

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 ON
THURSDAY, May 10, 2018,
IN THE CITY AND COUNTY OF HONOLULU, STATE OF HAWAII

The Board of Directors of the Hawaii Housing Finance and Development Corporation met for a regular meeting at their office located at 677 Queen Street, on Thursday, May 10, 2018, at 9:00 a.m.

With a quorum present, the meeting was called to order at 9:04 a.m. by Acting Chair Spindt.

Those present and excused were as follows:

Present: Director Milo Spindt, Vice Chair
Director Donn Mende
Director Melvin Kahele
Director Denise Iseri-Matsubara
Director George Atta
Designee Scott Kami for Director Laurel Johnston
Designee Carl Nagasako for Director Luis Salaveria

Executive Director Craig Hirai

Excused: Director Leilani Pulmano, Chair
Director Rona Fukumoto, Secretary

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
Stan Fujimoto, Development Section Chief
Christopher Woodard, Real Estate Portfolio Manager
Jocelyn Iwamasa, Housing Finance Specialist
Dean Sakata, Housing Finance Specialist
Ken Takahashi, Housing Development Specialist
Lorna Kometani, Housing Sales Coordinator
Lorraine Egusa, Budget Analyst
Kent Miyasaki, Housing Information Specialist
Krystal-Lee Tabangcura, Procurement Specialist
Albert Palmer, Housing Development Specialist
Rachel Isara-Phan, Human Resource Specialist
Esa Pablo, Secretary to the Board

Guests: Kathy Oshiro
Liz Char, Michaels Development Company
Questor Lau, Michaels Development Company
Claudia Shay, Self-Help Housing Corporation of Hawaii
Franco Mola, KMUD I
Moe Mohanna, KMUD I
Pete Harispuru, KMUD I
Natalie Banach, Settle Meyer
Marian Gushiken, EAH
Ron Steitzer, Construction Management and Development
Nicole Shiraishi, Construction Management and Development
George Ehara, Swinerton Builders
David Mosey, Bronx Pro Group
Sara Lin, Governor's Office
Jonathan Lee, WCIT Architecture

I.
CALL TO
ORDER/
ROLL CALL

HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

Bill Gresham, AAAAA Rent-A-Space Self-Storage
Chirs Delaney, PRP
Laurel Johnston, B&F

Acting Chair Spindt welcomed Director George Atta, newly appointed Oahu board director. Directors Spindt, Kahele, and Atta were confirmed for a four-year term set to expire on June 30, 2022 (Spindt and Kahele) and June 30, 2020 (Atta), respectively.

Director Kahele moved, seconded by Designee Kami

That the meeting minutes of January 11, 2018 be approved, as circulated.

The motion was carried unanimously.

Approval of the February 8, 2018, March 8, 2018, and April 12, 2018 meeting minutes were deferred to a future meeting.

II. A.
APPROVAL
OF MINUTES
Regular
Meeting
1/11/18

II. B.
APPROVAL
OF MINUTES
Regular
Meeting
2/8/18

II. C.
APPROVAL
OF MINUTES
Regular
Meeting
3/8/18

II. D.
APPROVAL
OF MINUTES
Regular
Meeting
4/12/18

Finance Manager Darren Ueki presented the For Action, stating staff's recommendation, as follows:

That the HHFDC Board of Directors approve the following:

- A. Amend the RHRF loan repayment terms to 75% of Net Cash Flow (as mandated by Freddie Mac) as long as Freddie Mac is the holder of the senior loan; and 85% of Net Cash Flow (as originally approved by HHFDC) if Freddie Mac is no longer the holder of the senior loan.
- B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Director Kahele moved, seconded by Designee Kami

That staff's recommendation be approved.

Mr. Ueki noted the programmatic details of the Rental Housing Revolving Fund (RHRF), which provides Equity Gap low-interest loans to qualified owners and developers constructing, acquiring, or rehabilitating affordable housing units.

Mr. Ueki stated that in March of 2018, the East Kapolei II Phase 2, LLC (Awardee) submitted a request to amend the RHRF loan repayment terms to include a 75% of Net Cash Flow option prompted by a Freddie Mac Tax Exempt Loan (TEL) requirement that debt subordinate to the Freddie Mac TEL cannot receive more than 75% of the New Cash Flow. The Freddie Mac TEL will provide permanent financing for the Keahumoa Place Phase 2 (Project).

