MINUTES OF THE REGULAR MEETING OF THE HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION HELD AT THEIR OFFICE AT 677 QUEEN STREET, SUITE 300, ON THURSDAY, FEBRUARY 9, 2017 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 their office located at 677 Queen Street, on Thursday, February 9, 2017, at 9:00 a.m.

I. CALL TOORDER/ ROLL CALL

With a quorum present, the meeting was called to order by Acting Chair Edwin Taira.

Those present and excused were as follows:

Present:	Director Leilani Pulmano, Chair (arrived at 9:13 a.m.) Director Edwin Taira, Vice Chair Director Rona Fukumoto, Secretary Director Melvin Kahele Director Audrey Abe Director Milo Spindt Director Denise Iseri-Matsubara Director Scott Kami (for Director Wesley Machida) Executive Director Craig Hirai (arrived at 11:43 a.m.)
Excused:	Director Luis Salaveria
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 Marlene Lemke, Sales and Counseling Section Chief Patrick Inouye, Housing Finance Specialist Jocelyn Iwamasa, Housing Finance Specialist Paige Ishida, Housing Finance Specialist Christopher Woodard, Property Management Coordinator Lorraine Egusa, Budget Analyst Kent Miyasaki, Housing Information Specialist Esa Pablo, Secretary to the Board
Other:	Gary Furuta, HHDC Jeff Furuta, HHDC Andrew Furuta, HHDC Mindy Rex, The Pacific Companies Mark Fridovich, Department of Health John Park, HCAP Head Start Deborah Ing, AMHD Kevin Carney, EAH Housing Troy Freitas, Department of Health Charlie Lorenz, FHT Diana Lorenz, FHT

II. A. APPROVAL OF MINUTES 12/8/16 Regular Meeting

Director Fukumoto moved, seconded by Director Kahele

That the meeting minutes of the Regular Meeting held on December 8, 2016 be approved, as circulated.

The motion was carried unanimously.

II. B. APPROVAL OF MINUTES 12/8/16 Executive Session

Vice Chair Taira moved, seconded by Director

That the meeting minutes of the Executive Session held on December 8, 2016 be approved, as circulated.

The motion was carried unanimously.

II. C. APPROVAL OF MINUTES 1/12/16 Regular Meeting

The meeting minutes of the Regular Meeting held on January 12, 2017 was deferred.

III. A. DISCUSSION AND/OR DECISION MAKING Approve an Extension to the Rental Housing Revolving Fund Letter of Intent for the Ainahau Vista II Project Located in Honolulu, Oahu, TMK Nos.: (1) 2-6-024: 070 and 071 CPR 0002

Staff's recommendation was presented as follows:

That the HHFDC Board of Directors approve the following:

A. Extend the LOI dated August 18, 2015, for the RHRF Loan for the Ainahau Vista II project to August 31, 2017, subject to the requirements as set forth in the For Action dated August 13, 2015; and

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

Director Fukumoto moved, seconded by Director Kahele

That staff's recommendation is approved.

Finance Manager Darren Ueki presented the For Action, stating that the Ainahau Vista II (Project) received its foundation permits to start construction in December 2017. Building permits are currently under review.

Mr. Ueki opened for questions, along with Mr. Gary Furuta, on behalf of the Project.

Director Iseri-Matsubara asked for the reason of the extension. Mr. Ueki stated that such extensions are not unusual. Mr. Furuta further explained that there was an amendment to include the second building its 201H process and that the Vendor Compliance Office had been relocated to the mainland. Response from the Vendor Compliance office is pending.

With no further discussion, the motion was carried unanimously.

III. B. DISCUSSION AND/OR DECISION MAKING Approve an Extension to the Rental Housing Revolving Fund Letter of Intent for the Meheula Vista II Project Located in Mililani, Oahu, TMK No.: (1) 9-5-002: 060 CPR 0002

Staff's recommendation was presented as follows:

That the HHFDC Board of Directors approve the following:

A. Extend the LOI date August 18, 2015, for the RHRF Loan for the Meheula Vista Phase II project to August 31, 2017, subject to the requirements as set forth in the For Action dated August 13, 2015; and

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

Director Spindt moved, seconded by Director Kahele

That staff's recommendation be approved.

