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 13, 2014 IN THE CITY AND COUNTY OF HONOLULU, STATE OF HAWAII

The Board of Directors of the Hawaii Housing Finance and Development Corporation met for a regular meeting at 677 Queen Street, on Thursday, February 13, 2014, at 9:00 a.m.

CALL TO ORDER/ ROLL CALL

The meeting was called to order by Chair Ralph Mesick at 9:03 a.m.

Those present and excused were as follows:

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

Excused: Director Kalbert Young
Director Richard Lim
Director Allan Los Banos
Executive Director Craig Hirai

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
Ann Nakagawa, Fiscal Manager
Stuart Kritzer, Asset Manager
Stan Fujimoto, Development Section Chief
Ken Takahashi, Housing Development Specialist
Seiji Ogawa, Housing Development Specialist
Elaine Goma, Housing Sales Coordinator
Christopher Woodard, Property Management Coordinator
Lorraine Egusa, Budget Analyst
Esa Pablo, Secretary to the Board

Others: Claudia Shay, Self-Help Housing Corporation of Hawaii
Dave Nakamura, The Mutual Housing Association of Hawaii, Inc.
Stacy Sur, Hawaii Housing Finance
Gary Furuta, GSF LLC
Jeff Furuta, GSF LLC
R.J. Martin, Green Homes
Barbara Martin, Green Homes

QUORUM

A quorum was present.

II. A. APPROVAL OF MINUTES
1/9/14
Regular
Meeting

Director Larson moved, seconded by Designee Evans

> That the minutes of the Regular Meeting held on January 9, 2014 be approved as circulated.

The motion was unanimously carried, as circulated.

Approval of the minutes of the Executive Session Meeting held on January 9, 2014 was deferred and approved, as circulated, in Executive Session.

II. B. APPROVAL OF MINUTES 1/9/14 Executive Session

Chief Planner Janice Takahashi noted the absence of Executive Director Craig Hirai, who attended a dedication ceremony for the Hale Makana O' Nanakuli project, along with the Governor of the State of Hawaii.

III. A. DISCUSSION AND/OR DECISION MAKING Approve: (1) Resolution No. 059, Which Provides for Official Intent with Respect to the Issuance of Hula Mae Multi-Family Tax-Exempt Revenue Bonds; and (2) Reservation of Low Income Housing Tax Credits for the Ko'oloa'ula Phase II Project Located in Ewa Beach, Oahu, TMK Nos.: (1) 9-1-017: 115 through 118

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

That the HHFDC Board of Directors approve the following:

A. Approve Resolution No. 059, attached as Exhibit F, which provides for official intent with respect to the issuance of revenue bonds up to $29,000,000 for the Ko'oloa'ula Phase II project subject to the provisions recommended in Exhibits C and E.

B. Reserve up to $2,212,665 in annual Federal LIHTC and $1,106,332 in annual State LIHTC from the non-competitive pool (4% LIHTC) for the Ko'oloa'ula Phase II project subject to the provisions recommended in Exhibits D and E.

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

Finance Manager Darren Ueki presented the project details, noting the contractor's profit and overhead, and developer's fee had been negotiated down to 14% and 3.87%, respectively.

Project construction is anticipated to start in February 2015, with project completion anticipated in March 2017.

Mr. David Nakamura was introduced to the Board and made available for questions.

In response to Director Larson, Mr. Ueki clarified that the contractor and developer fees were reviewed closer. Prospective applicants were notified of the 14 percent cap on contractor and developer fees.

Designee Salaveria asked about the potential for escalated construction costs, with construction anticipated to start a year from now. Mr. Nakamura stated that increased costs were anticipated and therefore, believed that the estimated budget would hold as stated.

There being no further discussion, the motion was unanimously carried.

III. B. DISCUSSION AND/OR DECISION MAKING Approve a Rental Housing Trust Fund Project Award for the Ko'oloa'ula Phase II Project Located in Ewa Beach, Oahu, TMK Nos.: (1) 9-1-017: 115 through 118

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

That the HHFDC Board of Directors approve the following:

A. A RHTF Project Award Loan of $18,800,000 to Ko'oloa'ula II Limited Partnership or its successors for the benefit of the Ko'oloa'ula Phase II 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. Authorizing 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 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, Chapter 343, 103D, §103-50 and §104, Hawaii Revised Statutes, as they may related to the use of State funds.

