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, NOVEMBER 12, 2015
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 a regular meeting at 677 Queen Street, on Thursday, November 12, 2015, at 9:00 a.m.

Chair Leilani Pulmano called the meeting to order at 9:15 a.m. Those present and excused were as follows:

Present: Director Leilani Pulmano, Chair
Director Melvin Kahele
Director Audrey Abe
Director Milo Spindt
Director Luis Salaveria
Director Roderick Becker (for Director Wesley Machida)

Executive Director Craig Hirai

Excused: Director Edwin Taira, Vice Chair
Director Rona Fukumoto

Staff Present: Sandra Ching, Deputy Attorney General
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Stan Fujimoto, Development Section 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
Glori An Inafuku, Housing Finance Specialist
Lawrence Pulido, Housing Finance Specialist
Ken Takahashi, Housing Development Specialist
Christopher Woodard, Property Management Coordinator
Lorna Kometani, Housing Sales Coordinator
Lorraine Egusa, Budget Analyst
Kent Miyasaki, Housing Information Specialist
Krystal Tabangcura, Procurement Specialist
Esa Pablo, Secretary to the Board

Guests: Stacy Ellamar, Pacific Resource Partnership
Carl Cunningham, Mark Development, Inc.
Franco Mola, Coastal Rim Development
Craig Watase, Mark Development
Marian Gushiken, EAH

A quorum was present.

Director Salaveria moved, seconded by Director Spindt

That the minutes of the Regular Meeting held on September 10, 2015 be approved as circulated.

The motion was unanimously approved.
The approval of the minutes of the Regular Meeting held on October 15, 2015 was postponed to the next Board Meeting.

Staff’s recommendation was presented as follows:

That the HHFDC Board of Directors approve the following:

A. Extend the deadline to issue HMMF Bonds for the Kekuilani Gardens project to November 30, 2016; and

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

Director Salaveria moved, seconded by Director Abe

That staff’s recommendation be approved.

Finance Manager Darren Ueki presented the For Action, stating that the Kekuilani Gardens (Project) is an existing 56-family unit located in Kapolei, Oahu. The original approval date for the Project was November 2013.

Director Salaveria questioned the estimated construction timeline. Mr. Ueki stated that the For Action should reflect a project completion date of February 2017, not 2016.

Based on the progress made in site control, zoning approvals, and securing financing commitments, staff is recommending a 12-month extension request to November 30, 2016, primarily due to the pending U.S. Department of Agriculture (USDA) approval for a USDA loan assumption and transfer of the U.S. Department of Housing and Urban Development (HUD) Project-Based Rental Assistance.

Mr. Ueki opened for questions.

Director Salaveria asked that the Project’s financing stack be noted. Mr. Ueki stated that the HHFDC currently owns the Kekuilani Gardens project, primarily receiving a financial stack of Low Income Housing Tax Credits (LIHTC); an assumption of a USDA Loan; Dwelling Unit Revolving Fund (DURF) loan, which would be extinguish with the sale of the Project; and rent subsidies from USDA. Sale of the Project is pending USDA approval.

In response to Director Salaveria, Mr. Ueki stated that there have been multiple extensions for this Project – one being in November 2014 and another in May 2015. (6-month extensions)

Director Abe asked when staff anticipated approval from USDA. Mr. Ueki stated that the timing of USDA’s approval is uncertain due to a staff shortage. However, staff is in contact with the Developer on a regular basis and hopes the 12-month extension is sufficient.

In response to Director Abe’s follow up question. Mr. Ueki stated that the sale pricing aspect of the transaction is not under the purview of the Finance Branch, but rather by Asset Management. Executive Director Hirai added that both the Asset Management and Finance Branch are to come together at closing.

Director Salaveria asked if the USDA approval is the largest hurdle at this point. Mr. Ueki responded yes, from the perspective that USDA provided a majority of
the financing for the Project, controlling the outcome of what the HHFDC and the proposed buyer would be allowed to do based on its offer. Executive Director clarified that this Project is part of the Nani O Puna transaction, being a lease sale issue rather than a financial issue.

In response to Director Spindt, Mr. Ueki stated that a private contractor built the Project; turn keyed over to the Hawaii Housing Authority and followed the HHFDC during the split with the Hawaii Public Housing Authority in 2006.

With no further discussion, the motion was unanimously approved.

