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, JUNE 9, 2016
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, June 9, 2016, 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:

Present:
Director Leilani Pulmano, Chair
Director Edwin Taira, Vice Chair
Director Rona Fukumoto, Secretary
Director Audrey Abe
Director Milo Spindt
Director Melvin Kahele
Director Denise Iseri-Matsubara
Designee Mary Alice Evans (for Director Luis Salaveria)

Executive Director Craig Hirai

Staff Present:
Sandra Ching, Deputy Attorney General
Colette Honda, Deputy Attorney General
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Rick Prahler, Development Branch Chief
Kristi Maynard, Chief Financial Officer
Stuart Kritzer, Asset Management
Stan Fujimoto, Development Section Chief
Marlene Lemke, Sales and Counseling Section Chief
Patrick Inouye, Housing Finance Specialist
Jocelyn Iwamasa, Housing Finance Specialist
Dean Sakata, Housing Finance Specialist
Christopher Woodard, Property Management Coordinator
Jason Takata, Property Management Coordinator
Kent Miyasaka, Housing Information Specialist
Esa Pablo, Secretary to the Board

Guests:
Kevin Carney, EAH Housing
Aaron Eberhardt, EAH Housing
Marian Gushiken, EAH Housing
Paul Fortino, Southport Financial
Makani Maeva

A quorum was present.

Vice Chair Taira moved, seconded by Designee Evans

That the minutes of the Regular Meeting held on May 12, 2016 be approved as circulated.

Upon unanimous vote, the motion was approved.

Chair Pulmano deferred the approval of item II. B. and C. to later in the meeting.
Staff's recommendation was presented as follows:

That the HHFDC Board of Directors approve the following:

A. Approve Resolution No. 087, attached as Exhibit F, which provides for official intent with respect to the issuance of revenue bonds up to $17,087,575 for the Kukui Towers II project subject to the provisions recommended in Exhibits C and E.

B. Reserve up to $922,016 in annual Federal LIHTC and $461,008 in annual State LIHTC from the non-volume cap pool (4%) LIHTC for the Kukui Towers 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.

Vice Chair Taira moved, seconded by Director Kahele

That staff's recommendation be approved.

Finance Manager Darren Ueki presented the For action, stating that the Kukui Tower (Project) is a 378-unit fee simple acquisition project located in Honolulu, Oahu, built in 1974.

The Project receives operating subsidies for 76 units from a Project Based Section 8 Housing Assistance Payment (HAP) contract until December 31, 2046, allowing renters to pay 30% of their income by subsidizing the owner the balance of the contract rent.

Rehabilitation on Project will address health and safety issues, such as drain line structural upgrades, with the conversion of 18 ADA compliant and accessible units. Additional improvements will included new appliances, painting, flooring, energy-efficient fixtures and replacement of cabinetry.

Although the Kukui Tower, LLC (Applicant) is requesting an authorized issuance amount of up to $17,087,575, the Project anticipates using only $16,087,575 to allow for a $1,000,000 cushion against any budget increases.

The Project anticipates starting construction in January 2017, with completion of the project being in July 2018.

Staff questioned the need for the HHFDC Resource, considering its existing affordability is until December 2046. The Applicant addressed staff's concerns by amending its application to increase the Project's initial replacement reserve account to $1,921,906 and waived its right to request a Qualified Contract under Section 42 of the Internal Revenue Code.

Approval of the Inducement Resolution is non-binding and states HHFDC's intent to possibly issue tax-exempt revenue bonds, recognize expenditures made by the developer 60 days prior to the approval of the resolution, and enables staff to commence formal discussions with the applicant to determine project feasibility.

If the Project is found feasible and meet all other requirements, staff will return to the Board for final consideration.

Mr. Ueki opened for questions, along with Mr. Aaron Eberhardt, Mr. Kevin Carney, and Ms. Marian Gushiken, on behalf of the Project.

Director Fukumoto asked on the Project's transition plan for existing residents. Mr. Eberhardt stated that the rehabilitation would be done in phases to allow tenants to be housed on site.
Designee Evans asked what is the annual allocation of the LIHTC. Mr. Ueki explained that there is no set allocation; however, the 9% credits are based on population (competitive), whereas the 4% credits are based on the State’s Bond Cap. Housing used roughly $296 million of the State’s $300 million in Bond Cap.

Upon unanimous vote, the motion was approved.

Staff’s recommendation was presented as follows:

A. Resolution No. 088, attached as Exhibit E, which authorizes a tax-exempt issuance of up to $9,000,000 from the HMMF Bond Program, subject to the provisions and conditions recommended in Exhibit D.