III. A.
DISCUSSION
AND/OR
DECISION
MAKING
Approve an
Amendment to the
Rental Housing
Revolving Fund
Project Award for the
Keahumoa Place
Phase 2 Project
Located in Ewa Beach
Oahu, TMK No.:
(1) 9-1-017: 109 (por.)

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The Awardee is working to close its financing on the Project in May/June 2018.

The Project is set to start construction in July 2018, with its first building being completed in August 2019, and completion of the Project in the Fourth Quarter of 2019.

Staff's recommended Loan term amendments, were noted as follows:

1. Repayment (Annual): Years 1 through 2 – No Payments

After Year 2 – As long as Freddie Mac is holder of the senior loan, 75% of Net Cash Flow (as mandated by Freddie Mac). If Freddie Mac is no longer the holder of the senior loan, 85% of the Net Cash Flow (as originally approved by HHFDC).

Change in repayment terms projects to have minimal impact on the payback period; lengthens to 38 years from 35 years.

2. HHFDC's definition of New Cash Flow is annual Operating Income less (i) annual Operating Expenses, (ii) required annual Special Fund deposits, and (iii) annual senior debt service payment made. Awardee has confirmed that HHFDC's definition is acceptable to Freddie Mac.
3. All other terms and conditions of the RHRF award remain the same.
4. Subject to the availability of funds.

Mr. Ueki opened for questions, along with Ms. Liz Char and Mr. Questor Lau, on behalf of the Project.

Acting Chair Spindt asked for a brief presentation on the project.

Ms. Char provided an update on Phases 1, 2, and 3, reiterating that the closing of its financing is anticipated to be by the end of June 2018. A blessing for the entire project is anticipated in July 2018.

Acting Chair Spindt announced that a court reporter was present and asked that everyone identify themselves before speaking.

In response to Director Iseri-Matsubara, Mr. Ueki clarified that all three phases would be constructed one after another and anticipated to be completed by the end of Calendar Year 2019.

With no further discussion, the motion was carried unanimously.

Mr. Ueki presented the For Action, stating staff's recommendation as follows:

That the HHFDC Board of Directors approve the following:

- A. Amend the RHRF loan repayment terms to 75% of Net Cash Flow (as mandated by Freddie Mac) as long as Freddie Mac is the holder of the senior loan; and 85% of Net Cash Flow (as originally approved by HHFDC) if Freddie Mac is no longer the holder of the senior loan.
- B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

III. B. DISCUSSION AND/OR DECISION MAKING

Approve an Amendment to the Rental Housing Revolving Fund Project Award for the Keahumoa Place Phase 3 Project Located in Ewa Beach, Oahu, TMK No.: (1) 9-1-017:109

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Director Kahele moved, seconded by Director Mende

(por.)

That staff's recommendation be approved.

Mr. Ueki stated that this request is identical to the previous For Action, but for Phase 3 of the Keahumoa Place (Project).

Mr. Ueki opened for questions, along Ms. Char and Mr. Lau.

With no further questions, the motion was carried unanimously.

Mr. Ueki presented the For Action, stating staff's recommendation, as follows:

That the HHFDC Board of Directors approve the following:

- A. Resolution No. 110, (attached as Exhibit D within the For Action) which authorizes a tax-exempt issuance of up to \$43,291,103 from the HMMF Bond Program, subject to the provisions and conditions recommended (attached as Exhibit C within the For Action).
- B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Director Kahele moved, seconded by Designee Kami

That staff's recommendation be approved.

Mr. Ueki noted the programmatic details of the Hula Mae Multi-Family (HMMF) Bond Program, which is a federally authorized program that allows the HHFDC to issue tax-exempt revenue bonds to finance the acquisition and rehabilitation or development of privately owned affordable rental projects. The Corporation can issue tax-exempt revenue bonds to provide below-market financing to private developers or owners of affordable rental units and acts as a conduit for the financing by issuing the bonds. However, all repayment obligations are the responsibility of the developer or owner requesting such financing.

