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, JULY 14, 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, July 14, 2016, at 9:05 a.m.

CALL TO ORDER/ ROLL CALL

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 Luis Salaveria

Executive Director Craig Hirai

Excused:
Director Denise Iseri-Matsubara
Director Wesley Machida

Staff Present:
Sandra Ching, Deputy Attorney General
Colette Honda, Deputy Attorney General
John Cregor, 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
Marlene Lemke, Sales and Counseling Section Chief
Patrick Inouye, Housing Finance Specialist
Jocelyn Iwamasa, Housing Finance Specialist
Dean Sakata, Housing Finance Specialist
Ken Takahashi, Development Project Manager
Beth Malvestiti, Development Project Manager
Seiji Ogawa, Development Project Coordinator
Christopher Woodard, Property Management Coordinator
Jason Takata, Property Management Coordinator
Kent Miyasaki, Housing Information Specialist
Esa Pablo, Secretary to the Board

Guests:
Senator Suzanne Chun Oakland, State Senate
Ben Park, WAM
Gary Mackler, County of Kauai
Kanani Fu, County of Kauai
Lia Power, CRP
Mitch Mitchell, CRP
Makani Maeva, Ahe Group

QUORUM

A quorum was present.

II. A. APPROVAL OF MINUTES 06/09/16 Regular Meeting

Vice Chair Taira moved, seconded by Director Salaveria

That the minutes of the Regular Meeting held on June 9, 2016 be approved, as circulated.

Upon unanimous vote, the motion was approved.

II. B. APPROVAL OF MINUTES 06/09/16 Executive Session

Chair Pulmano deferred the approval of the minutes of the Executive Session held on June 9, 2016, to later in the meeting.

III. A. DISCUSSION AND/OR DECISION MAKING Approve an Extension to the Rental Housing Revolving Fund Letter of Intent 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 approve the following:

A. Extend the LOI dated January 26, 2015, for the RHRF Loan for the Kulana Hale at Kapolei project to December 31, 2016, subject to the requirements as set forth in the For Action dated January 8, 2015; and

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 Abe

That staff's recommendation be approved.

Finance Manager Darren Ueki presented the For Action, stating that the Kulana Hale at Kapolei (Project) is a proposed 154-unit affordable rental housing facility targeted for the elderly. This Project is the first of three phases, with construction anticipated to start in March 2017 and project completion in January 2019.

Costal Rim Properties, Inc. submitted a request to extend its Rental Housing Revolving Fund (RHRF) Letter of Intent (LOI) on June 16, 2016.

Based on progress made in site control, zoning approvals, and financing commitments, staff is recommending a 5-month extension, to December 31, 2016, to coincide with the expiration date of the Hula Mae Multi-Family (HMMF) Inducement Resolution, and avoid having to return to the Board.

Mr. Ueki opened for questions, along with Lia Powers, on behalf of the Project.

In response to Director Salaveria's question, Mr. Ueki stated that negotiations are ongoing with the private placement of the bond financing and tax credit investor, which are typical in such bond deals.

Director Salaveria commented that if such extensions are "typical" in bond deals that HHFDC handles, then perhaps the Board should reevaluate its process. Mr. Ueki stated that staff continues to look for efficient ways to expedite its process, one of which may be to authorize the executive director authority to approve extensions, while providing the Board with project updates.

Director Salaveria further commented that he did not want to hold a project back by having to wait for Board approval, especially during a crucial part of its deadline schedule. Mr. Ueki stated that is the reason for the initial commitment timeframes that are put in place, which staff also uses to ensure HHFDC's finite resources are stewarded well.

Given a low interest environment, Director Salaveria ask whether staff foresees any problems with bond placement. Mr. Ueki stated that the problem has not been so much selling the bonds, but rather finding a more efficient way to get to that point, which has been an ongoing discussion between the current Administration, developers, and the State.

Upon unanimous vote, the motion was approved.

III. B. DISCUSSION AND/OR DECISION MAKING
Approve: (1) Resolution No. 090, 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 Waipahu Tower Project Located in Waipahu, Hawaii, TMK No.: (1) 9-4-039: 048

Staff's recommendation was presented as follows:

That the HHFDC Board of Directors approve the following:

A. Resolution No. 090 attached as Exhibit F, which provides for official intent with respect to the issuance of revenue bonds up to $11,500,000 for the Waipahu Tower project, subject to the provisions and conditions recommended in Exhibits C and E.

B. Reserve up to $541,063 in annual Federal LIHTC and $270,531 in annual State LIHTC from the non-volume cap pool (4% LIHTC) for the Waipahu Tower 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 Fukumoto

That staff's recommendation be approved.

Finance Manager Darren Ueki presented the For Action, stating that the Waipahu Tower (Project) is a proposed 64-unit affordable rental housing facility targeted for families.