Director Fukumoto recused herself from voting on this action.

Mr. Ueki presented the For Action, stating that the Meheula Vista Phase II (Project) received foundation permits and has started construction in January 2017. Building permits are currently under review.

Mr. Ueki opened for questions, along with Mr. Gary Furuta, on behalf of the Project.

(Chair Pulmano arrived at 9:13 a.m.; Vice Chair Taira continued facilitating the meeting.)

The motion was carried, with Director Fukumoto recusing her vote.

Acting Chair Taira called for a recess at 9:14 a.m.; reconvening at 9:15 a.m.

RECESSED
9:14 a.m.
RECONVENED
9:15 a.m.

III. C. DISCUSSION AND/OR DECISION MAKING
Approve: (1) Resolution No. 098, 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 Kenolio Apartments Project Located in Kihei, Maui, TMK Nos.: (2) 3-9-001: 157 and 158

Staff's recommendation was presented as follows:

That the HHFDC Board of Directors approve the following:

A. Resolution No. 098 attached as Exhibit F, which provides for official intent with respect to the issuance of revenue bonds up to $50,000,000 for the Kenolio Apartments project, subject to the provisions and conditions recommended in Exhibits C and E.

B. Reserve up to $3,227,791 in annual Federal LIHTC over a 10-year period and $3,227,791 in annual State LIHTC over a 5-year period from the non-volume cap pool (4% LIHTC) for the Kenolio Apartments project, subject to the provisions and conditions recommended in Exhibits D and E.

Director Spindt moved, seconded by Director Kahele

That staff's recommendation be approved.

Mr. Ueki presented the For Action, stating that the Inducement Resolution is a non-binding resolution, which states HHFDC's intent to possibly issue tax-exempt revenue bonds for a project, recognizing eligible expenditures made by the developer 60 days prior to the Inducement Resolution approval, and facilitates further discussions and negotiations between respective parties to determine the feasibility of a project.

If deemed feasible, staff will return to the Board for approval of the issuance, sale, and delivery of the Bonds, subject to the approval by the Department of Budget and Finance and the Governor.

Mr. Ueki opened for questions, along with Ms. Mindy Rex, on behalf of the Project.

In response to Acting Chair Taira, Ms. Rex stated that in prior experiences, pools within their projects have been easily insured and maintained without impacting its rents.

In response to Director Abe, Ms. Rex stated that the $5 million excess issuance amount would not impact the loan amount.

Director Kami asked for the reason of having 2 unit managers. Ms. Rex stated that it is a function of scale to have a manager for every 80 units+ (1 lead manager and 1 maintenance manager) to ensure coverage.

Chair Pulmano asked for a brief presentation.

A handout was distributed to the Board. Ms. Rex the Pacific West Communities (PWC)'s functionality, mission, and standards. The Project would be for families in Kihei, Maui, consisting of 1, 2, and 3 bedroom units (184 units total – includes 2 Manager's Unit). The Project's estimated cost is $81 million, which would include financing from tax-exempt bonds, RHRF, and other private capital.

Director Spindt inquired about the "other private capital," being brought in. Ms. Rex clarified that it is subordinate soft debt at the Project level, with one of the anticipated repayment sources being the sale of the County's Workforce Housing Credits.

In response to Director Spindt, Ms. Rex stated that Pacific West Builders will be the general contractor with local subs found through the bidding process.

Director Abe commented that she liked the lay out. Ms. Rex stated that the layout of the Project is strategically planned (i.e., playground is kept centrally zoned for safety).

With no further discussion, the motion was unanimously approved.

RECESSED 9:40 a.m.
RECONVENED 9:41 a.m.

The meeting was recessed at 9:40 a.m. and was reconvened at 9:41 a.m., with Chair Pulmano.

III. D. DISCUSSION AND/OR DECISION MAKING
Approve a Rental Housing Revolving Fund Project Award for the Kenolio Apartments Project Located in Kihei, Maui, TMK Nos.: (2) 3-9-001: 157 and 158

Staff's recommendation was presented as follows:

That the HHFDC Board of Directors approve the following:

A. A RHRF Project Award Loan of $9,250,000 to Maui Pacific Associates, a Hawaii Limited Partnership for the benefit of the Kenolio Apartments project, with the terms and conditions as shown in Section III (G) of this For Action, and the issuance of the Letter of Intent subject to the following:

1. Authorization and approval by the governor of the proposed project and the release of RHRF program funds as mandated under Chapter 15-311, Hawaii Administrative Rules.