The KMUD I, LP (Awardee) expects the HMMF bond issuance amount to fund over 50% of the Project's anticipated basis for the acquisition, land, and construction costs, which qualifies the Project to receive Federal and State 4% Low Income Housing Tax Credits (LIHTC).

Resolution No. 110 authorizes the issuance, sale, and delivery of the mortgage revenue bonds in a principal amount not to exceed \$43,291,103 for the purpose of making a mortgage loan to provide financing to the Awardee for the Project.

Mr. Ueki opened for questions, along with Mr. Franco Mola and Mr. Moe Mohannad, on behalf of the Project.

Acting Chair Spindt asked for a brief presentation on the project.

Mr. Mola stated that final building permits are anticipated at the end of the month, with the closing of its financing and start of construction at the end of May 2018.

Director Kahele asked about the location of the Project. Mr. Mola stated that the Project is located across the street from the Island Pacific Academy.

Director Kahele asked who would be the general contractor. Mr. Mola stated that Hawaiian Dredging had been selected.

With no further discussion, the motion was carried unanimously.

Mr. Ueki presented the For Action, stating staff's recommendation, as follows:

III. C. DISCUSSION AND/OR DECISION MAKING

Approve Resolution No. 110, Authorizing the Issuance of Hula Mae Multi-Family Tax-Exempt Revenue Bonds for the Kulana Hale at Kapolei Project Located in Kapolei, Oahu, TMK Nos.: (1) 9-1-088: 021 CPR 0001, 0003, 0004 0005, 0006, 0007, and 0008

III. D. DISCUSSION

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That the HHFDC Board of Directors approve the following:

- A. Waive the LIHTC program's minimum threshold requirement which requires that the lease term exceeds the project's affordability period by no less than 5 years.
- B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purpose of this For Action.

Director Kahele moved, seconded by Director Mende

That staff's recommendation be approved.

Mr. Ueki noted the programmatic details of the LIHTC program, which was created by the Tax Reform Act of 1986, intended to encourage the construction or rehabilitation of low-income rental units. Section 42 requires that each State housing agency allocate LIHTC in accordance with a Qualified Allocation Plan (QAP), which sets forth criteria to evaluate and allocate tax credits to a project which best meets the housing needs of the State and preferences required under Section 42 of the IRS code.

The 630 Cooke Street Limited Partnership LP (Awardee) requested an authorized issuance amount of up to \$27,000,000 for the Nohona Hale (Project) compared to the projected usage of \$25,010,000. The \$1,990,000 excess represents a cushion against budget increase with respect to the 50% Test requirement. To maximize the 4% LIHTC eligible basis, tax-exempt proceeds must cover at least 50% of land and depreciable assets.

The Project originally committed to a 65-year affordability period with the intent of securing a 70-year lease from the Hawaii Community Development Authority (HCDA). However, HCDA is statutorily limited to offering a maximum lease period of 65 years. Therefore, the Awardee is requesting an exception to the QAP lease term requirement instead of requesting a reduction in the LIHTC period to 60 years. Correspondingly, the Project's affordability period will match the HCDA lease term, but not exceed 65 years.

Mr. Ueki opened for questions, along with Ms. Marian Gushiken and Mr. David Mosey, on behalf of the Project.

Acting Chair Spindt asked for a brief presentation.

Mr. Mosey stated the project specs and its anticipated LEED Gold certification, with Swinerton as its contractor. The Project anticipates its permits in May 2018 with construction to start in June 2018.

With the Board's concern on parking, Designee Kami asked about the status of the car-sharing program. Mr. Mosey stated that he will be meeting with Mr. Peter Fukunaga today, with Servco Pacific Inc., to discuss its intent on incorporating the car-share program. Designee Kami asked that the Board be kept apprised.

The Board discussed the high square footage pricing. Swinerton Builders' vice president/division manager George Ehara stated that pricing was looked at on a cost per unit basis and are primarily attributed to the 111 units that will include bathroom and kitchenets in a very small 10,000 square foot site and other additional interior and exterior details, such as plumbing and electrical work, Murphy beds, lanais, operable doors, and sliding doors. Furthermore, costs were also noted to be driven by staging issues and utility connections.

