MINUTES OF THE SPECIAL MEETING
OF THE HAWAII HOUSING FINANCE AND DEVELOPMENT
 CORPORATION
HELD AT THEIR OFFICE AT 677 QUEEN STREET, SUITE 300,
ON THURSDAY, DECEMBER 16, 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 special meeting at 677 Queen Street, on Thursday, December 16, 2015, at 9:00 a.m.

Chair Leilani Pulmano called the meeting to order at 9:00 a.m. Those present and excused were as follows:

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

          Executive Director Craig Hirai

Excused:  Director Denise Iseri-Matsubara
          Director Audrey Abe

Staff Present:  Sandra Ching, Deputy Attorney General
               Janice Takahashi, Chief Planner
               Darren Ueki, Finance Manager
               Rick Prahler, Development Branch Chief
               Lorraine Egusa, Interim Chief Financial Officer
               Patrick Inouye, Housing Finance Specialist
               Jocelyn Iwamasa, Housing Finance Specialist
               Lawrence Pulido, Housing Finance Specialist
               Christopher Woodard, Property Management Coordinator
               Mavis Masaki, Planner
               Lisa Wond, Planner
               Kent Miyasaka, Housing Information Specialist
               Esa Pablo, Secretary to the Board

A quorum was present.

Staff’s recommendation was presented as follows:

That the HHFDC Board of Directors:

A. Approve the Strategic Planning Subcommittee’s recommendations.

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

Vice Chair Taira moved, seconded by Director Fukumoto

That staff’s recommendation be approved.

Chief Planner Janice Takahashi stated that this meeting is a formal request to the full Board for approval of the Strategic Planning Subcommittee’s (Subcommittee) recommendations as discussed at the December 10, 2015 Regular Board Meeting.

Ms. Takahashi provided a brief recap on the Subcommittee’s recommendations, noting that the floor discussion would be on revisions made to the Qualified

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Allocation Plan (QAP), as outlined in Exhibit B, Proposed Major Changes to Draft QAP.

HHFDC holds funding rounds to accept applications for its 9% and 4% Low Income Housing Tax Credits (LIHTC), held typically twice a year. The QAP includes threshold requirements, which all applicants must meet in order to be considered for funding. The draft 2016/2017 QAP includes 11 threshold requirements and a criteria point system with 18 factors to evaluate an application.

Finance Manager Darren Ueki stated that meetings with the various developers held at the Governor’s Office focused on the QAP and its hindrance to unit production. Based on the developers’ comments, certain aspects of the QAP were identified and addressed as proposed.

Comparison of the 2015 QAP and the proposed major changes to the draft 2015/2017 QAP were thoroughly discussed.

Discussion ensued on how the opening of the 4% LIHTC application process would improve unit production. Mr. Ueki stated that the open process is believed to increase production by allowing applicants requesting only 4% LIHTC to come in at any time throughout the calendar year, providing a quicker delivery of affordable housing units, as opposed to having limited funding rounds held only twice a year.

Within the 2015 QAP, Mr. Ueki stated that a minimum scoring threshold requirement was set due to the Board’s concern for longer affordability periods, lower AMGI’s, and more energy efficient projects for its limited resources. However, due to the Governor’s goal to increase unit production and the concern brought up by developers on high costs attributed to such standards that would limit production needs, staff is proposing that the minimum scoring threshold be lifted for the 4% LIHTC application, while the 9% LIHTC will continue to be scored according to the federal guidelines. Furthermore, staff would also require a minimum affordability period of 45 years (in addition to the existing affordability period for acquisition/rehabilitation projects), as opposed to the 30-year affordability period required under the program.

In response to Vice Chair Taira, Mr. Ueki stated that if no increase in unit production is achieved with the proposed changes made, the QAP would be adjusted accordingly.

Vice Chair Taira asked that discussions with developers be held to find innovated ways to utilize the 4% LIHTC in conjunction with other outside subsidies to encourage development of lower income rentals, which he believes would be the only way to increase unit production.

Mr. Ueki stated that removal of the rounds for the 4% LIHTC may also incentivize developers to seek other resource through the counties (HOME and CDBG) and federal government (HUD and USDA); rather than funding from the Rental Housing Revolving Fund (RHRF) with set rounds twice a year.

Director Spindt asked if there was a compensating factor for unit production in that the higher the affordability restriction served the more units a developer is able to produce. Mr. Ueki concurred, stating that by the project generating greater cash flow through rents would require less secondary funding, such as funding from the RHRF, thus, allowing the state’s limited resources to be stretched and utilized for an additional development of units.

Furthermore, Mr. Ueki stated that with the change to the scoring mechanism based on the amount of credits requested per unit, the less credits needed, the higher an applicant would score (i.e., the amount of credits requested divided by the number of tax credit units).

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Vice Chair Taira asked how the affordability restriction is determined statewide, avoiding over saturation of one particular income group, such as the 60% AMI. Mr. Ueki stated that one of the requirements within the application is providing a market study to determine the demand and affordability restriction income needed. Ms. Takahashi added that based on housing studies, saturating the 60% AMI level would actually be a positive thing considering the number of units produced does not even scratch the surface of the substantial amount needed within that income group.

