The Board of Directors (Board) of the Hawaii Housing Finance and Development Corporation (HHFDC) met for a regular meeting at 677 Queen Street, on Thursday, February 12, 2015, at 9:00 a.m.

Acting Chair Edwin Taira called the meeting to order at 9:18 a.m. due to a lack of quorum. Those present and excused were as follows:

Present:  Director Edwin Taira, Acting Chair  
Director Rona Fukumoto, Secretary  
Director Audrey Abe  
Director Melvin Kahele  
Designee Scott Kami for Director Wesley Machida  
Executive Director Craig Hirai

Excused:  Director Leilani Pulmano, Chair  
Director Luis Salaveria

Staff Present:  Sandra Ching, Deputy Attorney General  
Colette Honda, Deputy Attorney General  
Janice Takahashi, Chief Planner  
Darren Ueki, Finance Manager  
Rick Praehler, Development Branch Chief  
Ann Nakagawa, Chief Financial Officer  
Stuart Kritzer, Asset Management  
Marlene Lemke, Sales and Counseling Section Chief  
Patrick Inouye, Housing Finance Specialist  
Jocelyn Iwamasa, Housing Finance Specialist  
Ken Takahashi, Housing Development Specialist  
Christopher Woodard, Property Management Coordinator  
Lorraine Egusa, Budget Analyst  
Lorna Kometani, Housing Sales Coordinator  
Kent Miyasaki, Housing Information Specialist  
Krystal-Lee Tabangcura, Procurement Specialist  
Esa Pablo, Secretary to the Board

Guests:  Aaron Eberhardt, EAH  
David Nakamura, Mutual Housing  
Makani Maeva, Vitus Group

With the arrival of Designee Kami, a quorum was declared present.

Director Fukumoto moved, seconded by Director Kahele

That the regular meeting minutes of January 8, 2015 be approved as circulated.

The motion was unanimously approved.
The approval of the executive session meeting minutes of January 8, 2015 was deferred to the next meeting.

Director Abe moved, seconded by Director Kahele

That the special meeting minutes of January 22, 2015 be approved as circulated.

The motion was unanimously approved.

Director Fukumoto moved, seconded by Director Abe

That the HHFDC Board of Directors approve the following:

A. Reduce the Project’s affordability restriction at 60% AMI and below to 95 units from 116 units, in accordance with the breakdown outlined in Section II – Project Information.

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

Finance Manager Darren Ueki presented the For Action, stating that the existing Kalani Gardens (Project) was originally approved for a reservation of Low Income Housing Tax Credits (LIHTC) and Hula Mae Multi-Family (HMMF) Bonds based upon all of its 116 units restricted to those earning 60% and below the area median income (AMI).

However, the Project overestimated its ability to transition over-income units to LIHTC compliant units, which has resulted in contradictory of program requirements. Therefore, a reduction of 21 LIHTC units is being requested.

The reduction in units will prompt an LIHTC equity fall of $713,142, which will be offset by an $816,000 Federal Energy Tax Credit obtained.

The Project anticipates finalizing its bond documents in March 2015, with construction to start in April 2015. Completion of the first building is anticipated in May 2015, with the final building being completed in December 2015.

Mr. Ueki opened for questions, along with Mr. Aaron Eberhardt, on behalf of the Project.

Acting Chair Taira asked if vacant units could be rented to “non-eligible” tenants in the future. Mr. Ueki stated that the LIHTC program has certain requirements for the “next available” units. Mr. Eberhardt stated that as a non-profit, its mission is to service those at 60% and below the AMI, and therefore, its intake will be primarily for low-income tenants. However, without the reduction of units in place, the Project would be in default of its LIHTC affordability commitment.

In reference to Acting Chair Taira’s question, Designee Kami asked if it would be possible for the Project to work towards restoring the initial intent of the Board and as the units become vacant, restrict those units at 60% and below the AMI, eventually getting back to 100%, as originally approved. Mr. Eberhardt concurred, stating that the Project is willing to write that within its regulatory agreement; however, such a provision would conflict with other program requirements.