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 Kahele

That staff’s recommendation be approved.

Mr. Ueki presented the For Action, stating that the HHFDC is the Fee Owner of the Kekuilani Gardens (Project), consisting of 56 family units, located in Kapolei, Oahu.

Since approved, the Project’s total costs fell by $3,169,018 due to a reduction in the acquisition cost mandated by the United States Department of Agriculture (USDA). The lower acquisition costs offset an $864,775 increase in construction costs and reserves, reduced its Developer Fee by $435,915, its HMMF issuance to $6,520,385, and its LIHTC eligible basis and equity to $4,881,301.

The Project anticipates construction to start in July 2016, with project completion in May 2017.

The HMMF bond shall be a private placement with Citibank, N.A., having two series. Series A is estimated to be $2,900,000, providing both interim and permanent financing, with Series B estimated at $3,620,385, providing interim financing with expected payoff by LIHTC Equity.

A TEFRA Hearing was held in May 2014 at HHFDC office, in which four attended from the general public. No written testimony was provided.

Approval of Resolution No. 088 authorizes the issuance, sale, and delivery of mortgage revenue bonds in a principal amount not to exceed $9,000,000 for making a mortgage loan to provide financing to the Kekuilani Gardens Partnership, LP.

Mr. Ueki opened for questions, along with Ms. Makani Maeva, on behalf of the Project.

Director Spindt asked whether the 4% Tax Credits would be on the 10-year span or on the 5-year accelerated credit. Mr. Ueki stated that this would be on the 10-year span. Anything awarded after January 1, 2017 would fall into the accelerated credit.

Director Pulmano asked on the improvements being made to the Project. Ms. Maeva stated that there would be all new cabinetry, counter tops, flooring, windows, separation of stairwells and repairs, drainage/plumbing fixtures, photovoltaic panels, parking lot, and roofs.

Upon unanimous vote, the motion was approved.

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Staff’s recommendation was presented as follows:

That the HHFDC Board of Directors approve the following:

A. Resolution No. 089 attached as Exhibit F, which provides for official intent with respect to the issuance of revenue bonds up to $9,250,000 for the River Pauahi Apartments project, subject to the provisions and conditions recommended in Exhibits C and E.

B. Reserve up to $444,999 in annual Federal LIHTC and $222,499 in annual State LIHTC from the non-volume cap pool (4% LIHTC) for the River Pauahi Apartments project, subject to the provisions and conditions recommended in Exhibits D and E.

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

Vice Chair Taira moved, seconded by Director Kahele

That staff’s recommendation be approved.

Mr. Ueki presented the For Action, stating that the existing River Pauahi Apartments (Project) consist of 49 family units, located in Honolulu, Oahu, with an off-site parking facility owned and managed by the City and County of Honolulu.

The Project anticipates starting construction in September 2016, with project completion in April 2017.

Mr. Ueki opened for questions, along with Ms. Makani Maeva, on behalf of the Project.

Director Taira asked how old is the Project. Ms. Maeva stated that the Project was built in 1973.

Director Spindt asked for the rate received for their Federal and State Low Income Housing Tax Credits (LIHTC). Ms. Maeva stated she has it modeled at 1.07 for federal and 0.45 for state. Furthermore, Ms. Maeva stated that with the Legislative improvement to shorten the term would allow for a higher tax rate, which has investors responding positively.

Chair Pulmano asked what types of improvements will be done on the property. Ms. Maeva stated that the property is part of the City and County’s plan for long-term preservation of leasehold properties, and therefore, renovations will include photovoltaic panels, exterior paint, new windows and countertops, upgrade of electrical systems, landscaping, ADA improvements, new appliances, and conversion of an existing liquor store into a management office.

Director Abe asked whether the units are metered separately and were there any asbestos issues. Ms. Maeva stated that asbestos and lead base testing was completed, with the property master metered and paid by the Project, hence, the installations of photovoltaic solar panels to keep costs down.

Director Abe asked how the electricity cost is allocated for each unit. Ms. Maeva stated that HUD has a prescribed process for determining utility allowances and is updated annually, being based upon the number of appliances within the unit and structure of the unit (e.g., gas versus electricity).