2. Execution of documentation satisfactory to the HHFDC outlining the terms and conditions of the Project Award. The documents shall specify the standard terms and conditions as required in order to meet all statutory requirements of the RHRF program and the specific terms and conditions that are applicable to the Applicant's request for Project Award funds.

3. Completion of all documentation necessary and required to secure the release of RHRF funds.

4. Certification of the applicant to comply with all applicable statutory and Project requirements, including, but not limited to, Chapter 343, 103D, §103-50 and §104, Hawaii Revised Statutes, as they may relate to the use of State funds.

5. Total fees paid to the Developer, including, but not limited to, Developer Overhead, Developer Fees, Consultant Fees, and Project management Fees, for the project shall not exceed $9,600,000.

6. Availability of RHRF program funds.

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 in comparison to the request made by the Maui Pacific Associates, LP (Applicant), staff's recommended loan terms for the Kenolio Apartments (Project) are as follows:

Interest Rate:
a) 0.00% Years 1 through 3 (Applicant's request was 2.00% Year 1 through 2)
0.00% for the first three (3) years recommended as (i) Project operations have not commenced, (ii) eliminates the need to establish and track an interest reserve, and (iii) allows time for Project stabilization.

b) 1.00% After Year 3 (Applicant's request was 2.00% Years 3 through 52)

Term/Maturity: 50 years (Applicant's request was 52 Years)
a) 3 Years – Interim/Construction Phase
b) 47 Years – Permanent Phase

Repayment: Years 1 through 3 – No Payments (Applicant's request was Year 1 through 2 – No Payments)
After Year 3 – 50% (Applicant's request was Years 3 through 52 – 50%) of Available Cash Flow after payment expenses, senior debt service, and other recognized expenses.

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

There being no questions, the motion was unanimously carried.

The meeting was recessed at 9:45 a.m. and was reconvened at 9:56 a.m.

RECESSED
9:45 a.m.
RECONVENED
9:56 a.m.

III. E. DISCUSSION AND/OR DECISION MAKING
Discussion of Possible Disposition of the Kulia I Ka Nuu Resource Center, Waianae, Oahu, TMK No.: (1) 8-5-027: 073

Property Management Coordinator Chris Woodard stated that the HHFDC owns the Kulia I Ka Nuu Project (f.k.a. Kahikolu Ohana Hale O Waianae) in fee simple, composed of a Resource Center, six residential buildings with 72 rental units, a dormitory building, and a maintenance building located in the Waianae Community Development project (a.k.a Uluwehi) residential subdivision. Mr. Woodard reviewed the history of the project and the recent settlement of litigation relating to the Resource Center

Mr. Woodard further stated that the first floor of the Resource Center contains a vacant commercial kitchen with adjoining dining area, plus spaces leased to Parents and Children Together (PACT) – approximately 1,000 square feet servicing eight infants and toddlers; and Honolulu Community Action Program, Inc. (HCAP) – approximately 600 square feet servicing 15 preschool children. The second floor of the Resource Center is vacant and contains private offices, a conference room, a small lunch room with adjoining lanai, and restrooms.

The Department of Health (DOH)'s Adult Mental Health Division (AMHD) is seeking a ground lease at the Kulia I Ka Nuu Resource Center, to which it can relocate its Makaha Clubhouse and Mental Health Clinic. DOH has been given notice to vacate its existing building by March 31, 2017. While the landlord has made an adjacent property available for DOH's use, it is not suitable to service the needs of its eight-person clinic staff and a client base of approximately 90 – 100 persons.

However, should HHFDC decide to lease the Kulia I Ka Nuu Resource Center to DOH, it would result in the displacement of the current tenants PACT and HCAP. In addition, due to its federal grant funding being contingent upon available funds, PACT and HCAP are not able to enter into long-term leases with firm terms.