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

Approval of Resolution No. 090, allows for further discussions and negotiations between involved parties to determine the feasibility of the Project, as well as recognize eligible expenditures made by the developer 60 days prior to the approval of the Inducement Resolution for reimbursements. If deemed feasible, staff will return to the Board for final approval for the issuance, sale, and delivery of the Bonds.

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

Upon unanimous vote, the motion was approved.

III. C. DISCUSSION AND/OR DECISION MAKING
Approve a Memorandum of Agreement with the County of Kauai to Establish a Cooperative Relationship for the Lima Ola Workforce Housing Development Located in Eleele, Kauai, Hawaii,

Staff's recommendation was presented as follows:

That the HHFDC Board of Directors approve the following:

A. The Memorandum of Agreement between the Hawaii Housing Finance and Development Corporation and the County of Kauai.

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

Director Spindt moved, seconded by Vice Chair Taira

That staff's recommendation be approved.

Chief Planner Janice Takahashi introduced County of Kauai's Housing Director Kanani Fu and Housing Development Coordinator Gary Mackle. A handout from the County of Kauai was distributed to the Board, providing information on the project's estimated infrastructure cost breakdown, funding sources for phase 1, and maps of the zoning and preliminary subdivisions.

TMK No.:
(4) 2-1-001: 027

Ms. Takahashi presented the For Action, stating that the County of Kauai (County) is the fee simple owner of approximately 75 acers of land in Eleele, Kauai. The County is proposing to develop the 75 acres as a four-phased master planned community called Lima Ola (Project), containing approximately 550 residential for sale and rental units, with a 15 – 20 year build out.

Through the Chapter 201H, Hawaii Revised Statutes, expedited entitlement process, the County of Kauai Housing Agency anticipates County Council approval of its 201H Application in November 2016, with infrastructure construction anticipated to start by October 2017.

The estimated development cost for on and off-site infrastructure is approximately \$19.5 million. The County is requesting from the County Council, an appropriation of \$8 million for the infrastructure, community park, and project contingency.

Development concepts for the Project entails:

- The County providing the necessary infrastructure/entitlements;
- HHFDC requesting a Dwelling Unit Revolving Fund infusion from the State Legislature, which will be loaned to the County for infrastructure for the Project;
- The County preparing a request for an RFP for the development; and
- HHFDC and the County undertaking the necessary tasks for the development of the Project, which may include HHFDC accepting one or more finished lots in the Project entitled for multi-family housing in full or partial repayment of the DURF loan to the County.

The 2016 Legislature approved an appropriation of \$25MM for the Dwelling Unit Revolving Fund pursuant to Act 124, SLH 2016. The Legislature, through Act 132, SLH 2016, authorized HHFDC to provide grants and loans to state agencies, and loans to the counties and private developers for regional infrastructure improvements. This Act also allows HHFDC to accept improved land from the counties or private developers in repayment of their loans.

The purposes of the Memorandum of Agreement are to establish a cooperative relationship for the development of the Project, as well as define the roles and responsibilities of the County and HHFDC.

The County will apply for a DURF loan and enter into a separate loan agreement, which will set forth the terms and conditions for the loan.

Ms. Takahashi noted that initially the DURF loan was intended to match the County's infrastructure investment of \$8 million; however, based on new estimates, the County may request a DURF loan of up to \$13 million for the infrastructure. Until the County is able to secure infrastructure costs through competitive bid, the exact DURF loan amount is unknown.

Subject to the approval of the County Council, the County will convey in fee simple to HHFDC, one or more finished lots in Lima Ola, entitled for multi-family housing and repayment of all or a portion of the DURF loan. HHFDC will subsequently lease the land out to a private entity for a term not less than 65 years for use as one or more affordable rental housing projects.

Ms. Takahashi opened for questions, along with Ms. Fu and Mr. Mackler.

In response to Vice Chair Taira's question, Mr. Mackler stated that it has not been determined on whether the single-family units will be sold in leasehold or fee simple and will depend on the unit subsidy received. If subsidies are obtained, units would likely be a leasehold sale for long-term affordability. However, if no subsidy is obtained, the County may default to the County's ordinance of a 20-year buyback deed restriction.

Vice Chair Taira asked about the Project's density in comparison to the neighboring parcels. Ms. Fu stated that Phase I is restricted based on infrastructure and water allocations. Higher density would require further improvements that were anticipated to be addressed in Phase II.

Vice Chair Taira suggested that the agreement reflect the initial density with the understanding that greater density could be achieved in the future, when water becomes available. Mr. Taira commented that he would like to see more density, without exceeding the character of the area, matching the density of surrounding areas such as the HPHA's Eleele public housing project.

