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, DECEMBER 10, 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, December 10, 2015, at 9:00 a.m.

Chair Leilani Pulmano called the meeting to order at 9:05 a.m. Those present and excused were as follows: **CALL TO ORDER/ ROLL CALL**

Present: Director Leilani Pulmano, Chair
Director Edwin Taira, Vice Chair
Director Rona Fukumoto, Secretary
Director Melvin Kahele
Director Luis Salaveria
Director Roderick Becker (for Director Wesley Machida)

Executive Director Craig Hirai

Excused: Director Audrey Abe
Director Milo Spindt

Staff Present: Sandra Ching, Deputy Attorney General
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Rick Prahler, Development Branch Chief
Stuart Kritzer, Asset Management
Marlene Lemke, Sales and Counseling Section Chief
Patrick Inouye, Housing Finance Specialist
Jocelyn Iwamasa, 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
Mavis Masaki, Planner
Lisa Wond, Planner
Kent Miyasaki, Housing Information Specialist
Krystal Tabangcura, Procurement Specialist
Esa Pablo, Secretary to the Board

Guests: Franco Mola, Coastal Rim Development
Kyna Chu, Cloudbreak Hawaii LLC

A quorum was present. **QUORUM**

Vice Chair Taira moved, seconded by Director Salaveria. **II. A. APPROVAL OF MINUTES** 10/15/15 Regular Meeting

> That the minutes of the Regular Meeting held on October 15, 2015 be approved as circulated.

The motion was unanimously approved.

Vice Chair Taira moved, seconded by Director Salaveria. **II.B. APPROVAL OF MINUTES** 11/12/15

> That the minutes of the Regular Meeting held on November 12, 2015 be approved as circulated.

The motion was unanimously approved.

Regular Meeting

III. A. DISCUSSION AND/OR DECISION MAKING
Approve an Extension to Resolution No. 071, Which Provides for Official Intent with Respect to the Issuance of Hula Mae Multi-Family Tax-Exempt Revenue Bonds for the Kulana Hale at Kapolei Project Located in Kapolei, Oahu, TMK No.: (1) 9-1-088: 021

Staff's recommendation was presented as follows:

That the HHFDC Board of Directors approved the following:

A. Extend the deadline to issue HMMF Bonds for the Kulana Hale at Kapolei project to December 31, 2016; and

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 Kulana Hale at Kapolei (Project) is a proposed 154 unit elderly housing facility, located in Kapolei, Oahu. The Project is the first of three (3) phases.

The Project's proposed Financing Structure and Project Budget and Use of Funds were cited, with construction to start in August 2016.

Mr. Ueki noted that a correction be made on page 3, III. E., 4, to read: Project Completion (Last Building) – [~~October~~] April 2018.

Based on progress made on site control, zoning approvals, and securing financing, staff is requesting a 12-month extension to December 31, 2016.

If deemed feasible, a subsequent Resolution will be presented to the Board for the actual issuance, sale, and delivery of the bonds, subject to the availability of volume cap as well as approvals from the Department of Budget and Finance as well as the Governor.

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

Director Salaveria asked about the project timeline, Mr. Mola stated that he hopes to accelerate before the approval of the DURF funding and anticipates going before the City Council next month.

In response to Director Salaveria, Housing Finance Specialist Patrick Inouye stated that there is approximately ten (10) inducement letters outstanding, as stated within the Finance Branch Status Report.

Director Salaveria stated that the outstanding inducement letters are essentially costs that are being incurred and will potentially be covered by the issuance of the bonds.

With no further discussion, the motion was unanimously approved.

III. B. DISCUSSION AND/OR DECISION MAKING
Approve an Extension to the Rental Housing Revolving Fund Letter of Intent for the Hale Uhiwai Nalu Addition Project Located in Kapolei, Oahu, TMK No.: (1) 9-1-013: 054

Vice Chair Taira moved, seconded by Director Fukumoto

That the HHFDC Board of Directors approve the following:

A. Extend the LOI dated December 13, 2011, for the RHRF Loan for the Hale Uhiwai Nalu Addition project to June 30, 2016, subject to the requirements as set forth in the For Action dated December 8, 2011; and

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

Mr. Ueki stated that the extension to the Rental Housing Revolving Fund (RHRF) Letter of Intent (LOI) will allow time to finalize loan documents for all financing sources for the Hale Uhiwai Nalu (Project)'s proposed construction of 50 additional units for families, located in Kapolei, Oahu.