Upon unanimous vote, the motion was approved.
Staff's recommendation was presented as follows:

That the HHFDC Board of Directors approve an increase in the amount of $510,000 to the Waiahole Valley Agricultural Park and Residential Lots Subdivision Budget, as substantially described in this For Action, subject to other terms and conditions deemed necessary and acceptable by the Executive Director, including the reallocation of line item funds as the need arises, and also subject to the following:

A. Availability of DURF funds; and
B. Approval and release of funds by the Governor.

Vice Chair Taira moved, seconded by Director Kahele

That staff's recommendation be approved.

Property Management Coordinator Chris Woodard presented the For Action, stating that HHFDC is the property manager and owns in fee the Waiahole Valley Agricultural Park and Residential Lots Subdivision, which consists of 119 lots (approximately 593 acres of land) and owns 17 lots (approximately 292 acres) outside the Subdivision.

Annual revenues generated from ground lease rents are approximately $151,000 and approximately $19,000 is generated from water service charges. In addition to maintaining the subdivision infrastructure, HHFDC also incurs various costs relating to management of its leased and vacant lots for landscaping, tree trimming, site preparation, and various professional services.

Historically, expenses have exceeded revenues, and the project is subsidized by the Dwelling Unit Revolving Fund. Current fiscal year-to-date expenses through April 30, 2016 totaled approximately $340,000.

In October 2014, the Housing and Community Development Corporation of Hawaii Board increased the Lease Maintenance Expenses line item (non-infrastructure expenses) in the Waiahole Valley DURF budget in the amount of approximately $1.5 million, with a total budget of approximately $2 million, of which $288,000 has been expended to date.

In June 1995, the State of Hawaii Department of Health issued a violation for the operation of a solid waste processing facility on a portion of Lot 33 parcel located behind Waiahole Elementary School.

In 2007, the former tenant, Roy K. Kawelo, was evicted from the premises for various lease violations, and although Mr. Kawelo hired an environmental consultant to develop a preliminary landfill closure plan, nothing was implemented and the DOH's violation was never resolved.

Therefore, in October 2014, HHFDC contracted the services of Cardno GS, Inc. to conduct a Phase I Environmental Site Assessment of Lot 33. Based on their investigation, the landfill is believed to contain approximately 10,000 and 15,000 cubic yards of waste, comprised of concrete, asphalt, roofing materials, and other various construction and demolition waste. HHFDC is not aware of any hazardous materials other than very small amounts of asbestos-containing materials and lead-based paint.

The estimated cost to excavate, segregate, and dispose of waste ranges from $1.06 to $1.45 million, or $1.10 to $2.77 million to cap and monitor the landfill for 30 years. Federal or State funding sources to remediate the property are unknown and the process for conducting a search for assets of Mr. Kawelo is being pursued by the Department of the Attorney General.
If site remediation activities are not commenced within the next 12 to 18 months, HHFDC will be required by DOH, to do the following: (1) install three to four wells to be sampled on a quarterly basis to determine whether groundwater had been impacted by the landfill waste; and (2) construction a temporary cap and storm water diversion berm to prevent storm water from coming into contact with the landfill waste.

The current lease maintenance expenses budget is insufficient to undertake all lease administration projects planned in Waiahole Valley, plus reasonable contingency items, and future expenses projected for the next 4 fiscal years are anticipated to be approximately $2.2 million at the high-end of the spectrum.

Mr. Woodard noted that the budget includes $250,000 for the hiring of a community-planning consultant to assist HHFDC with the development of a strategic plan to address the outstanding issues within the Waiahole Valley. Outside counsel and other services are also anticipated to be needed over the next few years.

Requests for additional budget funds from DURF would be sought on an ongoing basis, but the goal is to offset those costs with new revenues and reduced expenses achieved through implementation of a strategic plan.

Mr. Woodard opened for questions.

In regard to the landfill issue, Designee Evans asked whether staff is leaning towards any particular solution (i.e., removal versus cap and monitoring). Mr. Woodard stated that essentially staff is moving towards removal rather than cap and monitoring, to avoid any unexpected costs that could occur from potential future leaks. Cap and monitoring would also require a deed restriction to be filed on that portion of the property, bringing down the asset value. Project management assistance from DAGS is anticipated and is key in mitigating costs for disposal.

Vice Chair Taira asked how long was Mr. Kawelo dumping waste. Mr. Woodard stated that Mr. Kawelo had been on the property since the 1970’s and was not cited until 1995. Documentation on the number of trips and items dumped has been received from 5 to 6 firms, including Grace Pacific Corporation.