5. Availability of RHTF program funds.

6. The total Developer Overhead, Developer Fees, Consultant Fees, and Project Management Fees for this Project shall not exceed $2,205,882.

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

Mr. Ueki presented the For Action, noting the following major changes to the loan term structure:

1.	Interest Rate:	3.0% Years 4 through 37 (Permanent Period)
2.	Term/Maturity:	37 years
3.	Repayment:	Years 4 through 37 – 75% of Available Cash Flow after payment of expenses, senior debt service, and other recognized expenses.
4.	Other Terms:	Includes an Amendment to the existing lease with HHFDC, requiring HHFDC's consent prior to the sale of the Project.

Mr. Ueki noted that a lump sum payment would be due at the end of Year 37, at which point the project would have the repayment option of either: (1) refinancing; or (2) extending the Trust Fund Loan and possibly extending its affordability period.

Designee Evans commended staff for taking a closer look at the project proposals, bringing a recommendation that is in closer alignment with the goals of the Board.

Director Larson asked on potential impacts to the rents, due to the loan term changes. Mr. Nakamura stated that there would be no impact on project rents.

There being no further discussion, the motion was unanimously carried.

III. C. DISCUSSION AND/OR DECISION MAKING

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

That the HHFDC Board of Directors approve the following:

Approve a Rental Housing Trust Fund Project Award for the Hale Mohalu II Family IV Project Located in Pearl City, Hawaii, TMK No.: (1) 9-7-019: 035

A. A RHTF Project Award Loan of $6,500,000 to Hale Mohalu II Family IV LP or its successors for the benefit of the Hale Mohalu II Family IV 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. Authorizing 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 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, Chapter 343, 103D, §103-50 and §104, Hawaii Revised Statutes, as they may related to the use of State funds.

5. Availability of RHTF program funds.

6. The total Developer Overhead, Developer Fees, Consultant Fees, and Project Management Fees for this Project shall not exceed $1,275,000.

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

Mr. Ueki presented the For Action, noting that the contractor's profit and overhead is at 10%, with project construction anticipated to start in May/June 2014, and project completion anticipated in July/August 2015.

Staff recommends the following changes to the loan terms:

1. Interest Rate:

a) 0.00% Years 1 through 4 (2-Yr. Construction Period and 2-Yr. Stabilization Period)

b) 3.00% Years 5 through 37 (Permanent/Post Stabilization Period)

c) 0.00% for the Construction Period and Stabilization Period recommended as (i) Project operations have not commenced, (ii) eliminates the need to establish and track and interest reserve and (iii) allows time for the Project to stabilize

2. Term/Maturity: 37 Years

a) Repayment expected around year 37 based on 75% of available cash flow.

3. Repayment: Years 1 through 4 – No Payments

Years 5 through 37 – 75% of Available Cash Flow after payment of expenses, senior debt services, and other recognized expenses.

4. Other Terms: Includes an Amendment to the existing lease with HHFDC requiring HHFDC's consent prior to the sale of the Project.

Mr. Ueki introduced Mr. Gary Furuta and Mr. Jeffrey Furuta, on behalf of Project.

Director Larson asked on potential impacts to the rents. Mr. Ueki and Mr. Furuta confirmed that the changes to the loan terms would not impact the rents of the project.

Designee Evans complimented staff, stating that she was pleased to see 3 and 4 bedroom units in the projects presented, filling a need rarely available within affordable/workforce housing for larger families, usually limited to studios and 1 to 2-bedroom units.

In response to Designee Salaveria, Mr. Furuta reported on the status of the project, as follows:

- Phases I and II – construction has been completed and 50% rented
- Phase III – site work has been completed with foundation and slabs being laid.
- Phase IV – supplemental foundation permit is anticipated within a few months, with site work ongoing.

In response to Vice Chair Kyno, Mr. Furuta stated that there has been a steady stream of applicants for Phase I and the project is anticipated to be rented out within the second or third quarter of this year. The project is oversubscribed for the 30% AMI units in the two buildings.

In response to Director Larson, Mr. Ueki concurred stating that projects awarded 9% Low Income Tax Credits (LIHTC) are usually considered first for Rental Housing Trust Fund (RHTF) loans.

Vice Chair Kyno asked if a project analysis was done to determine the best way the State could get its money back quicker. Mr. Ueki stated that based on previous discussions with the Board and Financing Policy Subcommittee, staff believed that this was the direction needed; however, staff could analyze other options.

