting discussion, staff has met with the City and County of Honolulu’s Department of Planning and Permitting (DPP) regarding the Developer's request for a divorce.

The DPP's response was, “No,” due to the project entitlement being dependent
upon the 201H exemptions granted to the project as a qualifying affordable project.

It was noted that there is no precedence for what happens if the lender should foreclose. The status of the three existing owners would be uncertain. Furthermore, Mr. Prahler stated that the HHFDC has done a similar change in affordability requirements for the Kealakai Project in Kapolei, which allowed Castle and Cooke to sell to market buyers but subject to the same 140% AMI pricing restrictions and the 30-day owner occupancy requirement.

City Council approval is needed in order to amend the resolution to reflect such changes.

Mr. R.J. Martin was introduced and available for questions.

In response to Vice Chair Kyno, Mr. Prahler stated that the three current owners that bought the affordable units will remain under the affordable program restrictions, which will count against the 13 affordable units needed to sell (leaving a remainder of 10 affordable units).

Discussion ensued on the Project's momentum to achieve project completion.

In response to Director Larson, Mr. Prahler stated that the Developer is able to sell in any particular mix and alluded to the high demand for affordable housing within the areas of surrounding projects, like the Maʻili Self-Help Housing III and Pokai Bay, which have long waiting lists of potential buyers.

Chair Mesick commented that this is a good learning opportunity for staff to further explore reprogramming its 201H process to avoid future issues.

With no further discussion, the motion was unanimously approved.

Chair Mesick deferred the motion subsequent to discussion on agenda item E.

Planner Mavis Masaki stated that in light of Representative Jo Jordan's request for a prospective compensation ceiling to be enacted within House Bill 2250, House Draft 1, Designee Evans asked that this For Action be presented to the Board for consideration.

House Bill 2250, House Draft 2, allows the HHFDC Board of Directors to set the salary and benefits package of the Executive Director position, subject to a Legislative report.

Senate Bill 2799, Senate Draft 2, allows the Board to set the salary up to an unspecified amount.

Previous salary ceilings of the Executive Director position and of other Executive Directors' salaries of other agencies were noted for comparison.

It was noted that a ceiling in the form of a specific percentage of the Department of Human Resources Development (DHRD) Director's salary would allow the Board to increase the Executive Director compensation over time at the same rate at which other Executive Branch salaries increase, without requiring new legislation to be approved.

Ms. Masaki stated that the request before the Board is to: (1) approve a ceiling on the level of compensation for the HHFDC Executive Director in the form of a specific percentage of the DHRD Director; and (2) authorize staff to provide this information to the Legislature.

Designee Evans stated that the Department of Business, Economic Development and Tourism (DBEDT) strongly recommends that a compensation ceiling be
determined due to challenges the Executive Director Selection Subcommittee faced during its previous selection process. Furthermore, the Board is not allowed to reward performance due to the position salary being at the max of the current 85% of the DHRD salary cap. Currently, the Board does not have the authority to set a cap, and therefore, any recommendation would need Legislature approval.

In response to Chair Mesick, Ms. Masaki stated that the State of Hawaii is the 7th lowest in the Country in terms of the most recent salary data survey, many of which consist of smaller populations and lower state costs (e.g., Wyoming).

Chair Mesick commented that the HHFDC is very diverse, with responsibilities that differ from other housing agencies, and therefore, proposed a ceiling of 150% of the DHRD Executive Director salary.

In response to Vice Chair Kyno, Designee Evans explained that the Executive Salary Commission meets periodically to set a “salary scale” for all of the Directors and Deputies, subject to Legislature approval.

In terms of Chair Mesick’s suggestion of 150% of the DHRD Director’s salary, Director Ng suggested that perhaps the Executive Director’s salary should be pegged instead to the Governor’s salary, providing parity with the Hawaii Public Housing Authority (HPHA) Director. However, Director Ng commented that he favored the House Bill, Draft 2 version, being that it allowed the Board the flexibility and option to adjust the Executive Director’s salary and benefits (e.g., Government pay and benefits versus Private pay).

The Board discussed the pros and cons of the compensation suggestions presented. The final outcome was as follows:

Designee Evans motioned:

That the Board recommend to the Legislature that the H.B. 2250, H.D. 2 language is the Board’s preferred recommendation, but should it be the Legislature’s intent to set a cap, then they recommend parity with the HPHA Executive Director.

Designee Kami seconded.

The motion was unanimously approved.