Staff’s recommendation was presented as follows:

That the HHFDC Board of Directors approve the following:

A. Extend the deadline to issue HMMF Bonds for the Kunia Village project to May 31, 2016; and

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

Director Salaveria moved, seconded by Director Abe

That staff’s recommendation be approved.

Mr. Ueki stated that the Kunia Village (Project) is a rehabilitated/new construction 82-family unit located in Kunia, Oahu. The Project was originally approved in November 2013.

Based on the progress made in site control, zoning approvals, and securing financing commitments, staff is recommending a 6-month extension request to May 31, 2016, primarily due to the pending USDA approval for a Section 515 loan, Section 538 loan guarantee, as well as its Project-Based Rental Assistance.

Mr. Ueki opened for questions.

In response to Director Salaveria, Mr. Ueki responded that the Developer was not present.

Director Salaveria asked for clarification on the Project Budget. Mr. Ueki stated that if the land acquisition cost was taken out, the contingency would be approximately 6%. Interim and soft costs were noted to include legal and entitlement fees.

With no further discussion, the motion unanimously approved.

Staff’s recommendation presented as follows:

That the HHFDC Board of Directors approve the following:

A. Resolution No. 078, attached as Exhibit E, which provides approval to issue revenue bonds of up to $11,739,000 for the Ewa Villages Phase III aka Villages of Moa’e Ku Phase III project, subject to the provisions and conditions recommend in Exhibit D and

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

Director Abe moved, seconded by Director Kahele
That staff’s recommendation be approved.

Mr. Ueki clarified that this For Action requests a new resolution approval for the Moa’e Ku Phase III (Project), consisting of 52-family units located in Ewa Beach, Oahu, with final approval of the bond issuance anticipated to be in the later part of November 2015.

The details of the Hula Mae Multi-Family (HMMF) Bond Program and previous financing approvals were noted.

Higher construction costs prompted a $2,016,514 net increase in the Project Budget, primarily due to increases in the Vertical Cost and Site Work Costs. However, the higher costs are to be covered by increased usage of approved bond cap and an $800,000 increase in HOME funds received from the City and County of Honolulu.

Two Tax Equity and Fiscal Responsibility Act (TEFRA) hearings were conducted in May 2014 and November 2015. No public comments were received.

Resolution No. 078 authorizes the issuance, sale, and delivery of the HMMF Bonds of up to $11,739,000 for the Project.

Mr. Ueki opened for questions, along with Ms. Marian Gushiken, on behalf of the Project.

Director Salaveria asked that the TEFRA hearing process be noted. Mr. Ueki stated that a TEFRA hearing is held to notify the public of anticipated uses of private activity bond cap for a particular activity, as well as provides the public an opportunity to speak on the activity, as required by law. The second TEFRA hearing held was due to a name change.

Director Kahele asked about a manager’s unit on the site. Ms. Gushiken stated that although there is no manager unit in Phase III, there is a manager’s unit in Phase I and a maintenance unit in Phase II.

In response to Director Kahele, Ms. Gushiken stated that EAH stands for Ecumenical Association for Housing.

With no further discussion, the motion was unanimously approved.

Staff’s recommendation was presented as follows:

That the HHFDC Board of Directors approve the following for the Na Lei Hulu Kupuna affordable rental housing project for seniors on approximately 16,837 square feet of land at 610 Cooke Street in Kakaako, Oahu, Hawaii, on TMK (1) 2-1-051: 004 and 038, substantially as described in this For Action:

A. Na Lei Hulu Kupuna, L.P., or other successor entity approved by the Executive Director, as an Eligible Developer pursuant to Section 15-307-24, HAR;

B. Extension of the ground lease from the City and County of Honolulu to HHFDC at $1.00/year for TMK No. 2-1-051: 038 to enable HHFDC to issue a new sublease to the Developer at $1/year for 65 years for the Project;

C. Issuance of a new amended and restated sub-lease for 65 years at $1.00/year to the Current Owner, Na Lei Hulu Kupuna, L.P., or other entity approved by the Executive Director;

D. Consent to the assignment of the new Restated Sub-Lease from Na Lei Hulu Kupuna, L.P., to the Developer for the Na Lei Hulu Kupuna, L.P., or other successor entity approved by the Executive Director.
E. Authorize the Executive Director to take all actions necessary to effectuate the purposes of this For Action;

Subject to the following, unless otherwise approved at the sole discretion of the Executive Director;

F. The conditions discussed in the above Sections III. D. to III. M. of this For Action;

G. The Project shall not be sold, transferred, or otherwise used to satisfy the reserved housing or affordable housing requirement for any other project at any other location;