Mr. Ueki noted that the Project was awarded a $450,000 grant from the Federal Home Loan Bank of Seattle, which will primarily be used to cover increased costs or lower other sources. An updated project budget is in progress.

The Project anticipates starting construction in January 2016, with Project Completion in January 2017.

Based on progress made on site control, zoning approvals, and financing commitments, staff is requesting a 6-month extension to June 30, 2016.

Mr. Ueki opened for questions, along with Ms. Kyna Chu, on behalf of the Project.

In response to Vice Chair Taira, Mr. Ueki stated that the applicant and staff continues to work with the bank on the terms of the Rental Housing Revolving Fund (RHRF).

Director Salaveria asked about the Project's budget being consistent. Mr. Ueki reiterated that staff has been in contact with the Applicant, as price escalations are expected to be offset by the $450,000 federal HOME loan award received. An updated project budget is in progress.

With no further discussion, the motion was unanimously approved.

III. C.
DISCUSSION AND/OR DECISION MAKING
Report to the 2016 Hawaii State Legislature Relating to the Rental Housing Revolving Fund Project Awards

Planner Mavis Masaki presented the For Information, stating that pursuant to Section 201H-202(f), the Report to the 2016 Hawaii State Legislature (Report) reports requests and awarded dollar amounts for the RHRF as well as best practices recommended in utilization of HHFDC's various financing tools in addressing the need for affordable rental housing. Recommended best practices for the RHRF will be reported in next year's Report to the Legislature.

Ms. Masaki opened for questions.

In response to Director Salaveria, Ms. Masaki concurred, stating that there was a total of $44,588,316 in RHRF loan awards.

In response to Director Fukumoto, Ms. Masaki stated that there was an increase in the total number of units targeted at households at or below 30 percent of the area median income in 2015 from the 2014 total because the total number of RHRF awards increased from 2014 to 2015.

Director Salaveria asked what is the carried over balance of the RHRF for Calendar Year 2016. Mr. Ueki stated that there is approximately $40 million. Executive Director Hirai clarified that there is a pending request of $30 million for the remainder of Fiscal Year 2015, with remaining funds anticipated to be used within the first fund round of Calendar Year 2016.

V.
REPORT OF THE EXECUTIVE DIRECTOR

With no further discussion, Chair Pulmano proceeded and asked that the Report of the Executive Director be taken next.

Executive Director Hirai stated that the following Bills are carrying over from 2015:

- HB 278 – relating to the $5 million, County Affordable Housing Sub-Account funded with the Dwelling Unit Revolving Fund.
- HB 1025 – relating to the executive director salary bill.
- SB 974 – authorizes the RHRF to be used to a limited extent for non-residential mixed-use developments.

Proposed Budget amounts are as follows:

- CIP - $75 million
- DURF - $25 million
- Alder Street Project - $15 million

Director Kahele arrived at 9:25 a.m.

IV. REPORT OF THE STRATEGIC PLANNING SUBCOMMITTEE- FINDINGS AND RECOMMENDATIONS

With no further discussion, the Chair proceeded to the Report by the Strategic Planning Subcommittee (Subcommittee).

Deputy Attorney General Sandra Ching noted that pursuant to OIP's requirements, the Subcommittee would only be presenting its findings and recommendations. Deeper deliberation and/or decision-making will be done at a subsequent meeting.

Chair Pulmano stated that a Special Meeting will be held next week Wednesday, December 16, 2015, to further discuss and potentially approve the Subcommittee's proposed recommendations.