If HHFDC should decide to lease the Kulia Resource Center to DOH, relocation of the property management office to the dormitory building would also be necessary. This would include flooring, air conditioning, internet wiring and phones, at an estimated cost of $10,000. As part of a ground lease agreement, the DOH would agree to reimburse the Dwelling Unit Revolving Fund (DURF) a $50,000 payment made as part of a litigation settlement with the former Kahikolu ground lessees. DOH would then pay a nominal annual ground lease rent of a dollar per year.

Mr. Woodard opened for questions, along with Mr. John Park, on behalf of HCAP; and DOH Adult Mental Health Division's Doctor Mark Fridovich and Troy Freitas. A representative of PACT was not available, but Mr. Woodard noted that PACT and HCAP work closely together at the Kulia location.

In response to the Board, Mr. Park stated that displacement of PACT and HCAP would have a negative impact on the community as there is a need for preschools in the area. Relocation would be difficult due to regulatory requirements relating to classroom sizes, improvement costs, etc.

Since both PACT/HCAP and DOH programs provide a vital need in the community, the Board discussed possible locations within the former Kulia dormitory and Resource Center buildings to avoid any displacement. After much discussion, the dormitory building was considered a possibility for relocation of PACT and HCAP with necessary improvements—such as plumbing, air conditioning, flooring, painting, dividing walls, and parking—to comply with regulatory requirements.

With improvement funds being an issue, the Board discussed whether utilizing part of the $50,000 repayment to DURF or possible rent payment received by the DOH could be used to fund renovations needed for the existing dormitory. Mr. Woodard stated that while the $50,000 repayment was intended to recover payment made to settle the commercial kitchen equipment litigation, there is a possibility of having a lease agreement that utilizes DURF funds for PACT and HCAP tenant improvements.

On the other hand, Mr. Woodard stated that because majority of the Kulia I Ka Nuu Project's construction costs were funded by the State, it was rationalized that the Resource Center could be used by another state entity (DOH) at a nominal ground lease rent, with maintenance and repair of the building being the responsibility of DOH. It was clarified that remaining properties within the Kulia I Ka Nuu Project would continue to be maintained by HHFDC through its management agent Hawaii Affordable Properties. The DOH representatives stated their openness to further discuss its options.

Director Spindt commented on the rent option and how it could possibly support other projects that the Board takes part in, while addressing key components of homelessness through assisting mental health and providing affordable child care.

Chair Pulmano called upon the DOH to provide a brief presentation on its program services provided. Doctor Fridovich stated that the Clubhouse program is a critical component of the community mental health continuum of care, providing a work-ordered day, structured by positive social activities with productive work, action, and pro-social behavior opportunities for individual adults with serious persistent mental health.

Director Abe expressed concern on the safety of neighboring residents. Doctor Fridovich stated that the DOH will work together with its neighbors to achieve the necessary safety precautions in the operation of all its programs.

Chair Pulmano asked whether a community outreach was conducted. Mr. Freitas stated that a community outreach has not been done. Mr. Woodard added that he and Mr. Freitas have discussed the need to conduct community outreach should the parties proceed with a lease.

Director Kami suggested that staff continue to work with the parties to obtain the necessary funding to benefit both programs.

Chair Pulmano asked that, before the matter is brought to the Board for decision-making, DOH obtain feedback from the community on the possible relocation of the Clubhouse program.

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

III. F. DISCUSSION AND/OR DECISION MAKING
Approve Short-Term Lease of 620 Coral Street, Kakaako, Oahu, TMK No. (1) 2-1-051: 018 to Feeding Hawaii Together.org for the Public Purpose of a Food Pantry

Staff's recommendation was presented as follows:

> That the HHFDC Board of Directors authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action, including negotiation and execution of a short-term lease with Feeding Hawaii Together.org (FHT) for 620 Coral Street, Kakaako, Oahu, substantially on the terms described herein and subject to the Executive Director's receipt of a Property Condition Assessment report on the 620 Coral Street building and acceptance of FHT's plan to timely correct any immediate required repairs identified in such report.

Vice Chair Taira moved, seconded by Director Fukumoto

> That staff's recommendation be approved.

Mr. Woodard presented the For Action, reviewing the history of 620 Coral Street in relation to the Pohulani Elderly development as well as the recent assignment of the planned development permit from HCDA.

