**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, AUGUST 11, 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, August 11, 2016, at 9:00 a.m.

**CALL TO ORDER/ ROLL CALL**

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

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|---|---|
| Present: | Director Leilani Pulmano, Chair |
| | Director Edwin Taira, Vice Chair |
| | Director Audrey Abe |
| | Director Milo Spindt |
| | Director Melvin Kahele |
| | Director Denise Iseri-Matsubara |
| | Director Luis Salaveria |
| | |
| | Executive Director Craig Hirai |
| | |
| Excused: | Director Rona Fukumoto, Secretary |
| | Director Rodrick Becker (for Wesley Machida) |
| | |
| Staff Present: | Sandra Ching, 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 |
| | Christopher Woodard, Property Management Coordinator |
| | Kent Miyasaki, Housing Information Specialist |
| | Esa Pablo, Secretary to the Board |
| | |
| Guests: | Claire Chinn, Deputy Attorney General |
| | Nelson Nabeta, Deputy Attorney General |
| | Ben Park, WAM |
| | Paul Fortino, Northport Financial |
| | Kim Lord, CBRE |
| | Dana Peiterson, CBRE |
| | Andrew Gomes, StarAdvertiser |

**QUORUM**

A quorum was present.

**II. A. APPROVAL OF MINUTES** 07/14/16 Regular Meeting

Vice Chair Taira moved, seconded by Director Kahele

> That the minutes of the Regular Meeting held on July 14, 2016 be approved.

Upon unanimous vote, the motion was approved.

**II. B. APPROVAL OF MINUTES**
07/14/16 Executive Session

Chair Pulmano deferred approval of the Executive Session minutes held on July 14, 2016, to later in the meeting.

**III. A. DISCUSSION AND/OR DECISION MAKING**
Approve a 1-Year Extension Through October 31, 2017 of the Rental Assistance Contract to the Hilo Maile Terrace Partners for the Hilo Maile Terrace Project, Located in Hilo, Hawaii, TMK No.: (3) 2-2-053: 008

Staff's recommendation was presented as follows:

That the HHFDC Board of Directors approve the following:

A. A 1-year extension of the Rental Assistance Contract to the Hilo Maile Terrace Partners for the Hilo Maile Terrace project through October 31, 2017;

B. Delegate authority to the Executive Director to approve, at his or her discretion, additional extensions up to the original commitment made to the Hilo Maile Terrace project; and

C. Authorize the Executive Director to undertake all tasks necessary to effectuate the intent and 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 Hilo Maile Terrace (Project) consists of 24 family units, located in Hilo, Hawaii. The Project's original Rental Assistance Payment (RAP) contract was approved in October 1991 and is set to expire in October 2016.

The total RAP commitment for the Project over the initial 15-year period was for $842,400 ($195 per unit/month x 24 units x 180 months).

Based on 100% utilization of the Project's approved 24 RAP units, the remaining commitment of $85,063 (as of June 30, 2016) is sufficient to cover an additional 14 months (1.16 years) of RAP payments. (Actual project utilization is approximately 56% of the maximum annual amount)

Therefore, staff recommends a 1-year extension, to expire on October 31, 2017, based on the sufficiency of funds remaining on its original contract and to maintain project affordability.

Mr. Ueki opened for questions.

In response to Director Salaveria, Mr. Ueki stated that staff will not return after the 1-year extension term; however, a future discussion on insufficiency of funds to cover current contractual amounts need to be addressed with the Board. It was noted that there have been no RAP contracts extended beyond its original dollar amounts.

In reference to Mr. Ueki's comment regarding staff not returning to the Board after the 1-year extension term, Vice Chair Taira asked for clarification on IV. Recommendation, B., of the For Action. Mr. Ueki explained that in the event the utilization percentage rate is lower and adequate funds are available, approval authority to the Executive Director is being requested for additional extensions.

In response to Director Salaveria, Mr. Ueki confirmed staff's intent to expend up to the remaining original contract amount.

Mr. Ueki informed the Board that HHFDC started with 18 RAP contracts under the RAP program (5 have since expired). Out of the remaining 13 RAP contracts, 5 are under the ownership of HHFDC, within the Hawaii Rental Housing System Revenue Bond Fund Portfolio.