Chair Pulmano reported on the Subcommittee's Initial Findings and Recommendations to the Board, noting that in October 2015, a draft Qualified Allocation Plan (QAP) was approved for the Fiscal Year (FY) 2016/2017; however, due to comments received from various housing developers, the November 2015 public hearing was postponed to look at possible options with the existing QAP.

Revisions to the draft 2016/2017 QAP could address the following concerns that have been expressed by the housing developers:

1. The draft QAP proposed minimum threshold scores of 68 points for both 9% (volume cap) and 4% (non-volume cap) LIHTCs. HHFDC should facilitate housing development by being a conduit for bonds and 4% (non-volume cap) LIHTCs. These resources are only limited by the bond cap allocated to HHFDC and, historically, obtaining bond cap has not been a problem. For 4% (non-volume cap) LIHTCs, application funding rounds and stringent scoring are not necessary.

2. The Threshold Requirement limiting Contractor Profit to 14% of hard construction costs limits the competitiveness of the process and may put the Contractor in a poor financial position if costs of materials and labor unexpectedly increase. Moreover, the Developer may be unfairly penalized for a Contractor's failure to comply with this requirement.

3. The Threshold Requirement limiting Developer Fees discourages the development of affordable housing units. For 9% (volume cap) LIHTC projects, the Developer Fee is limited to (a) 10% of total development costs for $2.5 million, whichever is less, for new construction or (b) 5% of acquisition costs and 15% of the rehabilitation costs or $2.5 million, whichever is less, for acquisition/rehabs. For the 4% (non-volume cap) LIHTC projects, the Developer Fee is limited to (a) 12% or $5 million, whichever is less, for new construction or (b) 5% of the acquisition costs and 15% of the rehabilitation costs or $5 million, whichever less, for acquisition/rehabs.

4. The minimum Threshold Scoring in the QAP attempts to minimize the use of HHFDC's permanent financing resources including the Rental Housing Revolving Fund (RHRF). Consequently, higher levels of the 9% LIHTCs are needed to finance projects. This results in a less efficient leveraging of the 9% LIHTCs and a lower production of affordable rental units.

5. The minimum Threshold Scoring in the QAP encourages developers to provide units for households in the lowest income ranges (i.e., 30%, 40%,

and 50% AMI). This results in the production of fewer units and properties that may be less financially stable.

Director Salaveria stated that there may be a misnomer by using the term "non-volume cap" and suggested that the 4% LIHTC being a limited source should be something used within its vernacular.

Director Kahele asked whether the Subcommittee is looking to lowering or increasing the thresholds. Chair Pulmano clarified that the Subcommittee is proposing to remove the scoring threshold requirements all together for both the 9% (inherent competition results in a stacking of projects and prioritization) and 4% LIHTC (letting everyone in based on the funds available).

Mr. Ueki stated that without thresholds there are no bars in gauging projects, which may result in some projects underwriting, but not necessarily being the best use of its available resources.

Discussion ensued on the unused bond cap allocations to the various single and multi-family programs. Mr. Ueki stated that it has not been the practice of the HHFDC to allocate unused bond cap to the multi-family program unless there is a live project for which bonds are anticipated to be issued in the following year. Any changes would require a change in policy. However, a decision could be made accordingly as the situation arises.

Vice Chair Taira asked if there was any reduction in production while the current QAP was in effect. Mr. Ueki stated that under the current QAP there were no reduction in terms of unit counts, but rather more benefits received in the form of serving lower area median incomes, energy efficiency, and longer affordability periods for 4% LIHTC projects. By removing the rounds, a developer could come in at any time as long as there is no need for the Rental Housing Revolving Fund (RHRF), of which they would need to wait for the set funding rounds.

In response to Director Kahele, Mr. Ueki stated that he did not believe there would be an increase in competition without the thresholds, but rather a reduction in the benefits received in terms of the 4% LIHTC projects.

In response to Director Salaveria, Mr. Ueki stated that it is questionable whether eliminating the thresholds would increase unit production, due to the potential need for the use of more RHRF with the bond equity derived from the sale of the 4% LIHTC being substantially less than the 9% LIHTC. Chair Hirai referenced Exhibit E, Rental Housing Subsidy Analysis.