Mr. Woodard mentioned that the Board had previously discussed FHT's interest in 620 Coral Street, continuing that on January 20, 2017, FHT engaged AEI Consultants (AEI) to undertake a Property Condition Assessment in accordance with the American Society for Testing and Materials (ASTM) Standard Guide for Property Condition Assessments: Baseline Property Condition Assessment Process E2018-15. By letter dated January 24, 2017, FHT requested that HHFDC offer a short-term lease to 620 Coral Street based on the following terms:

Term:	March 1, 2017 to February 28, 2018
Termination Option:	Either party may terminate the lease with 30 days notice.
Rent:	$2,334.50 per month, absolute triple net. First month free due to cost of Property Condition Assessment.

AEI conducted a site visit on February 1, 2017, and a draft Property Condition Assessment report is expected to be completed by February 10, 2017.

Staff believes that any lease to FHT should contain a strict non-discrimination clause and also provide for landlord approval of a crowd- and rubbish-control plan to be devised and implemented by FHT. Furthermore, staff believes that any lease to FHT be conditioned upon HHFDC's receipt of a Property Condition Assessment report on the 620 Coral Street building and acceptance of FHT's plan to timely correct any immediate required repairs identified in such report.

Mr. Woodard opened for questions, along with FHT Executive Director Charlie Lorenz.

The Board discussed the assessment report done by Tanimura & Associates, Inc. that was presented to the Board at its January 12, 2017 Meeting. Mr. Woodard reiterated that FHT did contract with a licensed engineering firm, AEI Consultants, which did a full inspection of the property on February 1, 2017. Mr. Woodard clarified that the AEI report is what will be considered, identifying all capital issues and cost estimates. FHT would then be required to submit a plan that addresses the building deficiencies identified by AEI.

Mr. Lorenz stated that should the building not meet the requirements of the DOH and Honolulu Fire Department, FHT would not pursue the property and look elsewhere.

Director Kami suggested that staff ensure that any approvals be obtained within a reasonable timeframe. Mr. Woodard stated that staff will evaluate and determine whether or not the lease is worth pursuing once the assessment report is received.

Director Spindt inquired on the demolition timeline. Mr. Woodard stated that predevelopment activities would run through December 2017, which would include the bidding, procurement of a contractor, and final design – with demolition anticipated in January 2018. (Approximately a nine-month period would be available for the possible FHT lease.)

In response to Vice Chair Taira, Mr. Woodard stated that the lease agreement would allow HHFDC the ability to give the tenant a 30-day notice to vacate the premises before the termination of the lease agreement.

Chair Pulmano asked for the status on Reedesign's vacating process. Mr. Woodard stated he has followed up with Mr. Reed and has not received any response. Therefore, discussions on precautionary measures have been discussed with counsel on a plan to file a summary possession action. Deputy Attorney General Colette Honda explained the steps of the summary possession action process.

Director Kami moved, seconded by Vice Chair Taira

EXECUTIVE SESSION
11:22 a.m.
RECONVENED
11:31 a.m.

> To convene in Executive Session for the purpose of consulting with the board's attorney on questions or issues regarding the board's powers, duties, privileges, immunities, and liabilities, pursuant to Section 92-5(a)(4), Hawaii Revised Statutes.

The motion was carried unanimously.

The Board convened in Executive Session at 11:22 a.m. and reconvened in Regular Session at 11:31 a.m.
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With no further discussion, the motion was carried unanimously.

RECESSED
11:32 a.m.
RECONVENED
11:43 a.m.

The Board recessed at 11:32 a.m. and reconvened at 11:43 a.m.

III. G. DISCUSSION AND/OR DECISION MAKING
Approve State Housing Functional Plan Prepared Pursuant to Act 127, Session Laws of Hawaii 2016, Relating to Rental Housing and Chapter 226, Hawaii Revised Statutes, Hawaii State Planning Act

Staff's recommendation was presented as follows:

That the HHFDC Board of Directors:

A. Approve the State Housing Functional Plan; 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 Kahele

Chief Planner Janice Takahashi presented the For Action, stating that Act 127, Session Laws of Hawaii (SLH) 2016 establishes a goal to develop or vest the development of at least 22,500 affordable housing units between January 1, 2017 and December 31, 2026. Act 127, SLH 2016 also creates a Special Action Team on Affordable Rental Housing (Special Action Team) comprised of eleven members responsible for recommending actions to increase the supply of rental housing for low- to moderate-income families, with one of its tasks being to submit legislation proposing an update of the Hawaii State Planning Act codified in Chapter 226 Hawaii Revised Statues (HRS) establishes a Statewide Planning System to achieve State goals, objectives and policies. Sections 226-19 and 226-106, HRS, require respective state agencies to prepare State Functional Plans to further define and implement such statewide goals, objectives, polices, and priority guidelines in areas of statewide importance, like housing.