Director Kyno suggested lowering the loan interest rates and shortening the loan term in order to further accelerate repayment of the loans. Mr. Ueki stated that staff would look into it; however, did not believe it would further shorten the repayment period considering repayment of the loans come in after Year 30, but would need to be based on renegotiations on actual performance by the project.

Chair Mesick stated that the hiring of a consultant is in progress to help staff work through such issues and create better metrics to evaluate.

Director Larson asked that the Financing Policy Subcommittee look at: (1) ways to obtain land rather than repurchasing, to ensure affordability in perpetuity; and (2) the housing needs of the State of Hawaii.

There being no further discussion, the motion was unanimously carried.

III. D. DISCUSSION AND/OR DECISION MAKING
Approve Extensions to the Dwelling Unit Revolving Fund Interim Loans and Increase in Loan Amounts for the Ma'ili III Self-Help Housing Project Located in Ma'ili, Waianae, Oahu, TMK Nos.: (1) 8-7-002: 001, 007, 015 and 016

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

> That the HHFDC Board of Directors approve the following to continue financing SHHCH's development of the Ma'ili lands, substantially as described in this For Action.
>
> A. An extension of the maturity date of SHHCH's interim DURF 1 loan to August 7, 2014, and an increase of its loan amount by $48,026, for a total loan balance of $1,228,558; and
>
> B. An extension of the maturity date to SHHCH's interim DURF 2 loan to August 26, 2014, and an increase of its loan amount by $263,682, for a total loan balance of $4,963,682;
>
> Subject to the following:
>
> 1. Approval and release of funds by the Governor.
> 2. Approval and execution of amendments to the DURF 1 and DURF 2 Interim Loan Agreements and the Promissory Note by the Executive Director, and
> 3. Compliance with all rules, regulations, and such other terms and conditions as may be required by the Executive Director.

Development Branch Chief Rick Prahler presented the For Action, noting that staff is recommending a 6-month extension (August 24, 2014) of the project's Dwelling Unit Revolving Fund (DURF) loans with an extension fee. The developer expects all of the remaining units to close before June 2014.

Ms. Claudia Shay, Self-Help Housing Corporation of Hawaii, was introduced and made available for questions.

Designee Evans asked if the 6-month extension was adequate for project alignment. Ms. Shay stated that 24 loans are expected to close in the next 4 to 6 weeks, with 22 more loans being processed and anticipated to close within 4 months. Project delays are being resolved and worked on with its primary lender and applicants.

Chair Mesick asked on the breakdown of the 72 units in terms of closing. Mr. Prahler clarified that 26 units have been closed, with 46 units remaining, of which 24 are under contract, and 22 are being packaged.

In response to Designee Evans, Ms. Shay stated that there is a construction supervisor per team of 10 to 12 families, providing rotating labor to construct the housing units, with 2 more construction supervisors being hired currently. It was further noted that appraisals increased from $308,000 to $410,000, with a sale purchase price of approximately $278,000.

In response to Designee Evans, Ms. Shay stated that there is a 10-year buyback and shared appreciation equity (SAE) restriction. However, Mr. Prahler noted that some of the current lots will not be subject to the SAE restriction.

Designee Evans asked on the reasoning for only a portion of the units holding the SAE restrictions. Ms. Shay explained that the SAE does not apply for units appraised equal to or less than the sale price. Mr. Prahler added that the labor time spent on the house is also being credited to the buyer.

There being no further discussion, the motion was unanimously carried.

III. E. DISCUSSION AND/OR DECISION MAKING
Information on the Status of Green Homes at Lualualei, a Single-Family CPR Project Located at 87-1720 Farrington Highway, Waianae, Oahu, Hawaii, TMK Nos.: (1) 8-7-033: 011 and 022

Chair Mesick proceeded to agenda item E.

Mr. Prahler presented the For Information, stating that the developer is facing financial hardship and slow sales, requesting that the affordable sales restrictions (SAE, 10-year Buyback, and owner occupancy provisions) be lowered to the minimum of 50% plus one, or removed entirely.

HHFDC will work with the developer and the City Council in hopes of a resolution on its options pertaining to the 201H statutes and potential risk to existing tenants. Staff anticipates to report back to the Board at the March 13, 2014 Board Meeting. Furthermore, any action taken from that point forward will require City Council approval.