Development Section Chief Stan Fujimoto provided background on the cost from an evaluating standpoint, explaining that although this Project has gone through the bidding process and points were awarded based upon a formula which is pegged on the lowest cost proposal, because financing is for non-competitive tax credits,

AND/OR DECISION MAKING

Approve a Waiver of the Low Income Housing Tax Credit Program's Minimum Threshold Requirement Requiring the Lease Term to be Five Years Longer than the Affordability Period for the Nohona Hale Project Located in Honolulu, Oahu, TMK No.: (1) 2-1-051: 014

there is no basis to not award based upon cost as long as the HHFDC has the resources. Executive Director Craig Hirai added that in light of some recent developments, the HHFDC is reevaluating on how reasonableness of cost is looked at; however, it would not apply to this project.

Designee Kami asked about the bonds and LIHTC amounts. Mr. Ueki stated that those amounts are firming up as the goal is to close by the end of June 2018 in order to benefit from a 30% boost with the project being in a difficult-to-develop area.

With no further discussion, the motion was carried unanimously.

Mr. Ueki presented the For Action, stating staff's recommendation, as follows:

That the HHFDC Board of Directors approved the following:

- A. Resolution No. 111, (attached as Exhibit E within the For Action), which provides approval to issue revenue bonds of up to \$27,000,000 for the Nohona Hale project subject to the provisions and conditions recommended (within Exhibit D of the For Action).
- B. Increase the Federal 4% LIHTC reservation to \$2,018,723 from \$1,761,769 over a 10-year period and the annual State 4% LIHTC reservation to \$2,018,723 from \$1,761,769.
 - 1. All other terms and conditions of the Federal and State 4% LIHTC reservation approved by the HHFDC Board of Directors on January 12, 2017 remain the same.
- C. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Director Kahele moved, seconded by Designee Kami

That staff's recommendation be approved.

Mr. Ueki stated that 630 Cooke Street Limited Partnership LP (Awardee) is requesting for an increase in Federal and State 4% LIHTC reservation, HMMF Revenue Bonds, and Deferred Developer Fee primarily attributed to special design requirements, to provide more space for common area circulation, telecom, trash, and electrical rooms, which prompted the addition of two floors (from 14 to 16) and 4 additional studio units at 60% AMGI for the Nohona Hale (Project). The breakdown of increases to the Project Budget, as stated within the For Action, was noted.

The HMMF Bond is a private placement with JPMorgan Chase Bank and the Awardee expects the HMMF Bond issuance amount to fund over 50% of the Project's anticipated cost.

Resolution No. 111 authorizes the issuance, sale, and delivery of mortgage revenue bonds in a principal amount not to exceed \$25,010,000 for the purpose of making a mortgage loan to provide financing to the Partnership for the Project.

With no questions, the motion was carried unanimously.

Development Branch Chief Rick Prahler presented the For Action, stating staff's recommendation as follows:

That the HHFDC Board of Directors approve a twenty-four (24) month extension of the maturity date of SHHCH's DURF loan to April 25, 2020, with six (6) month options to extend the maturity date at the Executive Director's sole discretion, and an increase of its loan amount by \$484,300, for a total loan amount of \$3,936,100 to continue financing the Pokai Bay

**III. E.
DISCUSSION
AND/OR
DECISION
MAKING**

Approve: (1) Resolution No. 111, Authorizing the Issuance of Hula Mae Multi-Family Tax-Exempt Revenue Bonds; and (2) a Request from the Applicant to Increase the Low Income Housing Tax Credit Reservation for the Nohona Hale Project Located in Honolulu, Oahu, TMK No.: (1) 2-1-051: 014

**III. F.
DISCUSSION
AND/OR
DECISION
MAKING**

Approve an Extension to the Dwelling Unit Revolving Fund Interim Loan Term and Increase in Loan

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Self-Help Housing project, located at Lualualei, Waianae, Oahu, substantially as described in this For Action;

Subject to the following:

- A. Approval and release of funds by the Governor;
- B. Approval and execution of necessary amendments to the loan documents by the Executive Director; and
- C. Compliance with all rules, regulations, and such other terms and conditions as may be required by the Executive Director.