Designee Kami asked for clarification on what provisions would conflict with the
programs requirements. Mr. Eberhardt stated that the Project will continue to analyze and find a solution.

Housing Finance Specialist Patrick Inouye explained that under the Low Income Housing Tax Credit (LIHTC) program, if the income of the tenants in a unit previously verified increases above the applicable income limitation, the unit may continue to be counted as a low-income unit. However, a qualified low-income tenant must occupy the next unit of comparable or smaller size, and the rent continues to be restricted for the initial unit.

Mr. Ueki alluded to possible program violations that the Project would face if there were to be a restriction placed to restore the Board’s original standard of 100% of the units at 60% and below the AMI.

Discussion ensued on how the Board might amend the motion to reflect the Board’s original intent without jeopardizing the Project. Executive Director Craig Hirai suggested that any amendment to the recommendation be made at the discretion of the executive director to effectuate the intentions of the Board.

Mr. Ueki stated that he did not believe Mr. Eberhardt was in a position to concur with the Board’s intent without consulting with the Partnership. However, the Board could amend the recommendation as suggested by Executive Director Hirai and staff would report to the Board of any issues raised.

Designee Kami moved, seconded by Director Fukumoto

That the Board convene in executive session at 9:34 a.m. pursuant to Section 92-5(a)(4), Hawaii Revised Statutes, to consult with the board’s attorney on questions and issues pertaining to the board’s powers, duties, privileges, immunities, and liabilities.

The motion was approved unanimously.

The Board reconvened in regular session at 10:03 a.m., approving staff’s recommendation as is.

The motion was approved unanimously.

Director Kahele moved, seconded by Director Fukumoto

That the HHFDC Board of Directors approve the following:

A. Extend the deadline to issue HMMF Bonds for the Ko’olau’ula Phase II project to February 28, 2016; and

B. 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 approvals for extensions are procedural and allow staff to see progress made in three basic areas of site control, zoning approvals, and financing commitments. Extension durations are typically 18-24 months.

Timeline of events were noted with bond closing in April 2015 and construction starting in May 2015.

Mr. Ueki reported that the Ko’olau’ula Phase II (Project) is being built on state land and has a long-term lease. Although the project has received its zoning approvals, building permits are pending approval. The Kooloaula II Limited Partnership continues to work with Bank of Hawaii and Alliant Capital as a prospective investor and syndicator for the LIHTC, respectively.
The Inducement Resolution is required under Section 1.150-2 of the Treasury Regulations before the project’s sponsor acquires or commences construction of the development.

Resolution No. 059 does not authorize the sale of tax-exempt bonds for the Project. Approval of the actual issuance, sale, and delivery of the bonds will be presented for Board approval at a subsequent meeting, if deemed feasible.

Mr. Ueki opened for questions, along with Mr. David Nakamura, on behalf of the Project.

The motion was unanimously approved.

Director Fukumoto moved, seconded by Director Kahele

That the HHFDC Board of Directors approve the following:

A. Approve the modified terms to the April 11, 2013 For Action to allow for a staggered closing of the Kekuila Gardens and Nani O Puna Affordable Housing Projects.

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

Asset Manager Stuart Kritzer presented the For Action, stating that due to the extraordinary circumstances presented by the lava flow near Pahoa, Vitus Group, Inc. is unable to obtain property insurance for Nani O Puna. Therefore, staff is requesting that the HHFDC proceed with the transaction with staggered closings to allow additional time to complete the transfer of both projects.

Vitus Group has agreed to provide a $200,000 deposit, which will be forfeited as liquidated damages in the event that the Nani O Puna transfer does not close within 12 months of the Kekuila Gardens closing.

The deposit will be in the form of a promissory note from Vitus Group, Inc. HHFDC will have the unilateral right to extend the closing period by up to six months.

Mr. Kritzer opened for questions, along with Ms. Makani Maeva, on behalf of the Vitus Group.

In response to Director Kahele, Mr. Kritzer stated that the liquidated damage terms were negotiated between Vitus Group, Inc. and staff.

