MINUTES OF THE REGULAR MEETING
OF THE HAWAII HOUSING FINANCE AND DEVELOPMENT
CORPORATION
HELD AT THEIR OFFICE AT 677 QUEEN STREET ON
THURSDAY, FEBRUARY 8, 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, February 8, 2018, at 9:00 a.m.

With a quorum present, the meeting was called to order at 9:01 a.m. by Chair Pulmano.

Those present and excused were as follows:

Present: Director Leilani Pulmano, Chair
Director Milo Spindt, Vice Chair
Director Rona Fukumoto, Secretary
Director Donn Mende
Director Melvin Kahele (9:03 a.m.)
Director Denise Iseri-Matsubara
Director Scott Kami for Director Laurel Johnston (9:03 a.m.)
Director Mary Alice Evans for Director Luis Salaveria (10:00 a.m.)

Executive Director Craig Hirai (10:40 a.m.)

Excused: Director Luis Salaveria
Director Laurel Johnston

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
Carianne Abara, Development Support Section Chief
Holly Osumi, Chief Financial Officer
Christopher Woodard, Real Estate Portfolio Manager
Patrick Inouye, Housing Finance Specialist
Jocelyn Iwamasa, Housing Finance Specialist
Dean Sakata, Housing Finance Specialist
Ken Takahashi, Housing Development Specialist
Lorraine Egusa, Budget Analyst
Kent Miyasaka, Housing Information Specialist
Esa Pablo, Secretary to the Board

Guests: Alex Sonson, WCADH & YDCC
Jimmy Van Bokhoven, WCADH & YDCC
Grant Kogami, HCAP Head Start
Suzie Uyeda, HCAP Head Start
Liz Char, Michaels Development Company
Alan Johnson, Hina Mauka
Bill Mousser, Hina Mauka
Sherrie Kinoshita, Hina Mauka
Nora Bland, Sofos Realty
Ikaika Hussey, Friends of NLHK
Craig Watase, Mark Development

Approval of the meeting minutes – II. A., B., and D. were deferred to a later time.
Approval of item II. C. was taken later in the meeting.
Chief Financial Officer Holly Osumi presented the For Action, stating staff’s recommendation as follows:

That the HHFDC Board of Directors ratify the acceptance of the audited financial statements of the HHFDC for the fiscal year ending June 30, 2017 as accepted at the January 11, 2018 board meeting.

Vice Chair Spindt moved, seconded by Director Mende

That staff’s recommendation be approved.

Ms. Osumi presented the For Action, stating that pursuant to notice requirements of §92-7, Hawaii Revised Statutes (HRS), the request before the Board is to ratify the acceptance of the audited financial statements accepted at its January 11, 2018 Board meeting, which met the submission deadline required under the Single Audit Act of 1984, OMB Circular A-133, and the Office of Management and Budget Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements for Federal Awards.

Ms. Osumi noted a correction to the For Action, under section II. A., which should read § 92-7(d).

With no questions, the motion was carried unanimously.

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

That the HHFDC Board of Directors approved 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 80% 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.

Vice Chair Spindt moved, seconded by Director Kahele

That staff’s recommendation be approved.
Mr. Ueki stated that Michaels Development Company I, L.P. (Awardee) submitted a request to amend its RHRF loan repayment terms to include a 75% of Net Cash Flow option prompted by a Freddie Mac tax exempt loan requirement.

Staff’s recommended loan amendments were noted as follows:

1. **Repayment:**
   - Years 1 through 3 – No Payments
   - (annual)
   - Years 4 through Maturity – 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, 80% of Net Cash Flow (as originally approved by HHFDC).
   - Change in repayment terms projected to have minimal impact on the payback period; lengthens to 46 years from 45 years.

2. HHFDC’s definition of Net Cash Flow is annual Operating Income less (i) annual Operating Expenses, (ii) required annual Special Fund deposits, and (iii) annual senior debt service payments 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, on behalf of Michaels Development Company.

Director Kami asked about the impact of the change in repayment terms. Mr. Ueki stated that the original loan term was 50 years with the projected payback at year 45. With the amendment to the net cash flow to 75% through Freddie Mac, it would extend out to 46 years.

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. Extend the deadline to issue HMMF Bonds for the Kenolio Apartments to August 31, 2018; and

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

Vice Chair moved, seconded by Director Kahele

That staff’s recommendation be approved.

Mr. Ueki stated that requests for extensions are evaluated based on progress made in site control, zoning approvals, and financial commitments. The Kenolio Apartments (Project) anticipates its building permits in April 2018 and continues to work with Citi Bank on the private placement of the HMMF Bonds.

If the Project is found feasible, staff will present a subsequent resolution to the Board requesting the approval of the actual issuance, sale, and delivery of the bonds.