Director Kahele moved, seconded by Designee Kami

That staff's recommendation be approved.

Mr. Prahler stated that by letter dated April 3, 2018, the Self-Help Housing Corporation of Hawaii (SHHCH) requested an extension to the DURF loan for the Pokai Bay Self-Help Housing (Project), primarily due to USDA-RD's inordinately long processing time for the RD 502 program, which provides mortgages to low income buyers below 80% of the area median income (AMI).

Thirty-five house lots remain to be sold and SHHCH is providing loan counseling to the 35 low-income families and construction packages that will be sold for approximately \$295,000 each.

If the DURF loan is not fully repaid by the extended period, there will be adequate equity to fund additional interest reserved, if necessary.

The uncommitted DURF fund balance (as of April 31, 2018) is approximately \$12.45 million (excludes \$25 million in DURF appropriation for FY 2018).

Mr. Prahler opened for questions, along with Ms. Claudia Shay, on behalf of the Project.

Ms. Shay stated that a \$900,000 Surety Bond with the City will be refunded shortly, accelerating the project repayment schedule. Ms. Shay further stated that because families did not have adequate savings and FICO scores, the RD 502 financing was sought.

Acting Chair Spindt asked how long does the RD 502 loan process take. Ms. Shay stated approximately 9 months, subject to the availability of funds.

Acting Chair Spindt asked if the excess equity is dealt with a deed restriction. Ms. Shay concurred, stated that there is the 10-year Buyback and Shared Appreciation Equity (SAE) held by HHFDC. Mr. Prahler stated that the SAE calculation is the price value of the lot versus the fair market value. (15 – 20%)

With no further discussion, the motion was carried unanimously.

Real Estate Portfolio Manager Chris Woodard presented the For Action, stating staff's recommendation, as follows:

That the HHFDC Board of Directors:

- A. Approve a relocated grant of easement to the Board of Water Supply of the County of Maui for the AAAAA Rent-A-Space Self-Storage Project located at 3560 Lower Honoapiilani Road, Lahaina, Maui, TMK No.: (2) 44-001: 026; and

Amount for the Pokai Bay Self-Help Housing Project Located at Lualualei, Waianae, Oahu, TMK Nos.: (1) 8-6-027: 001 – 004 049 – 054, and 064 – 123

III. G. DISCUSSION AND/OR DECISION MAKING

Approve a Relocated Grant of Easement to the Board of Water Supply of the County Of Maui for the AAAAA Rent-A-Space Self-Storage Project Located at 3560 Lower

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

Honoapiilani Road,
Lahaina, Maui, TMK
No.: (2) 4-4-001: 026

Director Kahele moved, seconded by Designee Kami

That staff's recommendation be approved.

Mr. Woodard stated that in March 2014, the HHFDC published a Request for Proposals (RFP) to lease property located at 3560 Lower Honoapiilani Road in Lahaina, Hawaii. AAAAA Rent-A-Space (5A) submitted the sole response, proposing a surface parking lot to be used in conjunction with its adjacent self-storage facility and retail strip center.

The site plan contemplates a row of storage pods being placed along the northern boundary of the property and over a 12-inch waterline. The County of Maui requires that the waterline be relocated. Therefore, 5A is requesting to relocate the waterline about 20 feet south to address the County of Maui's concern and relocate the easement area.

Mr. Woodard opened for questions, along with Mr. Bill Gresham, on behalf of 5A.

With no questions, the motion was carried unanimously.

Mr. Woodard presented the For Action, stating staff's recommendation, as follows:

That the HHFDC Board of Directors:

- A. Approve entering into a cost reimbursement agreement with the Trustees of the Estate of Bernice Pauahi Bishop for reasonable legal expenses (subject to a cap of \$25,000) relating to:
1. The review of and possible cancellation or modification of the 1989 option agreement by and between the Bishop Estate and the Hawaii Community Development Authority; and
 2. The review of and possible amendments to HCDA No. V 3-89, Modification No. M 1-89, and Planned Development Permit No. PD 4-89, each as previously amended, and related development obligations at Pohulani Elderly, Kakaako, Oahu, TMK Nos. (1) 2-1-051: parcels 13, 18 and 33; and
- B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Director Kahele moved, seconded by Designee Kami

That staff's recommendation be approved.