H. Plans and specifications for rehabilitation of the Project shall be submitted to the Disability and Communication Access Board for approval in compliance with Section 103-50, HRS;

I. Payroll affidavits for rehabilitation of the Project shall be submitted to HHFDC in compliance with Chapter 104, HRS;

J. Approval as to form of necessary documents by the Department of Attorney General and execution by the Executive Director;

K. Commencement of construction of the Project by December 31, 2017, unless otherwise extended at the sole discretion of the Executive Director;

L. Completion of the Project by December 31, 2018, unless otherwise extended at the sole discretion of the Executive Director; and

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

Director Salaveria moved, seconded by Director Kahele

That staff’s recommendation be approved.

Development Section Chief Stan Fujimoto stated that the Na Lei Hulu Kupuna (Project) is an existing 76-senior unit project located on two parcels. One parcel is owned by the City and County of Honolulu (City) and the other parcel owned by HHFDC.

On September 28, 2015, Na Lei Hulu Kupuna, L.P. (Developer) requested a new sublease at $1.00/year to expire concurrently with the City’s Lease to HHFDC on November 26, 2056. However, on October 1, 2015 the Developer amended its request for a new sublease at $1/year for 65 years (Restated Sub-Lease).

HHFDC proposed that the Restated Sub-Lease include the following provisions:

- In the event of a foreclosure, should the affordability restriction be removed from any of the units, the base lease rent of $1.00/year shall be increased to market lease rent at 8% of the fair market value of the Property per year, prorated based upon the number of units not used as affordable units.

- Should the affordability restriction be removed from any of the units, if HHFDC approves any General Excise Tax (GET) exemptions for rehabilitation of the Project, HHFDC reserves the right to recapture from the Developer and/or the Project, a prorated portion of any exemptions.
from GET approved by HHFDC based upon the units not used as affordable units.

- Subject to a foreclosure exception, the lessee shall not benefit financially from any conveyance or re-financing of the Project, unless approved in writing by the lessor, except in the event of a sale of lessee's leasehold interest in the Project, the lessee may recapture documented advances made for the Project, excess sales proceeds will be placed in escrow to create affordable housing in Hawaii, and Project reserves must be transferred to the buyer, and HHFDC reserves the right to impose less, different or additional conditions to any extensions to the Restated Sub-Lease.

Mr. Fujimoto opened for questions, along with Mr. Craig Watase and Mr. Carl Cunningham, on behalf of the Project.

In response to Director Salaveria, Mr. Fujimoto stated that Mark Development Inc. is the current operator of the Project.

Discussion ensued on the Project rehabilitation. Mr. Watase stated that during the 3 years of managing the Project, $1.5 million has been used for improvements on the Project through the reserve funds. Although some improvements were done to bring the Project up to code and ADA compliant, much more work is needed; hence, having the request before the Board. Additional rehabilitation work will include both interior improvements – new appliances, carpeting, paint, cabinets, counter tops – as well as improvements to the exterior. Reroofing work was completed with the installation of voltaic panels to help keep operational costs down.

In response to Director Abe, Mr. Watase stated that based on the acquisition price on a cost per unit basis, the Acquisition Cost percentage and the Developer's Fee over the estimated 3 to 4 year rehabilitation is fairly low.

Director Salaveria asked on the percentage of occupancy and accommodations for the proposed rehabilitation. Mr. Watase stated that the Project is 100% occupied. New tenant rents were evaluated and adjusted accordingly to the incomes of existing tenants and the Rental Assistance Program funds received.

In response to Director Kahele, Mr. Watase stated that the rehabilitation budget includes cost for the housing of tenants during unit renovations.

Director Salaveria asked if the Project has a waiting list. Mr. Watase stated that the Project does have a waiting list and attracts seniors that have aged with the Project, resulting in a turnover of about 3 tenants per month due to death or nursing homes. (average age of tenants are in the high 80's)

Director Salaveria commented that there is need for affordable housing for both seniors as well as the younger generations.

Mr. Watase concurred, stating that although there is a high demand for senior housing, funding remains a struggle in addressing the fire and safety codes and special tenant accommodations needed when replacement reserves are limited.

Director Abe asked about the security for the Project. Mr. Watase stated that nighttime security costs were too high (estimated costs were $3000/month) for its operating budget to carry. However, installation of security cameras and locks with the FOB system, has allowed better security to be maintained.