Executive Director Craig Hirai asked what happens to the item reserved monies at the closing of the Kekuila Gardens. Ms. Maeva stated that the monies would go to the HHFDC.

In response to Designee Kami, Ms. Maeva clarified that the sale price of Kekuila Gardens is not predicated upon any value for Nani O Puna.

Ms. Maeva further explained that both assets have to be approved by USDA for the transfer. According to the USDA overwriting rule, the asset cannot be harmed in the transfer. Therefore, the USDA will not approve the transfer until proof of insurance is obtained.

Director Abe asked if there was a timetable for the closing of the transfers. Mr. Kritzer reiterated that Vitus Group, Inc. will have 12 months to close, with one 6-month extension, for a total of 18 months. Ms. Maeva alluded to the current circumstances being unpredictable and therefore, the timing is uncertain.

Mr. Ueki clarified that the projected closing for the Kekuila Gardens is in June
2015, with closing for Nani O Puna to follow 12 months from that date.

With no further discussion, the motion was unanimously approved.

Executive Director Hirai stated that this review is something staff provided for the Board last year and is perhaps something the Board may want to consider doing on an annual basis.

Chief Financial Officer Ann Nakagawa distributed and provided an overview of the balance sheets of the HHFDC Audited Financial Statements June 30, 2014, noting that the next session would cover the income statements.

Ms. Nakagawa discussed the purpose, assets, and liabilities of the proprietary and government funds as follows:

The purpose of the Rental Housing Trust Fund (RHTF) is to provide equity gap low interest loans or grants to qualified owners and developers. Monies are loaned out with interest rates ranging from 0% - 3%, for a 35-year term. Board approved obligations and outstanding commitments are noted within the HHFDC Program Resources report provided within the monthly meeting packets.

Liabilities of the RHTF are small, mainly consisting of accrued vacation for staff assigned to the fund.

Funding for the RHTF is received through the conveyance tax – legislatively increased from 30% to 50%, closing of sale units, and CIP fund infusions from the Legislature. According to the Governor’s Address, a $100 million RHTF infusion is under consideration.

The purpose of the Dwelling Unit Revolving Fund (DURF) is to carry out the activities of the Housing Development program, which includes acquisition of real estate, development and construction, interim and permanent loans to developers, and the administrative expenses to carry out those purposes. The HHFDC generally develops through partnerships rather than direct developments. Therefore, most of the funding from DURF is utilized for interim loans.

Also included within the DURF funds is the Repurchase Fund, which is utilized in situations to repurchase homes from lessees that do not comply with the requirements set forth.

The HHFDC has three land leased rental projects which are Nani O Puna (Pahoa, Hawaii), Kamaaaina Hale (Kailua, Kona, Hawaii; sold in August 2014), and Kahikolu (Waianae, Oahu). Although shown as a separate fund, the Kekuulani Gardens (Kapolei, Oahu) is also within the DURF.

Liabilities of the DURF are primarily related to the Kukui Gardens and the dedication of infrastructure to the City and County of Honolulu for the Villages of Kapolei, and Waiahole Valley.

Being a revolving fund, repayments from DURF loans are used to issue new loans. Occasionally, DURF does receive CIP infusions.

The purpose of the Rental Housing System Revenue Bond Fund (RHSRBF) was to alleviate the shortage of rental housing opportunities and provide taxes and bond financing for HHFDC to own affordable rental projects. The HHFDC currently has six affordable rental projects – La‘ilani (Kailua, Kona, Hawaii); Honokowai Kauhale (Lahaina, Maui); Kamakee Vista (Honolulu, Oahu); Pohulani (Honolulu, Oahu); Kauhale Kakaako (Honolulu, Oahu); and Kekuulani Courts (Kapolei, Oahu).

Funding for the RHSRBF fund is received through rental receipts from the rental projects. Currently, the HHFDC is having difficulty in bringing up its rental
receipts sufficiently to cover all operational costs of the rental projects, which continues to be analyzed by staff.

Acting Chair Taira asked how the RHSRBF shortfall is currently being sustained. Ms. Nakagawa stated that cash from the initial bond issuance is currently covering the depreciation. However, the rental projects are in need of significant capital improvements and therefore, further discussion with the Board is needed as to whether those projects are to be sold or not.