Ms. Takahashi also stated that the existing State Housing Functional Plan (SHFP) was prepared by HHFDC's predecessor, Housing Finance and Development Corporation, which was approved by the Governor in 1989.

In December 2016, the Office of Planning, as the chairing member of the Special Action Team, submitted a report to the Hawaii State Legislature, which included an amendment to the Hawaii State Planning Act and the draft SHFP, focusing on the following priority issues and objectives:

- Rental housing – (1) Increase and sustain the supply of permanent rental housing that is affordable and assessable to Hawaii residents, particularly those with incomes at or below 80% AMI; and (2) Attain the legislative goal of 22,500 rental housing units by 2026.
- Homeownership – Increase the homeownership rate.
- Impediments to residential development – Address barriers to residential development.
- Housing information system – Maintain a statewide housing data system for use by public and private agencies engaged in the provision of housing.

The draft 2016 SHFP also aligns with the following policies and strategies that were approved by the HHFDC Board on December 16, 2015:

1. Build more affordable housing statewide and in Kakaako.
2. Leverage HHFDC resources to build more affordable housing (LIHTC, loans, bonds, land).
3. Facilitate the development of rental units to serve the 60% AMI and 80% - 140% AMI income groups.
4. Explore the statewide development of workforce and affordable housing in transit oriented developments near transit stations.

5. Reduce regulatory barriers to expedite the delivery of affordable homes.

Ms. Takahashi distributed a revised Exhibit C, draft SHFP, to the Board, noting the update on page 6, the Estimated Housing Need, stating that statewide, approximately 64,693 housing units are forecasted to be needed during the 2015-2025 period. The 2016 SMS study estimates that nearly 57,500 units (89%) will be needed by Hawaii's workforce and lower income households.

In response to Vice Chair Taira, Ms. Takahashi stated that the database for the housing information system objective is updated every two-years and helps to track where the State is at in meeting its objectives statewide. The database also includes unit counts from the counties, Hawaii Public Housing Authority (HPHA), and the U.S. Department of Housing and Urban Development.

In response to Director Fukumoto, staff stated that lower income households are represented on pages 14, "Creative Incentives to Encourage the Development of Rental Housing for Extremely Low-Income Households," and 15, "Renovate and/or Redevelop Public Housing Facilities," of the draft SHFP.
Vice Chair Taira asked for the reason of the database being consolidated as opposed to being separated to the various housing entities. Staff clarified that it is statutory under Act 127. It was further noted that there is a bill that adds the HPHA and Hawaii Community Development Authority (HCDA) to the Special Action Team.

With no further discussion, the motion was carried unanimously.

Chair Pulmano deferred agenda item III. H. to the next Board meeting.

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

Housing brochures were distributed to the Board by Director Iseri-Matsubara, who thanked Housing Information Specialist Kent Miyasaki for creating. Housing brochures were noted to provide a "snapshot" of the projects developed in part of the Governor's strategy in addressing the housing crisis and to come up with actions geared towards maximizing financing tools, realigning policies and procedures, and greater participation, in terms of regional infrastructure, in collaboration with HPHA and HCDA.

In response to Director Fukumoto, Director Iseri-Matsubara stated that information on the production table could be found on the Governor's website.

Director Iseri-Matsubara further thanked Executive Director Hirai, Ms. Takahashi, Ms. Maynard, Mr. Prahler, and Mr. Ueki.

With no further discussion, Chair Pulmano proceeded to the Report by the Loan Subcommittee.

IV. REPORT BY THE LOAN SUBCOMMITTEE - ADDITIONAL

Chief Planner Janice Takahashi provided a recap of the major points of discussion and recommendations made by the Loan Subcommittee at the January 12, 2017 Board Meeting and January 18, 2017 Loan Subcommittee Meeting.