Director Abe asked whether there is any recourse to Mr. Kawelo and if he had liability insurance. Mr. Woodard stated that there is recourse to Mr. Kawelo under the HHA’s 1982 lease agreement, before the State completed the subdivision and executed the 55-year leases in the Valley in 1998. Although the liability insurance requirement under that agreement was not immediately available, the current liability insurance requirement for the Waiahole leases for an agricultural property is $1 million per occurrence. However, the Department of the Attorney General is looking into the matter.

In response to Director Kahele, Mr. Woodard stated that the waste would be relocated to the PVT landfill in Waianae, once removed.

Director Kahele asked what would be the role of the strategic planning consultant. Mr. Woodard stated the consultant’s role would deal with the various issues in the Valley, assisting with a plan to ensure the financial sustainability of the project.

In response to Vice Chair Taira, Mr. Woodard stated that the one known lot access situation is close to being resolved and the other lots that do not have legal means of access are primarily outside the subdivision and are on conservation lands, which the HHFDC does not plan on leasing. However, the 9 vacant residential, 3 vacant agricultural (including Lot 33) are within the subdivision with access and are leasable.

Director Iseri-Matsubara stated that this being the area of the Department of Agriculture expertise, their assistance was sought, in which they have committed
to help with an assessment on the agricultural lots. Furthermore, she stated that the community engagement piece would be very critical to moving the community forward.

Mr. Woodard concurred with Director Iseri-Matsubara’s comment, stating that he and Property Management Coordinator Jason Takata have met with the Waiahole-Waikane Community Association to inform them of what the HHFDC is planning to do in order to provide change that is sustainable for both the landlord and lessee. Reaction from the WWCA was generally positive. Mr. Woodard also stated that he and Mr. Takata would be meeting as a courtesy that afternoon to discuss the matter with John Reppun, who leases a large agricultural parcel with his brothers.

Mr. Woodard further stated that the HHFDC plans to select a strategic planning consultant through an RFP process rather than going through the professional service method of procurement, to allow staff to outline specific specifications to ensure the best consultant available to accomplish its plans and goals for the project. Staff anticipates having a contract signed by November 2016, with commencement of its community engagement process in January 2017.

In response to Director Fukumoto, Mr. Woodard stated that the strategic planner would focus on both agriculture and housing, in which subcontractors would likely be involved where further expertise is needed.

Discussion ensued on the various types of agriculture and housing issues that staff looked to address, such as the substandard dwellings, its lease structure, water system, and over all long-term ownership and management.

Chair Pulmano suggested that the DHHL’s strategic plan be looked at.

Executive Director Hirai asked whether a community association should be institutionalized. Mr. Woodard stated that is something that can be discussed with the consultant.

With Waiahole consisting of various community organizations, Director Iseri-Matsubara stated that inclusion of as many key stakeholders would be important in the success of the community moving forward.

Chair Pulmano asked whether the State had liability insurance for the lessees/tenants or the Corporation. Mr. Woodard stated that HHFDC does require liability insurance for the tenants; however, was unsure about the State, stating that he could follow up with the State Risk Management Office.

Director Abe asked for the required amount of liability insurance for tenants. Mr. Woodard stated residential lots required a $300,000 liability limit and agricultural lots $1 million per occurrence.

Director Abe asked on the potential revenues for the entire Agricultural Park. Mr. Woodard stated that it would depend on the outcome of discussions held with the potential consultants and the resulting leasing strategies for the vacant lots.

In response to Director Spindt, Mr. Woodard stated that the original project was supposed to be developed by the Hawaii Housing Authority and exchanged with DLNR for development lands for housing. However, DLNR withdrew from the agreement, which involved the Villages of Kapolei.

Director Spindt asked whether disposing of the land was something being explored. Mr. Woodard stated that tenants have been interested in purchasing fee simple lots, but that it would not be consistent with the original intent of the State’s acquisition of the land.

Vice Chair Taira stated his perspective on the importance and benefits to establishing a community association.
Chair Pulmano questioned whether there was sufficient funding for a community-planning consultant. Mr. Woodard stated that staff is discussing the matter internally and will not know until RFP responses are received. However, in terms of a community association, residents do agree that the existing situation is not sustainable for the long term and the elder residents are concerned about the futures of their children and grandchildren.

Chair Pulmano asked that staff keep the Board apprised while working through an RFP by providing a For Information to the Board on a regular basis.

Director Iseri-Matsubara commented on the DHHL model and the professional services process. Mr. Woodard reiterated that going through the professional services process would be easier, but is not believed to be the most effective way to accomplish the specific goals of HHFDC.

Director Iseri-Matsubara commended Mr. Woodard for working with the community, stating that the residents have expressed their appreciation.