In response to Director Kahele, Vice Chair Taira stated that the proposed change would result in higher unit costs. Chair Pulmano stated that due to its finite resources the HHFDC's programs are geared towards serving working families, those earning 60% - 140% of the area median income (AMI), while the counties and Hawaii Public Housing Authority are geared towards the lower income brackets of 30% and below the AMI.

Executive Director Hirai referenced Exhibit A, Multifamily Tax Subsidy Project Income Limits, stating that the issue is that the lower the income bracket served the higher the amount of subsidies are needed to fill the financing gap.

Mr. Ueki stated that by serving the 60% - 140% AMI, a project would be able to generate more revenues through rents, which would allow them to carry a larger debt, in efforts to produce a project that is less reliant upon a secondary debt, like the RHRF.

Mr. Ueki stated that the Contractor's Profit of 14% is based on HUD's standards as well as other states.

It was also noted that the National Council of State Housing Agencies recognizes up to 15% for the Developer Fee for the type of projects that the LIHTC program undertakes.

Vice Chair Taira commented on the developers' concerns, stating that he did not believe the proposed changes would increase production, but rather make it easier for developers to comply with their housing requirements.

Mr. Ueki stated that historically, no one has misused or has come close to the 15% Developer Fee. Therefore, it is unclear as to why placing a threshold would concern the developers being that a majority of the projects that come in are well within the 12% range or below.

Director Salaveria asked about the uses of the Developer Fee being for operating guarantees. Mr. Ueki stated that theoretically, as an owner, the hope is that the project is self-sustained; however, in the event that a project does not perform, the ownership would be at risk in covering any outstanding financial gaps.

In response to Director Fukumoto, Chair Pulmano stated that she believed building affordable housing would be risker than market, in terms of the limitations and having less flexibility.

Mr. Ueki stated that the QAP comes up once a year, with an ongoing open door policy where all developer applicants can provide their comments and have discussions with staff. However, the responsibility of the agency is to look for the greater good of the program.

Director Fukumoto commented that having a cap of 15% might incline selection of a higher percentage, due to the concerns expressed by the developers.

In response to Vice Chair Taira, Mr. Ueki stated that the additional fee would qualify developers for more credits on the front end, which would bring in more equity, lowering the amount of debt the project carries long term.

Mr. Ueki added that some projects that come in have a deferred developer fee that is repaid by cash flow generated by the project or partnership, which is also taxed. A proforma is required to determine whether a project is feasible.

Discussion ensued on whether the Developer Fee cap of 15% is necessary. Chair Pulmano stated that she is fine with removing the cap and/or making additional changes as long as those changes are not questioned by the Board for individual projects at future meetings. Further discussion on this matter is to be taken up at the December 16, 2015 Special Meeting.

Chair Pulmano stated that with changes made, the Board is still able to revisit the QAP on an annual basis. Furthermore, although some of the changes may revert back, the Subcommittee would like to focus on increasing the production of housing units.

In terms of the HHFDC's strategic planning, Vice Chair Taira suggested that developers be asked to research innovative ways to increase unit production, reiterating that the proposed changes do not increase the number of units, but rather assist developers in satisfying housing conditions to produce the minimum number of units required.

Director Kahele stepped out from the meeting at 10:23 a.m.

Discussion ensued on how unit costs could be reduced to increase affordable housing production. With each State and County entity having its own jurisdiction in the overall project development process, Chair Pulmano stated that finding ways to increase housing production will be challenging.

Chair Pulmano reiterated plans to hold a special meeting next week Wednesday to further review and approve the recommendations, moving forward with the intent of publishing a new QAP in January 2016.

Director Kahele returned to the meeting at 10:26 a.m.

VI. ADJOURNMENT
10:27 a.m.

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

Vice Chair Taira moved, seconded by Director Salaveria

To adjourn the meeting at 10:27 a.m.

The motion was unanimously carried.

RONA FUKUMOTO
Secretary