Mr. Woodard stated that the construction of Pohulani was completed in 1991 under the Kakaako Community Development District Plan and Rules adopted by the Hawaii Community Development Authority (HCDA), which provide a comprehensive approach to land-use planning.

On September 7, 1989, HCDA and the Bishop Estate entered into an Option Agreement relating to the conveyance of the Bishop Estate Parcels. Neither HCDA nor HHFDC is able to locate the agreement, a memorandum of which was recorded in the Bureau of Conveyances on September 20, 1989.

In reviewing Pohulani's title, joint offerors Standard Property Company, Inc. and Stanford Carr Development, LLC (Buyer) is requesting a copy of the Option Agreement, in order to facilitate the sale.

**III. H.
DISCUSSION
AND/OR
DECISION
MAKING**

Approve Entering into a cost Reimbursement Agreement with the Trustees of the Estate of Bernice Pauahi Bishop (the "Bishop Estate") for: (1) Legal and Document Search Expenses Relating to the Review of and Possible Cancellation or Modification of the 1989 Option Agreement by and between the Bishop Estate and the Hawaii Community Development Authority ("HCDA"); and (2) Legal Expenses Relating to the Review of and Possible Amendments to HCDA Variance No. V 3-89, Modification No. M 1-89, and Planned Development Permit No. PD 4-89, Each as Previously Amended, and Related Development Obligations at Pohulani Elderly, Kakaako, Oahu, TMK Nos.: (1) 2-1-051: parcels 13, 18, and 33

In-house counsel for the Bishop Estate informed HHFDC's Special Deputy Attorney General Leighton Yuen, of Goodsell Anderson Quinn & Stifel, that its general practice is to not provide documents and such requests would incur costs for locating and preparing legal analysis to justify providing a copy of the Option Agreement.

The Bishop Estate's in-house counsel believes that the Option Agreement may be able to be canceled and therefore, removed from Pohulani's title, subject to legal review of the underlying transaction documents.

Although the Bishop Estate is amenable to reviewing and cleaning up Pohulani's title, related legal costs incurred by Bishop Estate is being requested to be reimbursed by HHFDC.

Designee Kami asked whether such reimbursement was subject to receiving the document. Mr. Woodard stated that he believed that reimbursement would be required whether the document was received or not.

Acting Chair Spindt commented that the \$25,000 amount seemed excessive. Mr. Woodard stated that number is the same amount approved by the Board for legal expense reimbursement for work on potentially untying the Pohulani site from Servco's parcel at 609 South Street. Deputy Attorney Colette Honda stated that although the amount is high, reimbursement would be subject to HHFDC's review.

With no further discussion, the motion was carried unanimously.

Mr. Woodard presented the For Discussion, providing background information on HHFDC's 119 owned and managed lots within the Waiahole Valley Agricultural Park and Residential Lots Subdivision (Subdivision); Lot 68 lease transfers between Mr. and Mrs. Everett C. Davis; Mrs. Davis' engagement of Realtor Yukie Pakele to carry out the sale of her dwelling; and new lease assignment to Kathleen E. Oshiro.

Benedicktus & Associates provided HHFDC with two appraisal reports for Ms. Davis' dwelling and other improvements – one using the sales comparisons approach (indicating a value of \$329,000) and the other using the cost approach (reflecting a value of \$237,000). HHFDC accepted the cost appraisal report of \$237,000, such approach being consistent with the definition "lessee's limited equity" under the lease.

On July 5, 2017, HHFDC received Ms. Oshiro's residential lot ground lease application and other required documentation, and on August 14, 2017 she acquired the property in an all-cash transaction and with HHFDC's consent.

On February 21, 2018, staff was contacted by a loan officer from Hawaii State Federal Credit Union, who inquired about the process for Ms. Oshiro to obtain HHFDC's consent to a mortgage loan for approximately 70% of the property's value. HHFDC informed the loan officer of the mortgage loan purpose restrictions under the lease, and that HHFDC cannot consent to a loan for the purpose of "cashing out" the lessee's equity.