In response to Director Spindt, Mr. Ueki stated that a tenant would need to pay out of pocket should such subsidies be removed from a project. However, this project also receives Section 8 Tenant Based Vouchers.

Director Spindt asked how the 5 RAP contracts expired. Mr. Ueki stated that a request to extend is at the discretion of a project.

Upon unanimous vote, the motion was approved.

**V. EXECUTIVE SESSION** 9:08 a.m.

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 Corporation 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 Authority for <u>David Tong vs. State of Hawaii; Department of Business, Economic Development & Tourism; Hawaii Housing Finance and Development Corporation; Marsha Umamoto; DOE Defendants 1-25</u> (Civil No. 11-1-1439-07).

Upon unanimous vote, the motion was approved and the Board convened in Executive Session at 9:08 a.m.

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**RECONVENED** 9:55 a.m.

The Board reconvened in Regular Session at 9:55 a.m.

Chair Pulmano stated for the record that upon a unanimous vote, the proposed Settlement Authority for David Tong vs. State of Hawaii; DBEDT; and HHFDC; Marsha Umamoto; DOE Defendants 1-25 (Civil No. 11-1-1439-97) was approved.

**II. B. APPROVAL OF MINUTES** 07/14/16 Executive Session

The Executive Session meeting minutes of June 9, 2016 was also approved in Executive Session.

**IV. DISCUSSION OF PROPOSED RESTRUCTURING AND PRESERVATION OF THE HAWAII RENTAL HOUSING SYSTEM REVENUE BOND FUND PORTFOLIO**

Chair Pulmano proceeded to agenda item IV. Discussion of Proposed Restructuring and Preservation of the Hawaii Rental Housing System (RHS) Revenue Bond Fund Portfolio.

Mr. Woodard presented the Affordable Rental Housing Portfolio Restructuring and Preservation Subcommittee (Subcommittee) report, reviewing information discussed and addressing questions posed at the August 11, 2016 Board Meeting.

The HHFDC operates the RHS Bond Fund in accordance with Section 201H-80, Hawaii Revised Statutes (HRS). Through the RHS Bond Fund, HHFDC owns a portfolio of 6 affordable rental housing and mixed-used properties located on Oahu, Hawaii, and Maui.

The current outstanding debt balance is approximately $78 million.

On June 9, 2016, the HHFDC Board created the Subcommittee to investigate and recommend policies and parameters for the restructuring and preservation of the RHS Bond Fund portfolio.

On July 6, 2016, the Subcommittee met to review background material on the Portfolio and reported its initial findings and recommendations at its July 14, 2016 Board of Directors meeting.

Section 201H-80, HRS, allows separate special funds to be established for systems of housing projects financed from the proceeds of bonds secured under the same trust indenture.

The RHS was established in 1987 to alleviate the shortage of rental housing by development and acquiring affordable rental housing projects across the state.

As a matter of policy, projects were to have at least 60% of the units set aside for households earning no more than 80% of the area median income (AMI), with remaining units set to sufficient levels to sustain the projects.

HHFDC operates the Rental Assistance Program (RAP) in accordance with 201H-125, HRS, with a primary purpose to provide monthly rental assistance subsidies to projects in order to make them financially feasible for tenant households with incomes that do not exceed 80% of AMI.

All properties, except for Kekuilani Courts, have RAP rent subsidies available for at least 60% of the units at each property. Monthly rental assistance of up to $175 per unit is available, with the exception of Pohulani Elderly receiving rental assistance of up to $250 per unit. Under the RHS program, units without rental assistance were intended to be rented at or below market rates.

In response to questions posed at the August 11, 2016 Board Meeting, Mr. Woodard noted the following:

- Rental assistance is available to 100% of the units at Pohulani Elderly, restricted to tenants aged 62 and over.

- The average age of tenants, currently living at the Pohulani Elderly property, is 74 years old.

- 10% of the Pohulani Elderly tenants have lived in this building since it opened in 1992.

- Over 95% of households renting here at Pohulani Elderly have incomes that are under 60% AMI.

- 11% of the tenants at Pohulani Elderly have Section 8 vouchers.