Director Salaveria asked how quickly the Project could start on its rehabilitation work. Mr. Watase stated that rehabilitation work is anticipated to commence by June 2016.
With no further discussion, the motion was unanimously approved.

Staff's recommendation was presented as follows:

That the HHFDC Board of Directors approve the following for the Kapolei Mixed-Use Development affordable housing project, in Kapolei, Oahu, Hawaii, TMK: (1) 9-1-088: 021, substantially as discussed in this For Action:

A. Certification of Coastal Rim Properties, Inc., or other successor entity approved by the Executive Director, as an Eligible Developer pursuant to Section 15-307-24, HAR;

B. Development of the Kapolei Mixed-Use Development project with the proposed exemptions from statutes, ordinances and rules of the City and County of Honolulu as recommended for approval, pursuant to Section 201H-38, HRS;

C. Execution of a development agreement and land use restrictions required for such exemptions as approved by the Executive Director; and

D. Authorize the Executive Director to take all actions necessary to effectuate the purpose of this For Action;

Subject to the following, unless otherwise approved at the sole discretion of the Executive Director;

E. Except for a resident manager’s unit, all of the units in Phase 1 shall remain affordable to senior households between 30% and 60% or below the AMI for 61 years form the date of the certification of occupancy of Phase 1. More than half of the units in Phase 2 shall be affordable to households between 100% and 120% or below the AMI. Land use restrictions acceptable to the Executive Director shall be placed on the fee simple title to the property to ensure that the units remain affordable for the period of affordability.

F. The Project shall not be sold, transferred, or otherwise used to satisfy reserved housing or affordable housing requirement for any other project at any other location;

G. Execution of a development agreement and restrictions to reflect the requirements of this For Action as acceptable to the Executive Director, including recordation of land use restrictions at the Bureau of Conveyances, within six (6) calendar months from the date of this For Action, unless otherwise extended at the sole discretion of the Executive Director;

H. commencement of the Project by December 31, 2017, unless otherwise extended at the sole discretion of the Executive Director;

I. Completion of the Project by December 31, 2019, unless otherwise extended at the sole discretion of the Executive Director; and

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

Director Abe moved, seconded by Director Kahele
Development Branch Chief Rick Prahler stated that the For Action title should reflect the same title as the Agenda, to read as follows:

Approve the Certification of Coastal Rim Properties, Inc., or Other Successor Entity Approved by the Executive Director, as an Eligible Developer and the Proposed Kapolei Mixed-Use Development for Affordable Housing Project, Located in Kapolei, Oahu, TMK No.: (1) 9-1-088:021. Including the Developer’s Proposed Exemptions, for Processing Under the Provisions of Chapter 201H, Hawaii Revised Statutes

Mr. Prahler provided a brief overview of the proposed Kapolei Mixed-Use Development, consisting of 297 rental and for sale condominium units. This For Action seeks the approval of the 201H that will set the zoning standards for the entire block.

Mr. Prahler noted that projects are to work with the counties to obtain their 201H exemptions. Particularly with the City and County of Honolulu (City), 201H requirements are much more stringent and therefore, the HHFDC does not take over processing unless the City has declined.

Mr. Prahler cited and discussed the various Exhibits of the For Action, which included a list of the proposed exemptions, with one of the major exemption dealing with zoning. No objections were received from a majority of the involved agencies.

All for sale affordable condominiums will be subject to the HHFDC’s 10-year buy-back restrictions, and Shared Appreciation Equity program. The market units will be conveyed free and clear.

The Developer has indicated that they will be submitting for General Excise Taxes (GET) exemption on the construction costs for Phase I.

Mr. Prahler opened for questions, along with Mr. Franco Mola, on behalf of the Project.

Director Kahele asked about the Neighborhood Board meeting. Mr. Mola stated that it is uncertain as to whether all oppositions can be satisfied. In terms of providing air conditioning, accommodations will be made for those who want them; however, the goal is to accomplish an energy efficient project.

Director Abe asked about the 415 parking count. Mr. Mola stated that typically 1 parking for every 4 units or 1 parking for every 2 units is more than adequate for senior-type housing projects. Mr. Prahler added that Developer Marshall Hung provides unassigned parking stalls for all its tenants that are rented out to business people during the day. Phase I will provide more parking stalls that will ultimately serve as part of the common pool for the commercial component. HHFDC does not have the ability to exempt standards on the commercial portion of the Project.