The purpose of the Single Family Mortgage Purchase Revenue Bond Fund (SFMPRB$F) is to offer eligible first-time homebuyers with mortgage financing at competitive rates. Bonds are issued and loaned out. Although special funded, the SFMPRB$F is a revolving fund in that the principal and interest repayments from the mortgages are used to pay off the bond.

The Multi-Family Housing Revenue Bond Fund (MFHRBF) provides low interest rate financing for construction and/or acquisition and rehabilitation for rented projects. HHFDC acts as a conduit issuer and all responsibility is with the developer.

Various Enterprise Funds are inactive, but are still required to be accounted for until programs are repealed by the Legislature. The largest fund is the Rental Assistance Revolving Fund (RARF). The funds appropriated by the Legislature are used to make rental subsidies to qualified tenants.

The Housing Finance Revolving Fund (HFRF) is another enterprise fund that provides financing opportunities for first-time homebuyers and developers of affordable housing projects, which includes the Mortgage Credit Certificate program and the Low Income Housing Tax Credit program. Majority of the administrative expenses come out of the HFRF.

Other Enterprise Funds include the Kekuilani Gardens Project, Hamakua (Inactive; awaiting legislative repeal), and Waialua (Inactive; awaiting legislative repeal).

Government Funds are primarily federal grants, with the largest fund being the General Obligation Fund, which are appropriated monies from the Legislature that have not yet been transferred to the HHFDC. Other Government Funds include the HOME Investment Partnership Program, Neighborhood Stabilization Program Fund, Tax Credit Assistance Program Fund, National Foreclosure Mitigation Counseling Program Fund, and the Emergency Homeowners' Loan Program Fund.

Discussion ensued on the historical percentages of conveyance taxes determined by the Legislature. Executive Director Hirai stated that a bill in the Legislature is requesting that the conveyance tax received be capped at $38 million. Based upon the current 50%, the HHFDC anticipates receiving $40 - $50 million from conveyance taxes and closing of sale units.

Acting Chair Taira asked that the next session include visuals and explained in non-accountant terms, covering how much money HHFDC gets, how much it can spend, and how the money is distributed.

As a self-sustained entity, Designee Kami added that a projection of the Corporation’s operation costs - salaries, retirement, health, etc., going forward, would also be helpful.

Executive Director Hirai stated that next session will cover the consolidated statements that will show the impact of the cost allocations through the various funds.

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

In regard to the Legislature, Executive Director Hirai reiterated the Governor’s proposal of $100 million for the RHTF, being the primary focus of the HHFDC.

With an increase to the RHTF, Director Fukumoto asked if there would be enough staff. Mr. Ueki stated that the Finance Branch is looking to hire one more staff member. The amount of activity is expected to increase, but is manageable. Staff will keep the Board apprised.

Executive Director Hirai reported that he attended the Riverside Apartments dedication in Hilo, Hawaii. While there, together with Representative Mark Hashem and Mr. Ben Park, from the Hawaii Public Housing Authority, met with the Hawaii Civil Defense to discuss the impacts of the lava flow in regard to the Nani O Puna project and the Hilo rental market. A solution to increase the supply of rental housing in East Hawaii continues to be analyzed.

Director Fukumoto asked if there were any federal or state funding available for the situation on the Big Island. Executive Director Hirai stated that no funding is expended unless justified as an emergency. Any federal or state emergency assistance requested is at the discretion of the County.

In response to Designee Kami, Executive Director Hirai stated that there is a need for affordable rental housing statewide, in which the Transit Oriented Development (TOD) offers by providing a unique opportunity for affordable rentals to be built near surrounding train stations owned by the various State agencies.

Discussion ensued on the TOD plans within the designated areas of the various Bus Transit Stations and the value and for inclusions of parks and recreational facilities.

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

Designee Kami moved, seconded by Director Kahele

That the meeting be adjourned at 11:04 a.m.

The motion was unanimously approved.

For RONA FUKUMOTO
Secretary