- A 10-year cash flow projection at the 60% AMI level showed an approximate $2 million impact in the valuation, not being financially feasible on a standalone basis. However, in the context of the entire portfolio, imposing a 60% AMI restriction at Pohulani Elderly is believed to be workable.

- Research data on housing demand for seniors showed that, for the City and County of Honolulu, approximately 2,157 new rental units for seniors aged 65 and over with incomes at 140% of AMI and below are estimated to be needed by 2020. The demand at various AMI levels was referenced on page 2 of the For Action.

- A portfolio restructuring and preservation may be most effectively executed and sustainable at the current 80% AMI household income and rent limits. Demand does exist at the 80% AMI level and can be structured to provide long-term protections against displacement for existing tenants.

Therefore, based on discussions had with the Subcommittee and Board and outcomes of the researched analysis done, staff believes that a restructuring and preservation of the RHS Bond Fund portfolio may incorporate the following parameters:

| | | |
|---|---|---|
| 1. Tenure: | Leasehold (75 years; balance of existing ground lease term for Kamakee Vista) | |
| 2. Rent Restrictions: | Kamake'e Vista: | 60% of units at 80% of AMI<br>40% of units at 100% of AMI |
| | Kauhale Kaka'ako: | 60% of units at 80% of AMI<br>40% of units at 100% of AMI |
| | Pohulani Elderly: | 100% of units at 80% of AMI |
| | Kekuilani Courts: | 50% of units at 60% of AMI<br>49% of units at 75% of AMI<br>or<br>100% of units at 80% of AMI |
| | Honokowai Kauhale: | 60% of units at 80% of AMI<br>40% of units at 100% of AMI |
| | La'ilani Apartments: | 60% of units at 80% of AMI<br>40% of units at 100% of AMI |
| 3. Annual Rental Increase Limit for Existing Residents: | Pohulani Elderly: | 2% for the entire tenure of each residential lease |
| | All Other Properties: | 2% for the first five (5) years after transaction closing. |
| 4. Rental Assistance: | Pohulani Elderly: | Enter into 20-year RAP contract at transaction closing; maximum rental assistance to be determined based on transaction proceeds |
| | All Other Properties: | Enter into 10-year RAP contracts at transaction closing; maximum rental assistance to be determined based on transaction proceeds |
| | Net proceeds from the preservation and restructuring to be set aside specifically for the above RAP contracts | |

Mr. Woodard opened for questions, introducing Mr. Dana Peiterson and Ms. Kim Lord, with CBRE, who were there to listen in on the discussion.

Mr. Woodard noted that executing a contract with CBRE would be placed on hold until full Board consensus could be achieved on the preservation and restructuring parameters.

The Pohulani Elderly, 620 Coral Street, Honolulu, HI, 60% AMI Model, Exhibit C, detailing estimated dollar assumptions based on a 2013 appraisal report, was referenced and discussed. (Attachment A)

Based on the assumptions presented, Director Abe suggested that the portfolio continue to be owned by HHFDC and held under private-sector management as opposed to a leasehold sale for 75 years. Furthermore, she believed that the cash flow appeared to be reliable, as well as profitable, which she recommended to be utilized in various ways (i.e., project maintenance, RAP, Section 8).

Mr. Woodard stated that continuing to hold, operate, and manage the portfolio is an option. However, it is not believed to be the best option available in addressing the HHFDC's core mission to increase housing supply statewide. Furthermore, although income appears to be reliable, subsidies are provided by HHFDC, being an expense to the RAP program that HHFDC administers.

Vice Chair Taira commented that he was comfortable with the rent restrictions and limits being proposed, which he believes should satisfy his concern regarding the existing demand at the 80% AMI level as well as long-term protection from involuntary displacement for tenants.

Director Spindt concurred, stating that based on his analysis, the annual increases appear to be reasonable and also addresses Director Fukumoto's concerns regarding involuntary displacement.

A full discussion was held on privatization of the rental housing portfolio versus the public sector ownership. It was pointed out that HHFDC is subject to procurement laws that limits how it is able to operate the properties and address immediate capital needs, causing inefficiencies and delays (e.g., procurement of a new boiler for the Pohulani Elderly project is going on one year). Furthermore, the procurement process generally requires HHFDC to select the lowest bidder, which may not always be the best option concerning project sustainability.