In reference to the landfill situation, Director Spindt asked whether a claim could be made on the old policy. Mr. Woodard stated that Deputy Attorney General Colette Honda is currently working with staff on the matter to determine what the Corporation is able to claim.

Upon unanimous vote, the motion was approved.

Designee Evans, seconded by Vice Chair Taira

To recess the meeting at 10:23 a.m.

Upon unanimous vote, the motion was approved.

Chair Pulmano reconvened the meeting at 10:30 a.m. and announced agenda item III. D. would be presented after the Report of the Executive Director.

Executive Director Hirai stated the Administration Bills are pending the Governor’s signature.

Chair Pulmano asked when is the deadline for the Governor’s signature. Executive Director Hirai stated that he believed it was June 27, 2016. Director Iseri-Matsubara clarified that June 27 is the deadline and July 12, 2016 is the deadline for the intent to veto listing. Designee Evans added that after July 12, 2016, the bills would become law with or without the Governor’s signature.

Executive Director Hirai stated that an RFP for a Real estate Consulting and Brokerage Services for the Affordable Rental Housing Portfolio Restructuring and Preservation was issued on March 24, 2016, with responses from CBRE and Colliers.

Executive Director Hirai provided the Board with background information on the Hawaii Rental Housing System Revenue Bond Fund, developed to alleviate the shortage of available rental housing opportunities through the development and acquisition of affordable rental housing projects statewide.

Goals within the RFP were noted, as follows:

(1) to preserve the long term affordability of the properties’ rental housing units, transition ownership and management of the properties to one or more private entities that will improve the properties’ operations and undertake necessary capital improvements; (2) monetize HHFDC’s capital investment in the properties and redeem the outstanding tax-exempt bonds, $79,485,000 as of January 31, 2016; and (3) generate proceeds to be used for additional affordable rental housing statewide.

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Therefore, staff is requesting that an Affordable Rental Housing Portfolio Restructuring and Preservation Subcommittee be established to investigate and recommend policies and parameters for the restructuring and preservation of the Hawaii Rental Housing System Revenue Bond Fund portfolio.

Chair Pulmano asked for volunteers. It was decided that members of the Affordable Rental Housing Portfolio Restructuring and Preservation Subcommittee would be Directors Salaveria (or his Designee, Mary Alice Evans), Iseri-Matsubara, Fukumoto, and Spindt.

The Subcommittee anticipates to provide its recommendations by the July 14, 2016 Board Meeting, with full Board consideration and possible approval of the Subcommittee’s recommendations by the August 11, 2016 Board Meeting.

With no further discussion, Chair Pulmano proceeded to agenda item III. E.

Staff’s recommendation was presented as follows:

That the HHFDC Board of Directors authorizes an increase in the HHFDC Executive Directors’ salary effective on July 1, 2016.

Vice Chair Taira moved, seconded by Director Kahele

That staff’s recommendation be approved.

Chief Planner Janice Takahashi presented the For Action, stated that this past session, the Legislature passed Senate Bill 2823, H.D. 1, which amends section 201H-2, HRS and authorizes the HHFDC Board to set the salary of the Executive Director at a level not to exceed the salary of the Director of the Department of Business, Economic Development and Tourism ($141,720). If not vetoed, SB 2823, H.D. 1 is effective on July 1, 2016, which also requires the Board to submit a report to the Legislature no later than 20 days prior to the convening of the regular session immediately following each adjustment of salary of the Executive Director.

Vice Chair Taira moved, seconded by Director Kahele

That the Board convene in Executive Session pursuant to Section 92-5(a)(2), Hawaii Revised Statutes, as it relates to the evaluation of the Executive Director, where consideration of matters affecting privacy will be involved.

Upon unanimous vote, the motion was approved.

The Board convened in Executive Session at 10:40 a.m.

The Board reconvened in Regular Session at 11:05 a.m.

Vice Chair Taira moved, seconded by Director Kahele

That staff’s recommendation be amended as follows:

That the HHFDC Board of Directors authorize an increase in to the salary of the HHFDC Executive Director’s salary, pursuant to Chapter 201H, Hawaii Revised Statutes, to $135,000 per year, effective on July 1, 2016.

The motion was approved.

Upon unanimous vote, the main motion was approved, as amended.

Chair Pulmano thanked Executive Director Hirai for his service and expressed appreciation for all his hard work.
Vice Chair Taira moved, seconded by Director Kahele,

That the meeting be adjourned at 11:07 a.m.

Upon unanimous vote, the motion was approved.

ROYA FUKUMOTO
Secretary