In response to Vice Chair Taira's comment, Mr. Mackler stated that the County has done higher density projects and does want to stay true to the rural character of Eleele; however, community input will be a determining factor in terms of the density outcome.

Executive Director Craig Hirai noted that councilmembers have mentioned traffic congestion concerns.

Mr. Mackler stated that the County is looking at different densities and product types for the Project, with one of the benefits being its connection to a municipal sewage treatment plant that has adequate capacity for the entire development build out.

In response to Director Abe's question, Mr. Mackler stated that products used for the Project would be based upon the bids received. However, the County is looking at possibly 3 bedroom/2 bath duplex units with wood frames on post and pier foundations.

In response to Chair Pulmano's question, Executive Director Hirai stated that there has been strong indications by the Legislature that the Project should utilize a portion of the appropriated $25 million in DURF funds.

Upon unanimous vote, the motion was approved.

III. D. DISCUSSION AND/OR DECISION MAKING
Authorize Signatories to Execute a Corporate Resolution Certification to Effect the Transfer of Funds from and Subsequent Closure of the Kekuilani Gardens Replacement Reserve Account

Staff's recommendation was presented as follows:

> That the HHFDC Board of Directors authorize the Executive Director and Chief Financial Officer as signatories to a Corporate Resolution Certification to be delivered to BancWest Investment Services to effect the transfer of funds from and subsequent closure of the Kekuilani Gardens replacement reserve account.

Vice Chair Taira moved, seconded by Director Kahele

> That staff's recommendation be approved.

Mr. Woodard presented the For Action, providing background information on the events leading up to the executed May 6, 2016 Purchase and Sale Agreement (PSA) for the Kekuilani Gardens project, a 56-unit affordable rental housing project located in the Villages of Kapolei.

Due to a bank-related delay in the transfer of replacement reserve funds in time for the closing on June 30, 2016, an amendment to the PSA was made, requiring HHFDC to transfer the $600,000 in the funds (in excess of $615,000 at closing) to escrow no later than July 29, 2016.

In order to effect the transfer and subsequent closure of the Kekuilani Gardens replacement reserve account, BancWest Investment Services requires that officers of HHFDC execute a Corporate Resolution Certification, which would provide authorization to designated signatories to direct the balance of the account's funds to be wired to Old Republic and thereafter, close the replacement reserve account.

Mr. Woodard opened for questions, along with Ms. Makani Maeva, on behalf of the Kekuilani Gardens Partners, LP.

Executive Director Hirai asked whether it was determined that a corporate resolution certification was needed. Chief Financial Officer Kristi Maynard stated that due to changes to HHFDC staffing and Tax ID, extra precautionary measures are being taken by the bank to ensure proper authorization and transfer.

In response to Director Salaveria's question, Mr. Woodard stated that the DURF and RHRF loans have been repaid. The USDA authorized exit incentive payment to HHFDC will be held in escrow until the $600,000 in the replacement reserve funds are released to the buyer through escrow.

In response to Director Salaveria's follow up question, Mr. Woodard stated that HHFDC would receive the excess replacement reserve funds of approximately $15,000, minus closing costs related to the transaction.

Mr. Woodard commented that he did not believe it to be wise to invest such funds in a brokerage account.

Upon unanimous vote, the motion was approved.

VI. EXECUTIVE SESSION

Chair Pulmano asked that the Board move to item VI. Executive Session.

Vice Chair Taira moved, seconded by Director Kahele

> That the Board of Directors of the Hawaii Housing Finance and Development convene in Executive Session pursuant to Section 92-5(a)(4) to consult with the Board's attorney on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities, as it relates to the proposed settlement of Hawaii Coalition of Christian Churches and Kahikolu Ohana Hale O Waianae vs. Hawaii Housing Finance and Development Corporation (Civil No. 13-1-1739).

Upon unanimous vote, the motion was approved and the Board convened in Executive Session at 9:53 a.m.

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RECONVENED
10:50 a.m.

The Board reconvened in Regular Session at 10:50 a.m.

II. B. APPROVAL OF MINUTES
06/09/16
Executive Session

It was noted that the Executive Session meeting minutes of June 9, 2016 were approved in Executive Session.

IV. REPORT BY THE AFFORDABLE RENTAL HOUSING PORTFOLIO RESTRUCTURING AND PRESERVATION SUBCOMMITTEE - FINDINGS AND RECOMMEND-ATIONS

Mr. Woodard presented the findings and recommendations report by the Affordable Rental Housing Portfolio Restructuring and Preservation Subcommittee (Subcommittee), which was created at the June 9, 2016 Board Meeting, to investigate and recommend policies and parameters for the restructuring and preservation of the Hawaii Rental Housing System Revenue Bond (HRHSRB) Fund portfolio.