Furthermore, even if the HHFDC were to consent to a mortgage for the purpose of improving the property, lenders' unwillingness to do so is believed to be due to the limited equity nature of the leases. It is further believed that the leases were structured in this manner for the following reasons:

1. The original Waiahole Valley lessees paid nothing upfront when given leases by Hawaii Finance Development Corporation (HFDC), HHFDC's predecessor, in 1998.

**III. I.
DISCUSSION
AND/OR
DECISION
MAKING**
Discussion of
Request for
Modification to
Residential Lot
Ground Lease for
Waiahole Valley
Agricultural Park
and Residential Lots
Subdivision Lot No.
68, TMK No.:
(1) 4-8-011: 025

2. The Waiahole Valley leases provide for a substantially below-market lease rent. For example, under the lease, Ms. Oshiro pays an annual ground rent of approximately \$741, which represents a less than half of one percent annual yield on the City and County of Honolulu's assessed land value of \$224,400 (a proxy for land value).
3. The leases were intended to function as long-term use permits rather than traditional ground leases.

However, on December 7, 2000, the Hawaii Community Development Corporation of Hawaii (HCDCH), HHFDC's predecessor agency, approved amending terms of Waiahole Valley leases on a case-by-case basis to allow the sale of leasehold interests for the purpose of obtaining mortgage loans for new construction or repairs.

In 2006, HHFDC entered into such amendments with seven Waiahole Valley lessees to enable them to obtain financing to construct homes with assistance from Self-Help Housing Corporation of Hawaii. Pursuant to the terms of the 2000 Board approval, HHFDC was paid an up-front lease premium for the sales of the leasehold interests. However, up to 95% of the purchase prices were financed by HHFDC's Deferred Sales Price (DSP) and Shared Appreciation Equity (SAE) programs, and staff believes that all seven lessees have negative equity in their homes due to the terms of the DSP and SAE programs.

In December 2016, HHFDC contracted with SMS Marketing and Research Services, Inc. to provide services to assist in the development of a strategic plan for the Subdivision, including, but not limited to, recommendations relating to modifications to the existing Waiahole Valley leases scheduled for rent negotiations in 2023. A draft plan is anticipated to be completed in June 2018.

By email dated April 16, 2018, Ms. Kathleen E. Oshiro, the lessee, is requesting the following:

1. That the matter of the lease be included on the HHFDC Board of Directors' May 10, 2018 regular meeting agenda;
2. That the HHFDC Board of Directors approve an amendment to the lease to allow a lending institution to accept a mortgage on the lease as security for a loan to make improvements to the property;
3. That the HHFDC Board of Directors approve an extension of the lease to provide for a 35-year remaining term, as would be required to obtain a 30-year, fully amortizing mortgage loan; and
4. That, to the extent that there are delays in the effecting the requested lease modifications, HHFDC provide compensation related to any unfavorable interest-rate changes.

To ensure fairness to all parties, HHFDC believes that a standard-form amendment should be developed for all residential lot ground leases and agricultural lot ground leases of lessees whose leases were not modified in 2006. These standard-form amendments would be developed as part of the first action plan to be undertaken after completion of the Waiahole Valley strategic plan.

Mr. Woodard asked Ms. Oshiro if she would like to make a statement to the Board.

Ms. Oshiro stated that when signed and purchased, she was under the impression that she could later obtain a mortgage loan for repairs for the leaky roof disclosed.

Mr. Woodard reiterated that the draft strategic plan is anticipated to address such issues, as stated. However, staff plans to return to discuss a new lease amendment policy that may be established by the Board.

Acting Chair Spindt stated that in his experience, appraisals are only ordered when financing is being used versus cash payment and asked whether the original purchase contracts proposed financing the property. Property Management Coordinator Jason Takata stated that one of the policies in place, should a transaction occur, requires a third-party appraisal to be prepared to obtain the value of improvements to ensure that the value is set in accordance with the definition of the lessee's equity.

Discussion ensued on the appraisals done. Mr. Woodard stated that in comparison of the two appraisals, the value of the leasehold interest would be approximately \$92,000. Based on the December 2000 approval, Mr. Woodard stated that one option could be to accept a \$92,000 payment either upfront or over time and modify the lease to allow it to be mortgaged so that improvements to the property can be made.