Mr. Prahler also noted that the developer has also had compliance issues with its development agreement with the HHFDC, specifically with bonding and insurance requirements, and wage and hour information on the houses built. Staff will enforce full compliance of these requirements for any action moving forward.

Developer R.J. Martin was introduced and handouts of sale brochures and a project overview were circulated.

In response to Designee Evans, Mr. Martin stated that out of the 25 units, 4 units have been built - 3 of which were sold and currently occupied, with 1 unit remaining vacant.

In addition, Mr. Martin stated that the project did not receive any kind of financial subsidies and he has found it difficult to move forward on the development of additional homes with the debt service accrued. Therefore, with the sales restrictions removed, he believes he would be able to sell and generate cash flow to pay down existing loans and eventually proceed on the development of more affordable homes.

Designee Evans asked on project exemptions received under the 201H process. Mr. Martin noted the following: rezoning modifications which saved on design fees, waived grading and permit fees, reduced home construction and sewer waste water fees for affordable housing units. Mr. Martin noted that the reduced or waived fees would need to be paid for the market housing units, if approved.

In response to Designee Evans, Mr. Martin stated that the issues are not with applicants meeting the 140% AMI and below, but rather other affordability restrictions, such as applicants that already own property or a home.

In response to Director Larson, Mr. Martin reiterated that affordable housing is difficult without a mechanism to financing construction and carry the debt, causing a standstill in phasing development and paying off the debt quickly enough to keep moving forward.

Director Larson asked on price comparison within the area. Mr. Martin stated that based on its appraisals, values are approximately $30,000 - $50,000 above the project's sales price. Pricing is heavily dictated by construction costs and debt load. A new home in the low $300,000s, fee simple, and includes sustainable features is a good value.

Director Pulmano asked about the reasoning to do a 201H versus R5 zoning. Mr. Martin explained that the original intent was to receive DURF funding for construction, which the project did not receive.

In response to Director Pulmano's follow up question, Mr. Martin stated that there were a combination of partnerships who inquired on purchasing lots; however, his current approval only allows sales to qualifying affordable buyers.

In response to Mr. Prahler, Mr. Martin concurred to commit to the sales of the market units of 140% AMI and below, clarifying that there was never an issue with price, but rather with the affordability restrictions that made it difficult for applicants to qualify for mortgages.

Director Larson asked on the "divorce" option. Mr. Prahler stated that the options and effects of a "divorce" with the 201H are uncertain for buyers of a non-conforming lot or housing, and therefore, staff will further analyze possible options of best practice.

Mr. Martin asked on the proper method for answering questions of the Board to ensure a well-informed decision is made. Mr. Prahler stated that staff will continue to work with him directly.

Director Pulmano asked on the cost per square foot being fairly high with the inclusion of such technology. Mr. Martin stated that building a sustainable home is the only way to build an affordable project and should only cost about 5% - 10% more if planned and designed well from the start.

Director Larson asked on potential legal questions that may have to be considered. Chair Mesick suggested that the Board provide staff time to complete a full analysis.

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

III. F. DISCUSSION AND/OR DECISION MAKING
Review of the Hawaii Housing Finance and Development Corporation Audited Financial Statements

Chief Financial Officer Ann Nakagawa distributed and provided an educational overview of the balance sheets of the HHFDC Audited Financial Statements June 30, 2013 (See attachment) and the purpose, assets, and liabilities of the funds.

In response to Chair Mesick, Ms. Nakagawa stated that the **Rental Housing Trust Fund** loans are not marked to market. Loans are not considered delinquent until they are due and not paid. However, an allowance is created for loans or interest delinquent over 90 days.

Post employment funds are allocated based on the time the employees spend on each fund. The post employment liabilities are periodically calculated, including all accrued liabilities such as existing pensioners, current employees, retirement, and health care.

Discussion ensued on post employment and a legislative bill that would restrict savings for vacation payouts and termination of service. Designee Salaveria noted that employees not covered by the General Fund incur the associated cost of post employment benefits. In addition, Ms. Nakagawa stated that legislatively, various cash interest earned State Treasury funds are not earning any interest until after 2015.

The **Dwelling Unit Revolving Fund** has the most assets primarily due to the buildings, land, and equipment for the Nani O Puna, Kama'aina Hale, and Kahikolu Projects, with the Kekuilani Gardens shown as a separate fund.

Discussion ensued on the financial viability of the Corporation vs. the amount of assets the Corporation holds.