FINDINGS AND RECOMMENDATIONS

An overview of the loan portfolio was provided showing that as of September 30, 2016, there were 61 loans totaling approximately $269 million. The outstanding principal balance on these loans total approximately $258 million. It was noted that the majority of projects were in the City and County of Honolulu.

Ms. Takahashi stated that staff revised its Consolidated Application for the FY 2017 funding round in hopes of making it easier for developers to complete and reduce errors to shave time off the review and award process.

It was further noted that developers have recommended to the Governor and the Act 127 Special Action Team that HHFDC accept applications for RHRF loans more than twice a year – with some recommending an open (non-competitive) application period similar to the HMMF/4% LIHTC, while others suggested four (competitive) application cycles a year.

Ms. Takahashi added that while funding for the RHRF has increased, it is still a limited resource which requires careful stewardship and competition is believed to generate better projects. Although two funding rounds are planned for FY 2017, with a more efficient application process, more funding rounds could be considered, if funds are available. However, downward pricing of LIHTC or increases in interest rates may leave a developer with an additional financing gap.

Based on the additional findings, recommendations of the Loan Subcommittee are as follows:

- Given the substantial need for affordable rental housing and faced with rising construction costs, RHRF funds should be deployed expeditiously to increase the rental housing supply. However, HHFDC has a statutory obligation to underwrite loans to protect the RHRF from inordinate risk (201H-202(h), HRS) and operate the fund as a revolving fund. Therefore, expedited financing awards must be balanced with the responsible stewardship of the RHRF.

  To safeguard the RHRF, HHFDC staff shall continue to (1) monitor loans for compliance and (2) underwrite loan requests that evidence repayment of principal interest. A reasonable outside underwriting guideline is the ability of a project to evidence current interest payments and repayment of approximately 50 percent of the initial principal balance by year 50. This, along with other underwriting criteria including a maximum LTV ratio of 100 percent and a debt coverage ratio of no less than 1.16x on debt service requirements senior to the RHRF loan, should protect the RHRF from inordinate risk.

  This guideline is not intended to be a hard cap. Rather, it is meant to provide guidance in underwriting loans while maintaining the necessary flexibility to review projects on a case-by-case basis.

- Assess and, if needed, revised existing scoring criteria and point system to ensure they strategically align with current policies.

- Funding rounds: (1) Assess whether the revised Consolidated Application results in a more efficient application/award process. If so, set a third funding round subject to the availability of funds; and (2) Consult with the Office of the Attorney General if HHFDC may undertake a separate application process, outside of a funding round, for projects that may require additional RHRF due to downward pricing of LIHTC or increases in interest rates.

Ms. Takahashi opened for questions.

Director Iseri-Matsubara discussed matters regarding the cancelation of a funding round in FY 2016, where a group of developers and housing advocates had expressed the need for more synchronized funding rounds. Discussion ensued on possible ways the HHFDC could address the issue without compromising the competitiveness of its limited resources.

Chair Pulmano asked whether a third funding round could be added. Mr. Ueki stated that from a timing perspective, a third round would be problematic, as the time in between rounds are used for staff to prepare for the upcoming year, whether it is changes to the QAP or reviewing applications received.

Director Fukumoto suggested that the planned rounds take its course and be further observed as opposed to using the 2016 funding round incident as the determining factor for future rounds.

In response to Director Abe, Mr. Ueki stated that repayment percentages are negotiated on a project-by-project basis and are dependent upon where a project is financially.

With no further discussion, the Chair Proceeded to the Report of the Executive Director.

V. REPORT OF THE EXECUTIVE DIRECTOR

Executive Director Craig Hirai stated that a legislative update will be provided at the next board meeting. However, he noted that the Senate's Ways and Means Committee is looking at ways to shorten the time it takes to appropriate RHRF funds to the point of occupancy of a tenant, being that four to five years is not acceptable.

With no further business on the agenda, Chair Pulmano asked for a motion to adjourn.

VI. ADJOURNMENT
12:30 p.m.

Vice Chair Taira moved, seconded by Director Kami

That the meeting be adjourned at 12:30 p.m.

The motion was unanimously approved.

RONA FUKUMOTO
Secretary