Acting Chair Spindt asked for a motion to go into executive session.

Director Kahele moved, seconded by Director Mende

That the Board convened in executive session at 10:44 a.m., pursuant to Section 92-5(a)(4), Hawaii Revised Statutes, to consult with the board attorney on questions or issues regarding the board's powers, duties, privileges, immunities, and liabilities as it relates to this matter.

The motion was carried unanimously.

The Board reconvened in regular session at 11:29 a.m.

Acting Chair Spindt stated that the Board requests that staff pursue and present all options to find a helpful resolution that would work for Ms. Oshiro and all of the residents of the Waiahole Valley Agricultural Park and Residential Lots. Staff is to report back to the Board by the June/July Board of Directors Meeting.

Acting Chair Spindt thanked staff for their work on this and proceeded to the Report of the Executive Director.

Executive Director Hirai reported on the following:

Copies of the present and proposed HHFDC Organizational Charts were distributed to the Board for review. The main purpose of the proposed HHFDC Organizational Chart is to provide a true reflection of how the HHFDC currently operates. It was further stated that the proposed HHFDC Organizational Chart does not displace, promote, or reduce anyone's pay and is currently being reviewed by the HGEA. Preliminary approvals have been received from DBEDT Director Luis Salaveria. Questions and further discussion on the organizational charts could be discussed at the next board meeting.

In reference to HB 2748, relating to the State Budget, Executive Director Hirai introduced Budget and Finance (B&F) Director Laurel Johnston, who stated that B&F is currently in review of all the bill and the budgets to see how this would impact the General Fund and financial plan moving forward. A scheduled meeting with the Governor is anticipated to be soon.

Executive Director Hirai stated that \$200 million was appropriated for the RHRF, \$10 million for DURF, \$50,000 received for to study and report on housing for populations with access and functional needs, and the Act 54 GET exemption annual cap was increased from \$7 million to \$30 million, extending to 2030.

Furthermore, HHFDC lost three positions – two civil service positions and the TOD Coordinator position (which is being transferred to the Office of Planning).

EXECUTIVE
SESSION
10:44 a.m.

RECONVENED
11:29 a.m.

IV.
REPORT
OF THE
EXECUTIVE
DIRECTOR

HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

Under the HB1900, CIP budget, \$2.5 million has been received for the Maui Bus hub next to the Kahului Civic Center and \$150,000 for repaving a street in Kuliouou.

HB2328 – makes technical and housekeeping amendments to Act 159, Session Laws of Hawaii 2017. Chief Planner Janice stated that although it allows for the buyback qualified nonprofit housing trusts to purchase affordable units during the buyback period, clarification on the buyback notifications distribution is needed.

SB2293 – Requires the HHFDC to institute proceeding to condemn the ground lease for the Front Street Apartments rental housing project. It also appropriates general funds for the appraisal and other preparations for the condemnation; provided that the County of Maui provides matching funds. Also appropriates rental housing revolving funds to the HHFDC for the expedited construction of the Leialii affordable rental housing project.

SB2401 – Establishes the Ohana Zones Pilot Program, the Emergency Department Homelessness Assessment Pilot Program, and the Medical Respite Pilot Program.

SB2922 – Proposes amendments to the Constitution of the State of Hawaii to authorize the Legislature to establish, as provided by law, a surcharge on investment real property to support public education.

Director Iseri-Matsubara introduced Ms. Sara Lin, formerly from the Hawaii Strategic Development Corporation, who will be the new housing lead in the Governor's Office. Ms. Lin is anticipated to be an official member of the Board starting in June 2018, pending an appointment letter from the Governor.

Acting Chair Spindt stated that he would miss Director Iseri-Matsubara, the Board's great communication connection with the Governor's Office.

With no further items on the agenda, Acting Chair Spindt asked for a motion to adjourn.

Director Kahele moved, seconded by Director Mende

That the meeting be adjourned at 11:50 a.m.

The motion was carried unanimously.



RONA FUKUMOTO
Secretary

V.
ADJOURNMENT
11:50 a.m.