In response to the Board, Mr. Prahler stated that once approved by the Board, the proposed exemptions would go to the City Council for final approval, in which the Council will have 45 days to respond from the date of submission.

With no further discussion, the motion was unanimously approved.

Staff’s recommendation was presented as follows:

That the HHFDC Board of Directors accept the audited financial statements for Nani ‘O Puna Project and Kekuilani Gardens Project for the fiscal year ending June 30, 2015.
Director Kahele moved, seconded by Director Abe

That staff's recommendation be approved.

Chief Financial Officer Ann Nakagawa stated that this is the first 2 out of 6 total audits, issued by the Auditors Accuity LLP that the HHFDC is required to do. The remaining 4 are in progress.

Ms. Nakagawa reported on the respective Projects:

Nani O Puna:

Total assets decreased by $183,000 (14%) to $1,083,000 at June 30, 2015 as compared to $1,266,000 at June 30, 2014. The decrease resulted primarily from a net operating loss of $212,000. The bulk of the loss is due to depreciation of $177,000 (non-cash).

Reasons for the significant decrease in the rental income were due to the following:

- The Governor’s Emergency Declaration, which resulted in the retraction of anticipated rent increase approved. Efforts are being made this year to attain updated rent increases.
- Due to the lava flow, vacancies could not be filled until a waiver was obtained to allow non-agricultural workers into the project.

Both audits for the Nani O Puna and Kekulani Gardens were submitted to HUD by the October 31, 2015 deadline.

Kekulani Gardens:

Total assets decreased by $147,000 (3%) to $4,261,000 at June 30, 2015 as compared to the $4,408,000 at June 30, 2104. The decrease resulted primarily from the mortgage principal and interest payments for the USDA mortgage and the net operating loss of $15,000.

Internal Control Comments for Kekulani Gardens were as follows:

- The Project did not make any contribution of its $90,000 annual payment to bring reserves to the required minimum level. Hence, the Board’s approval of the For Action last month for the cash advance to bring the reserves to the required minimum level and to bring the Rental Housing Revolving Fund loan current.
- Realty Laua’s accountant did not adjust the allowance for additions to receivables more than 90 days old or properly record mortgage and interest payable balances in the current year. Both the property management unit and HHFDC’s fiscal management will continue to monitor the accounting entries made by Realty Laua’s accountant.

Ms. Nakagawa opened for questions.

In response to Director Salaveria, Ms. Nakagawa stated that it is being confirmed with Accuity LLC as to whether they had advised Realty Laua to use cash-basis accounting on a monthly basis and only submitting accrual basis financial statements at year-end. Whereas the other projects submit all schedules and HHFDC’s Financial Management Office records the transactions on an accrual
basis into HHFDC’s financial statements. The reasoning for the accounting change with the Kekuilani Gardens project is uncertain.

With no further discussion, the motion was unanimously approved.

Ms. Nakagawa thanked the Board and commended them for all their work with the State to provide affordable housing, stating that her last day will be tomorrow, Friday, November 13, 2015. In collaboration with Lorraine Egusa, she will continue to work on the HHFDC audit to completion and may present the audit in December 2015 to the Board.

The Board thanked Ms. Nakagawa for her services and teachings on the audit reports.

The motion was unanimously approved.

Director Kahele asked for a recess.

The Board recessed at 10:40 a.m.

The Board reconvened at 10:50 a.m.

Executive Director Hirai stated that staff have been meeting on housing policy issues with various development groups regarding the QAP. Due to the comments received, the public hearing set for November 24, 2015 may be canceled. Staff will keep the Board apprised on the status at a Special Meeting.

Director Kahele requested that a workshop on the various financial programs be held for the Board members.

Chair Pulmano concurred, stating that “educational” For Information reports have been held for the Board in previous years. Director Salaveria also concurred, stating that it would be helpful to go through the process of the programs as well. (e.g., TEFRA hearing)

Director Salaveria asked about the 2016 Legislative Session. Executive Director Hirai stated that its Legislative package would include the mixed-use development proposal as well as a CIP request.

Chair Pulmano asked about the removal of the conveyance tax cap. Director Salaveria stated that it is not included within the Legislative package at this time. Executive Director Hirai clarified that the Governor will determine what the final Legislative package will include.

With no further business on the agenda, Director Salaveria moved, seconded by Director Kahele

That the meeting be adjourned at 10:55 a.m.

The motion was unanimously approved.