By contrast, the private sector is not subject to such procurement laws and is believed to be better able to execute operations and capital needs in a more efficient way, cutting down on cost, while providing long-term project sustainability.

Such restructuring would allow the HHFDC to refocus on its core financing and development functions.

In reference to Exhibit C, Director Abe asked why was there a decrease in the commercial rent at Year 7, from $2.3 million down to $765,000. Mr. Woodard stated that leases in place for HHFDC and DAGS are approximately three times the market rent and set to expire in 2022. Set in 1992, the rents had a 3% annual increase built into the lease. However, the transaction is not anticipated to be structured in the same way and it is believed that the leases would be renegotiated before executing.

In terms of the Kekuilani Courts Covenants, Conditions and Restrictions (CC&Rs), Chair Pulmano asked if those may be modified. Mr. Woodard stated that HHFDC is the successor to the Rental Housing Trust Fund Commission, which imposed the restrictions. As the sole declarant, HHFDC can cancel the CC&Rs should it choose to do so.

Director Salaveria asked about the current debt service amount that HHFDC pays, stating that is something that needs to be covered through the income generated from the properties. Referring to the RHD Bond Fund Fiscal Year 2016 financial audit, Mr. Woodard stated that the total principal and interest to be paid during Fiscal Year 2017 is $6.25 million.

Director Abe questioned the name of the Subcommittee and its intent of "preservation," which she believed was rather a proposal for sale of a leasehold interest.

Executive Director Hirai stated that based on his understanding of discussions and guidance provided by the Subcommittee and Board, "preservation" is addressing protection of displacement and rehabilitation of the project buildings in partnership with the private sector.

Director Spindt asked that CBRE include deferred maintenance liabilities and refine assumptions for future income streams in its valuation, which will significantly affect the way in which the Corporation moves forward with the transaction and allocate its functions.

Ms. Takahashi asked whether the Board had any discussion on the AMI options for Kekuilani Courts. In staying true to filling the income gap of the 80% AMI range, the Board decided that the 100% of the units at 80% of AMI would be best.

Mr. Woodard stated that the next steps would be for the Subcommittee to reconvene and deliver its final report to the Board in September to take possible action on the proposed parameters of the transaction. Approved parameters would be provided to CBRE to conduct a valuation.

In the event the valuation is unsuccessful, staff will return to the Board for further guidance.

In reference to the Needed Units for Seniors Aged 65+ City & County of Honolulu, 2014 - 2020 table on page 2 of the report, Director Abe asked about the 2,157 units needed for seniors within the 6-year span. Ms. Takahashi stated that the Affordable Rental Housing Study update, 2014, report was conducted by Ricky Cassiday and is available on the HHFDC website.

Chair Pulmano suggested that Director Abe join the next meeting of the Subcommittee. However, with the Subcommittee already consisting of four members, it was suggested that Director Abe schedule a meeting with staff separately to further discuss her insights on public sector privatization.

Members of the Subcommittee were reconfirmed to be Directors Luis Salaveria, Rona Fukumoto, Milo Spindt, and Denise Iseri-Matsubara.

With no further discussion, Chair Pulmano asked for a recess at 11:05 a.m.

**RECESSED**
11:05 a.m.

Director Salaveria was excused.

The Board reconvened the meeting at 11:19 a.m.

**RECONVENED**
11:19 a.m.

**VI. REPORT OF THE EXECUTIVE DIRECTOR**

Executive Director Hirai distributed and read the Housing Legislation Passed in 2006 report pending from last month's August 11, 2016 Board of Directors meeting (Attachment B).

In response to Chair Pulmano, Executive Director Hirai stated that under Act 130, he and the State Office of Planning Director Leo Asuncion are co-chairs on the Hawaii Interagency Council for Transit-Oriented Development. Currently there is no designee for HHFDC. Office of Planning is anticipated to do the overall planning and prioritization for Honolulu, whereas HHFDC's role would be more of implementation.

Director Iseri-Matsubara noted that the House Speaker and the Senate President has made their designation, as follows:

- Act 127 Special Action Team - Representative Mark Hashem and Senator Breene Harimoto
- Act 130 TOD Council - Senators Donavan Dela Cruz and Representative Aquino

Chair Pulmano asked about the dollar amounts that would be placed within the subaccounts. Executive Director Hirai stated that under Act 132, draft rules in progress and dollar amounts for the subaccounts have not yet been established.