On July 6, 2016, the Subcommittee met and reviewed background material on the HRHSRB portfolio and results of a Request for Proposals (RFP) issued by staff in March 2016, for real estate consulting and brokerage services for the restructuring and preservation of the HRHSRB portfolio.

Based on their review, the Subcommittee finds that proceeding with a restructuring and preservation of the HRHSRB Fund portfolio would be consistent with HHFDC's mission and allow HHFDC to exit from the multifamily rental property management business through private-sector ownership, reallocating staff to the Corporation's core financing (assisting households earning up to 60% to 140% AMI) and development assistance functions.

Based on these findings, the Subcommittee recommends that:

- The remaining 39% of units (71% of units have existing affordability restrictions to assist households earning up to 80% AMI) should become income- and rent-restricted in order to serve the program's originally intended population of moderate-income households (80% - 100% AMI).

- A program be developed to minimize displacement pressures as the RHS portfolio shifts towards serving a more moderate-income population.

- Current residents of the Pohulani Elderly project be fully protected from any involuntary displacement.

- Pursue private-sector ownership to correct project deficiencies more efficiently and with the capacity to undertake capital-intensive projects to further enhance and preserve affordable rentals long-term.

- Sufficient transaction proceeds should repay existing debt and further fund limited or temporary rental assistance programs to preserve affordability (i.e., Rental Assistance Program).

- Possible net transaction proceeds may be realized to fund new affordable rental housing in the State, but should not be a primary motivation of the portfolio restructuring.

Mr. Woodard opened for questions.

In response to Vice Chair Taira's question, Mr. Woodard stated that it is anticipated that the projects under HHFDC's exiting multifamily rental property management would likely be sold through a leasehold sale subject to various conditions.

In response to Director Salaveria's question, Mr. Woodard stated that any reassignment of the leasehold interest would need staff approval.

In response to Vice Chair Taira's question, Mr. Woodard stated that an issuance of a 75-year ground lease is being considered for the leasehold sale projects.

Director Abe commented that perhaps a 75-year ground lease term is too long to determine what may happen in the future but Director Spindt stated that the Subcommittee did discuss possible renegotiation of lease terms before the 75-year term in regard to resale of the property. Traditionally, leasehold properties would need a remaining term of at least 25 – 30 years in order to make a sale and ensure sufficient time to amortize the debt over.

In response to Senator Suzanne Chun Oakland's question, Chief Planner Janice Takahashi stated that with the lack of federal funding for development, the RHS program was established to allow HHFDC to build, own, and operate affordable projects. Mr. Woodard added that the State will remain owners of the land, with no cost to the State, with repair and maintenance conditions being standard within HHFDC's lease agreements.

Senator Chun Oakland asked that HHFDC Board and staff be mindful of displacement of the elderly who are on fixed incomes.

In response to Director Abe's question, Mr. Woodard stated that a valuation of the portfolio would be dependent upon the affordability restrictions set forth by the Board.

The Board had a full discussion on how to best valuate the Subcommittee's findings and recommendations in order to provide staff with further guidance to effectuate the Corporation's goals and mission in proving and preserving affordable housing.

After much discussion, the Board suggested that staff's valuation should include, but not be limited to, the following:

- Pohulani's affordability restriction be set at its original intent of 100% of the units being for those earing 80% AMI or less and avoid displacement.

  Vice Chair Taira suggested that elderly projects be set at 60% AMI and below, due to a majority of the elderly's incomes being fixed. However, Mr. Ueki stated that if the affordability restrictions are set at 60% AMI, tenants would start being displaced.

  Executive Director Hirai stated that the minimal number of displacements, if any, could possibly be taken care of through subsidies.

- A timeline for the second rent supplement be determined.

  Director Fukumoto commented that the longer the timeline for the second supplement for the seniors, the better, due to difficulties getting into a unit. (e.g., 5 years being the minimum or possibly 10 years)

  Director Spindt stated that during the Subcommittee's discussion, staff proposed a 10-year timeframe under the RAP program.

Chair Pulmano asked that staff provided the Board with an outline of what it is that staff needs for the Subcommittee to respond to in a report.

It was determined that the Subcommittee would need to hold another meeting to define potential questions and have a full discussion.

Director Spindt was excused at 12:00 p.m.

Further discussion was had to reconfirm and reiterate the Board's direction to staff.

V. REPORT OF THE EXECUTIVE DIRECTOR

Chair Pulmano asked that the Report of the Executive Director be discussed at the next Board of Directors meeting, before a quorum was lost.

VII. ADJOURNMENT
12:25 p.m.

Vice Chair Taira moved, seconded by Director Abe

To adjourn the meeting.

By unanimous vote, the motion was carried.

The meeting was adjourned at 12:25 p.m.

for

RONA FUKUMOTO
Secretary