Chair Mesick asked that at the next meeting the following be discussed: (1) activity related to the funds; and (2) actual worth of the Corporation. Recognizing the actual worth would help the Board in determining whether or not to sell an asset and how those resources could be better used. Designee Salaveria concurred, stating that HHFDC should further look into how it expends itself on a level of activity and how much the Corporation is able to leverage the state resources it receives to get the products needed.

Under the **Rental Housing System Bond (RHSB)** fund, the HHFDC has six projects: La'ilani, Big Island; Honokowai, Maui; Kamakee Vista, Pohulani, and Kauhale Kakaako, and Kekuilani Courts, on Oahu.

In response to Chair Mesick, Mr. Ueki stated that the RHSB is not a "sinking fund," but rather a reserve fund. Under the indenture, the HHFDC has debt service reserve accounts that the HHFDC is required to keep a minimum balance as well as reserves to do capital improvements.

In response to Designee Salaveria, Mr. Ueki stated that 2004 and 2009 was the last debt restructuring.

Ms. Nakagawa stated that there are concerns of meeting the debt coverage ratio for two commercial units (non-residential) which are required to transfer ceded lands revenue (20% of the commercial rents, laundry, and parking) to OHA.

In response to Chair Mesick, Ms. Nakagawa stated that proceeds received from the **Single Family Mortgage Purchase Revenue Bond Fund** pay the bonds that were issued for those loans. Mr. Ueki added that the interest rate is usually fixed depending on which program it is from (being a blended rate).

Designee Salaveria stated for the record that HHFDC is the only AAA credit rating from a revenue bond perspective. Mr. Ueki stated that no one can receive a rating higher than the government and therefore, the HHFDC was downgraded to an AA credit rating.

The **Multi Family Housing Revenue Bond Fund** is similar to the Single Family Fund where bonds issued are used to loan funds to developers. The 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 the programs are terminated by the Legislature, with the largest fund being the **Rental Assistance Revolving Fund (RARF)**. The funds appropriated by the Legislature are used to make rental subsidies to qualified tenants.

In response to Chair Mesick, Ms. Nakagawa stated that long term, the HHFDC's commitments exceed its cash.

In response to Designee Salaveria, Ms. Nakagawa stated that only a small portion of the loan is revolving. Mr. Ueki added that under the RARF there is an Interim Construction Loan program and a Rental Subsidy program. The General Fund is anticipated to be utilized if additional monies are needed.

Government Funds are primarily federal grants, with the largest fund being the **General Obligation Fund**, appropriated monies from the Legislature, which have not been transferred to the HHFDC.

The HHFDC received an appropriation of $7 million for the Low Income Housing Tax Credit Loan Program.

Mr. Ueki stated that there was $4.6 million committed for three projects, with the remaining $2.4 million set to lapse on June 30, 2014. DAGS clarified that a side loan agreement is to be done in order to encumber the remaining $2.4 million amount, with no guarantees it will go back to the HHFDC. No additional loans are anticipated between now and the end of the year.

The Tax Payer Assistance Program Fund (part of the American Reinvestment and Recovery Act) consists of long term loans.

Ms. Nakagawa noted that the HHFDC's revenues and expenses will be covered at the next Board Meeting.

Chair Mesick stated that the goal of the Board is to move into a macro position over time, utilizing the micro position to become more knowledgeable about the finances of the Corporation in order to create strategies to best utilize the funds and policies that allow staff to make decisions.

IV. REPORT OF THE EXECUTIVE DIRECTOR

There being no further discussion, Chair Mesick proceeded to the Report of the Executive Director.

In response to Chair Mesick, Ms. Takahashi stated that Executive Director Craig Hirai has taken to his job and works collaboratively with staff.

There being no further discussion, Chair Mesick asked for a motion to meet in Executive Session.

V. EXECUTIVE SESSION

Vice Chair Kyno moved, seconded by Director Larson

> That the Board meet in Executive Session at 11:09 a.m. to confer with its legal counsel, pursuant to Section 92-5(a)(3) and 92-5(a)(4).

The motion was unanimously carried.

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RECONVENED Regular Session 11:09 a.m.

The Board reconvened in Regular Session at 11:09 a.m. , immediately followed by adjournment, moved by Vice Chair Kyno, seconded by Designee Evans.

VI. ADJOURNMENT

> The meeting adjourned at 11:09 a.m.

The motion was unanimously approved.

FOR LEILANI PULMANO
Secretary