Vice Chair Taira expressed concern with rents serving the higher end of a particular affordability schedule, resulting in a gap that would need to be filled with more subsidies. Ms. Takahashi stated that although a project may be serving the 60% AMI, rents could be set lower than what the HHFDC’s rent schedule states. Director Fukumoto stated that although the lower AMI levels are of concern, as stated, HHFDC does collaborate with other agencies, such as the counties and Hawaii Public Housing Authority that address the lower income groups.

Discussion ensued on whether opening housing in the higher incomes levels would ideally alleviate the housing need for lower income levels. With a focus on production, more units, even for higher income levels, is better than fewer units at highly subsidized rates.

Based on the best practices of the National Council of State Housing Agencies (NCSHA), Mr. Ueki stated that standards for the Contractor Profit and Developer Fees are proposed to be set up to 14% and 15%, respectively.

Director Evans asked on the percentage of Developer Fee desired by the developers. Mr. Ueki stated that although developers did not state a particular percentage, statistical data show that the majority came in under the 14%, with the highest fee percentage recorded at 14.43%.

In addition to the 15% Developer Fee cap in regards to the 4% LIHTC projects, staff is proposing that an applicant waives the right for a Qualified Contract Provision or take a Developer Fee of no more than 5% or $250,000. Due to a lack of data, no substantiated dollar cap amount has been determined at this point; however, historically, no developer fee received has exceeded the 15% amount.

Mr. Ueki noted that in regards to the affordability period for the 4% LIHTC program, new construction is being proposed to require a minimum affordability period of 45 years, with acquisition/rehabilitation requiring 30 years beyond the existing affordability period or 45 years, whichever is greater.

In regards to the developer and management experience threshold, Mr. Ueki stated that the intent is to ensure a project does not fail and/or affordability is lost (e.g., Franciscan Vista partnership between St. Francis and Stanford Carr or Catholic Charities in collaboration with GSF, Inc.).

Director Fukumoto asked whether staff provides technical assistance for those unfamiliar with the LIHTC process. Mr. Ueki stated that staff do inform rather than advise developers of its expectations regarding the consolidated application.

Chair Pulmano asked if there was a list of recommended consultants provided. Mr. Ueki stated that a list of awarded projects is posted on the HHFDC website, along with contact information. Providing and maintaining a list of recommended contractors and consultants on the HHFDC website could increase HHFDC’s liability.

Mr. Ueki discussed the changes to the Criteria Point System, stating that HHFDC would like to get to a point where applicants are able to self-score and certify their self-scoring to allow for acceleration within the application process.
In regard to changes made with scoring, Mr. Ueki stated that the points have been reshuffled to result in higher scores for projects with units targeted for households which meet the LIHTC income threshold (e.g., a project with 100% of units at 60% AMI and below would score 6.25 points).

Vice Chair Taira asked whether there would be a tiebreaker. Mr. Ueki stated that although ties are rare, selection between projects are manageable, being based on the direction of the program during that particular time. Ms. Takahashi stated that allocation of the credits are not solely based on the score, but rather other factors that would allow flexibility in the selection of projects. Mr. Ueki added that for the most part, the Finance Branch usually awards based on a hierarchy scoring; however, the Corporation reserves the right to award in the best interest of the overall program.

Mr. Ueki noted that staff would continue to have discussion with developers and observe the results of the 2016 QAP, reporting to the Board as necessary.

On behalf of the HHFDC, Ms. Takahashi expressed appreciation for the guidance and direction of the Subcommittee on the proposed changes to the QAP.

In response to Director Kahele, Ms. Takahashi stated that the Governor’s goal on emergency homeless shelters is not a focus of the HHFDC, but rather our focus is on permanent housing/rentals.

In reference to Exhibit A, page 3 of 4, last paragraph, and based on the provided density formulas, Director Spindt asked if his calculation of $333,000 for construction cost per unit is correct. Mr. Ueki stated that dollar amount is reasonable. Housing Finance Specialist Patrick Inouye stated that construction cost per unit for acquisition/rehabilitation projects range from $34,000 to $57,000, with new construction cost per unit ranging from $204,000 to $421,000.

In reference to Exhibit A, Director Spindt ask whether we will limit project density due to restrictions on developer profit. Mr. Ueki stated that he did not believe so. However, the intent was to simplify and determine whether a high-density project would be driven through the 4% program and a smaller density project be driven through the 9% program.

In response to Vice Chair Taira, Mr. Ueki stated that staff anticipates to prepare the draft QAP for the Board to consider at the January 14, 2016 Board Meeting, with a Public Hearing held in February 2016. Depending on comments received at the public hearing, the QAP will then be finalized with the distribution of its Consolidated Application in April 2016. Applications are anticipated to be due by mid-June 2016, with recommendations being presented the Board in August/September 2016.

In response to Vice Chair Taira, Mr. Ueki stated that based on the original timeline, assuming that there are no substantial changes, the schedule would be delayed approximately two months.

In response to Designee Evans, Chair Pulmano clarified that this is the third meeting to approve the recommendations of the Subcommittee. Approval of the 2016/2017 QAP is anticipated to be in January 2016.

Designee Evans asked if there would be other changes made to the QAP at the January 14, 2016 Board Meeting. Mr. Ueki stated that there would be other changes, however, what is being proposed today are the major changes within the QAP.

With no further discussion, Chair Pulmano thanked everyone for their hard work and asked for a motion to adjourn.

Vice Chair Taira moved, seconded by Director Kahele

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That the meeting be adjourned at 10:25 a.m.

The motion was unanimously approved.

[Signature]

RONA FUKUMOTO
Secretary