Ms. Takahashi reported that the Lima Ola project has initiated its County 201H process. In discussion with the County of Kauai, funds would be anticipated to be in the subaccount by early next year.

Director Spindt stated that the 201H application for Lima Ola is anticipated to go before the Council next week Wednesday and then before the Land Use Commission.

Executive Director Hirai stated that HHFDC anticipates submitting testimony to the Kauai Council on the approval and execution of the MOA.

Executive Director Hirai asked whether HHFDC needed to be present before the Council. Director Spindt suggested that discussions be held with the Kauai housing director.

Executive Director Hirai discussed HHFDC's participation on the TOD Interagency Council and the Special Action Team.

Director Kahele inquired on the conveyance tax. Executive Director Hirai stated that the conveyance tax for the Rental Housing Revolving Fund is capped at $38 million per year and that HHFDC received $33 million for the fiscal year ended June 30, 2016.

Director Iseri-Matsubara commended Executive Director Hirai for a job well done.

**VII. ADJOURNMENT**
11:30 p.m.

Chair Pulmano concurred and asked for a motion to adjourn.

Vice Chair Taira moved, seconded by Director Abe

To adjourn the meeting.

By unanimous vote, the motion was carried.

The meeting was adjourned at 11:30 p.m.

RONA FUKUMOTO
Secretary

EXHIBIT C

ATTACHMENT A

# Pohulani Elderly, 620 Coral Street, Honolulu, HI

**60% AMI Model**

**Operating Assumptions**

| | |
|---|---|
| Annual Turnover (1) | 10.0% |
| Vacancy | 1.5% |
| Annual Rent Increase | 2.0% |
| Annual Operating Expense Increase | 3.0% |
| Commercial Usable Square Feet | 46,242 |
| Net Commercial Rent per USF (4) | $ 1.25 |

**Net Proceeds Calculation**

| | | |
|---|---|---|
| Sales Price (2) | *$114,335 per unit* | $ 30,070,000 |
| Repayment of Allocated Debt, Net of Reserves (3) | | (17,254,073) |
| Rental Assistance, Existing Tenants, Years 1-10 | | (3,742,702) |
| Rental Assistance, New Tenants, Years 1-10 | | (2,740,613) |
| Rental Assistance, Existing Tenants, Years 11-20 | | (1,305,000) |
| Rental Assistance, New Tenants, Years 11-20 | | (5,563,041) |
| Net Proceeds to HHFDC | | $ (535,428) |

**Capital Expenditure Assumptions**

| | |
|---|---|
| Capital Needs per 2013 Report | $ 1,167,468 |
| Annual Inflation Rate (5) | 6.00% |
| Capital Needs, 2016 Estimate | $ 1,473,901 |
| Replacement Reserves | $ 500 per unit |

**Residual Value Assumptions**

| | |
|---|---|
| Exit Cap Rate | 7.00% |
| Sales Costs | 3.00% |

**Unit Mix and Rental Rates**

| | Units | Current Rent | Current RAP | Current Net Rent | 60% AMI Gross Rent | Maximum RAP | 60% AMI Net Rent |
|---|---|---|---|---|---|---|---|
| Studio | 128 | $ 855 | $ 193 | $ 662 | $ 1,056 | $ 250 | $ 806 |
| 1 BR / 1 BA | 134 | 1,012 | 173 | 839 | 1,131 | 250 | 881 |
| 1 BR / 1 BA (Manager) | 1 | - | - | - | - | - | - |
| Total/Average | 263 | $ 932 | $ 182 | $ 750 | $ 1,090 | $ 249 | $ 841 |