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

Chief Financial Officer Ann Nakagawa distributed and provided an educational overview of the HHFDC income statements (See attachment) by funds.

It was noted that under the Hawaii Rental Housing System Revenue Bond Fund, there is $16.8 million in rental income (dwelling rental, parking, laundry concession, and late fees), with $8.5 million in rental project expenses to maintain the rental units. If sold, that rental income would go away.

Although the net position is negative, there is enough cash flow to pay off the bonds and debt service of the Corporation.

The Single Family Mortgage Purchase Revenue Bond Fund is an investment. The bond proceeds are loaned out through processing agencies/banks that then sell them to Fannie Mae or Ginnie Mae, converting it into a mortgage backed security (MBS), which is then repurchased by the Corporation. It is not true cash. The Corporation receives any interest and principal received on the MBS at the time of maturity. Furthermore, as rates rise, the fixed rate investment to value declines, and therefore, if the Corporation sold its portfolio today, it would be sold at a lost.

Mr. Ueki stated that the two major factors that contributed to the $4.6 million in
interest expense were due to the unanticipated prolonged movement of the bond proceeds and refunding of existing debt.

The Multi Family Housing Revenue Bond Fund receives interest income from mortgage loans and pays interest expenses on bonds issued.

The major fund in the Other Enterprise Funds is the Rental Assistance Revolving Fund. There is little income but the large expense is the rental subsidies paid to qualifying rental projects.

In reference to the chart on last page, Ms. Nakagawa stated that the HHFDC has been allocating each of the different department expenses to the different funds. Current changes of the time allocations will be reflected during the 2015 Fiscal Year.

Chair Mesick asked on the outcomes of having no Rental Housing Portfolio. Ms. Nakagawa stated that those fund expenses would either be allocated to another fund or disappear.

Designee Evans asked on the highlighted columns of C21 through C40. Ms. Nakagawa stated that those expenses are directly allocated to those departments, whereas the others are blended.

Designee Kami asked if there was any areas to be looked at to ensure sufficient revenues were generated in the various programs to cover anticipated expenses. Ms. Nakagawa stated that areas of concern would be with DURF, where funds are not revolving (e.g., Waiahole Land Support and Villages of Kapolei) and the Rental Assistance Program (e.g., inadequate funding to cover long term rental subsidy), which are currently being worked on.

Executive Director Hirai stated that HHFDC would look at possible ways income could be generated from the bond piece and through other new programs, like the Transit Oriented Development (TOD).

Chair Mesick commented that he believed this to be a good time to start thinking about the operating model from a financial perspective to see and understand how it works, identifying possible areas where changes may need to be made (e.g., increasing program fees) in order to maintain and better allocate the resources received.

In reference to the RHTF, Designee Kami suggested that rather than doing a total residual, individual projects could have a small fixed base return to help sustain the program. Mr. Ueki stated that staff is currently looking at its lending fee charges to further generate revenue and other charges of various housing agencies.

With no further discussion, the Chair proceeded to the Report of the Executive Director.

Mr. Hirai reported that administrative bills HB 2250, HD 2, pertaining to the Executive Director compensation ceiling (as previously discussed in agenda item E) and the Hula Mae Multi-Family Bond, increasing authorization from $50 million to $1 billion, are still alive. However, the RHTF was reduced from $5 million to $2.5 million in the Housing Budget, with the LIHTC Loan Program at $7.8 million (as originally requested).

Chair Mesick asked about the City’s CDBG funds and how the HHFDC could create a partnership to further accommodate both needs of the City and State. Executive Director Hirai stated that the HHFDC has already started conversations. Ms. Takahashi added that the HHFDC has quarterly meetings with all the Counties on its CDBG programs.
Director Larson asked on how the TOD's economic/business development components would fit in with the 201H process. Ms. Takahashi stated that the City is working on surrounding zoning areas of train stations (0.5 mile radius), looking at higher density type development and mixed-used housing with commercial industrial uses, which could be an integral part of housing projects.

Discussion ensued on the pros and cons of the 201H process, which is sometimes viewed as being a difficult tool to work with in regard to its limitations (e.g., Green Homes of Lualualei Project); however, on the other hand, the 201H could provide fee reductions at the County level, allowing for more affordable housing to be created by reducing infrastructure costs. (e.g., Koʻoloaʻula Project).

With no further discussion, Designee Evans moved, seconded by Director Los Banos to adjourn the meeting at 10:25 a.m.

The motion was unanimously approved.