| | | Year 0 | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Existing-to-total tenant ratio* | | | 100% | 90% | 81% | 73% | 66% | 59% | 53% | 48% | 43% | 39% |
| *Net operating income yield* | | | 10.04% | 10.32% | 10.70% | 11.21% | 11.87% | 12.72% | 7.58% | 7.75% | 7.92% | 8.09% |
| Purchase price | | $ (30,070,000) | | | | | | | | | | |
| Transaction costs | | (500,000) | | | | | | | | | | |
| Total investment | | $ (30,570,000) | | | | | | | | | | |
| Potential rent, existing tenants | | | $ 2,365,944 | $ 2,171,937 | $ 1,993,838 | $ 1,830,343 | $ 1,680,255 | $ 1,542,474 | $ 1,415,991 | $ 1,299,880 | $ 1,193,290 | $ 1,095,440 |
| Rental assistance, existing tenants | | | 574,632 | 517,169 | 465,452 | 418,907 | 377,016 | 339,314 | 305,383 | 274,845 | 247,360 | 222,624 |
| Potential rent, new tenants | | | - | 270,776 | 524,763 | 763,448 | 988,194 | 1,200,259 | 1,400,796 | 1,590,868 | 1,771,453 | 1,943,451 |
| Rental assistance, new tenants | | | - | 78,600 | 149,340 | 213,006 | 270,305 | 321,875 | 368,287 | 410,059 | 447,653 | 481,487 |
| Vacancy loss | | | (44,109) | (45,577) | (47,001) | (48,386) | (49,737) | (51,059) | (52,357) | (53,635) | (54,896) | (56,145) |
| Total residential rent | | | $ 2,896,467 | $ 2,992,904 | $ 3,086,392 | $ 3,177,318 | $ 3,266,034 | $ 3,352,863 | $ 3,438,101 | $ 3,522,017 | $ 3,604,860 | $ 3,686,858 |
| Commercial income, net (4) | | | 1,740,703 | 1,775,517 | 1,847,248 | 1,960,314 | 2,121,907 | 2,342,757 | 765,824 | 788,798 | 812,462 | 836,836 |
| Other income | | | 16,708 | 17,042 | 17,731 | 18,816 | 20,367 | 22,487 | 25,324 | 29,089 | 34,082 | 40,732 |
| Total revenue | | | $ 4,653,878 | $ 4,785,463 | $ 4,951,370 | $ 5,156,448 | $ 5,408,308 | $ 5,718,107 | $ 4,229,248 | $ 4,339,904 | $ 4,451,404 | $ 4,564,425 |
| Operating expenses (6) | | | (1,502,539) | (1,547,615) | (1,594,044) | (1,641,865) | (1,691,121) | (1,741,855) | (1,794,110) | (1,847,933) | (1,903,371) | (1,960,473) |
| Replacement reserves | | | (131,500) | (135,445) | (139,508) | (143,694) | (148,004) | (152,445) | (157,018) | (161,728) | (166,580) | (171,578) |
| Net operating income | | | $ 3,019,839 | $ 3,102,403 | $ 3,217,818 | $ 3,370,889 | $ 3,569,183 | $ 3,823,808 | $ 2,278,120 | $ 2,330,242 | $ 2,381,452 | $ 2,432,375 |
| Capital expenditures | | | $ (736,951) | $ (781,168) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Sales price | | | | | | | | | | | | $ 35,482,878 |
| Sales costs | | | | | | | | | | | | (1,064,486) |
| Net sales proceeds | | | | | | | | | | | | $ 34,418,391 |
| Net cash flow | *10.00% IRR* | $ (30,570,000) | $ 2,282,888 | $ 2,321,235 | $ 3,217,818 | $ 3,370,889 | $ 3,569,183 | $ 3,823,808 | $ 2,278,120 | $ 2,330,242 | $ 2,381,452 | $ 36,850,766 |

**Notes**

1) Results in 39% of existing residents still living at property in Year 10 and 14% remaining in Year 20.
2)Sales price based on unleveraged, 10-year IRR of 10.00%. Debt financing has not been modeled, as it will be dependent upon the buyer's investment strategy. Per CBRE, 10-year, 70% LTV mortgage debt is available from Fannie Mae at 3.35% interest rate.
3) Allocated based on appraised values. Debt balance is net of $13.2 million of bond indenture restricted cash.
4) Existing above-market leases with HHFDC and DAGS remain in place through August 2022.
5) Per DBEDT data. No provision has been made for value-added capital expenditures.
6) Assumes no operating expense savings under new ownership.

**HOUSING LEGISLATION PASSED IN 2016**

**Act 91, Session Laws of Hawai'i 2016 (Senate Bill 2823, H.D. 1) Relating to the Hawaii Housing Finance and Development Corporation**
This Act authorizes the HHFDC Board of Directors to set the salary of the HHFDC Executive Director at an amount not to exceed the DBEDT Director's salary, subject to a legislative reporting requirement each time said salary is adjusted.

**Act 127, Session Laws of Hawai'i 2016 (Senate Bill 2561 S.D. 2, H.D. 1, C.D. 1) Relating to Rental Housing**
This Act establishes a goal of developing or vesting the development of at least 22,500 affordable rental housing units ready for occupancy between 01/01/17 and 12/31/26. It also creates a temporary special action team on rental housing to make recommendations to the Governor, Legislature, and other parties to achieve the goal. It also appropriates $100,000 and creates a temporary planner position within the Office of Planning to support the special action team.

**Act 128, Session Laws of Hawai'i 2016 (Senate Bill 2566, S.D. 1, H.D. 1, C.D. 1) Relating to Housing**
This Act transfers $9,500,000 in excess funds from the Rental Assistance Revolving Fund to the Rental Housing Revolving Fund to help facilitate the development of more affordable rental housing projects statewide.

**Act 129, Session Laws of Hawai'i 2016 (Senate Bill 2833, S.D. 2, H.D. 2, C.D. 1) Relating to the Low-Income Housing Tax Credit**
This Act makes the State Low-Income Housing Tax Credit more effective by shortening the period over which the credit is taken from ten to five years. This change will make the Credit more attractive to investors, and help raise more equity to be used to finance affordable rental housing development.

**Act 130, Session Laws of Hawai'i 2016 (Senate Bill 3077, S.D. 1, H.D. 1, C.D. 1) Relating to Statewide Community Planning**
This Act establishes the Hawaii Interagency Council for Transit-Oriented Development, co-chaired by the State Office of Planning and the HHFDC, to coordinate effective and efficient planning for transit-oriented development, including mixed-use and affordable and rental Housing projects, of state lands in each county.

**Act 131, Session Laws of Hawai'i 2016 (House Bill 2293, H.D. 1, S.D. 1) Relating to the Hawaii Housing Finance and Development Corporation**
This Act broadens the Hawaii Housing Finance and Development Corporation's ability to develop mixed-use developments to help create communities with housing, jobs, shops, and government services located in close proximity. It also facilitates broader-scaled interagency partnerships with State and County departments and agencies for housing developments, including mixed-use developments, on state and county lands.

**Act 132, Session Laws of Hawai'i 2016 (House Bill 2305, H.D. 1, S.D. 1, C.D. 1) Relating to the Dwelling Unit Revolving Fund**
This Act authorizes the creation of Regional State Infrastructure Improvement Subaccounts within the Dwelling Unit Revolving Fund and the use of the Dwelling Unit Revolving Fund to provide loans and grants to finance regional state infrastructure improvements that will support development in areas of planned growth.

**ATTACHMENT B**

The following budget items were included in **Act 124, Session Laws of Hawai'i 2016 (House Bill 1700, H.D. 1, S.D. 1, C.D. 1) Relating to the State Budget**:
Hawaii Housing Finance and Development Corporation received the following Capital Improvement Project appropriations for Fiscal Year 2016-2017:

- Rental Housing Revolving Fund, Statewide $36,600,000
  An infusion of funds to finance additional affordable rental housing statewide.

- Dwelling Unit Revolving Fund, Statewide $25,000,000
  An infusion of funds to finance additional affordable housing statewide.

- Low Income Housing Tax Credit Loans, Statewide $ 4,230,000
  An infusion of funds to provide Low-Income Housing Tax Credit loans pursuant to §201H-86, Hawaii Revised Statutes.

- Waiahole Water System Improvements, Oahu $ 6,500,000
  Design and construction to improve the Waiahole water system infrastructure to Board of Water Supply standards.

- Hale Mahaolu, Maui $ 1,500,000
  Design and construction for Hale Mahaolu Ewalu, a senior affordable rental housing campus, at the Kualamalu Town Center subdivision. This project qualifies as a grant, pursuant to Chapter 42F, Hawaii Revised Statutes.

**ATTACHMENT B**