Hartford Housing Finance and Development Corporation

III.C.
DISCUSSION
AND/OR
DECISION
MAKING

Approve an Extension to Resolution No. 098, Which Provides for Official Intent with Respect to the Issuance of Hula Mae Multi-Family Tax-Exempt Revenue Bonds for the Kenolio Apartments Project Located in Kihei, Maui. TMK Nos.: (2) 3-9-001: 157 and 158

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Staff was available for any questions. There was no representative available on behalf of the project.

In reference to the Maui Pacific Associates' letter dated January 2, 2018, Chair Pulmano asked for the reason for the extension request. Mr. Ueki stated that this is the normal time period for obtaining county approvals and dealings with the potential Tax Reform. However, the length of extension requests are to be discussed with the QAP Subcommittee.

With no further questions, the motion was carried unanimously.

Development Section Chief Stan Fujimoto provided background information on the existing 197-unit Subdivision of Kauhale Aupuni O'Kulioou, consisting of 189 single-family dwellings and 8 duplex units.

Mr. Fujimoto stated that damages caused by heavy rains and ground movement resulted in the repurchase of 18 homes and demolition of 17 homes.

In 2005, the 17 vacant lots were sold to two buyers with disclosure of the ground movement.

Under the Quitclaim Deed, the Grantee as well as its successors and assigns, accepts the conveyance and purchase of the lots in an “AS-IS, WHERE-IS” condition.

In 2015, HHFDC realized that plans for the Papahehi Place Reconstruction of Improvements, Phase I and II (Reconstruction Plans) had the following construction notes:

1. “The Phase III project shall be undertaken upon the cessation of ground movement and shall consist of the reconstruction of the damaged sections of Papahehi Place and the construction of new City and County water lines, sewer lines, drain lines and new electrical lines;” and

2. “Hatched lots are owned by the State of Hawaii. No dwellings shall be constructed on Lots 767 to 771 and Lots 777 to 788.”

The 17 vacant lots have been re-sold and current lot owners have been requesting HHFDC to release their lots for residential construction. HHFDC has been declining to grant the lot owners' requests because of the notes stated within the Reconstruction Plans and HHFDC's obligation to reconstruct the street upon cessation of ground movement.

In 2017, HHFDC procured Yogi Kwong Engineers, LLC (YKE) to undertake a review of available documents and reports and opine on whether ground movement has ceased, which would trigger the reconstruction of the damaged sections of Papahehi Place, pursuant to the note on the Reconstruction Plans.

However, YKE's report of July 2017 concluded that "it does not appear that the landslide movement has ceased," and at a meeting with the City and County’s Department of Planning and Permitting (DPP), it was indicated that reconstruction of the roadway improvements at Papahehi Place should be based upon the City's normal safety factor of 1.5, and if not feasible, a lower safety factor may be negotiated.

On August 23, 2017, HHFDC received a proposal from YKE to identify the order of magnitude of cost to satisfy the City’s requirement and a cost consultant was procured to determine whether YKE’s proposal is fair and reasonable.

Chair Pulmano asked whether anyone from the public wished to speak on the agenda item.

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With no response from the public, Chair Pulmano asked for a motion to go into executive session.

Vice Chair Spindt moved, seconded by Director Kahele

That the Board convene in executive session at 9:23 a.m., pursuant to Section 92-5(a)(4), HRS, to consult with the board attorney on questions or issues regarding 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 10:54 a.m. and proceeded to agenda item III. E.

Real Estate Portfolio Manager Chris Woodard stated that the Kaulou Development master plan set aside the Waipahu Community Day site for the use of a senior citizen center and medical office building. Consistent with the spirit of the master plan, the ground lease with HHFDC is for a nominal annual rent of one dollar, expires on January 31, 2041, and requires that “[t]he Project shall be operated as adult and youth day care centers.”

Development costs were funded by a $2.7 million U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) from the City and County of Honolulu (City) and a $245,000 grant from the Harry and Jeanette Weinberg Foundation.

The Lessee’s subrecipient agreement for the CDBG program requires that the Waipahu Community Day “shall be used by persons at least 51% of whom are low or moderate income as determined by HUD,” which the Lessee has struggled to meet. HUD’s Fiscal Year 2017 monitoring report of various City CDBG projects identified the high vacancy at the Waipahu Community Day site as an issue, and the proposed remedy is for the City to either: (1) repay the $2.7 million of CDBG monies; or (2) put the vacant space into use by March 20, 2018.

Mr. Woodard stated that on December 29, 2017, the Lessee informed HHFDC staff that it was in discussions to sublease the 5,928 square feet vacant space to The Alcoholic Rehabilitation Services of Hawaii, Inc. d.b.a. Hina Mauka. The Lessee indicated that in accordance with the Lease, it would seek HHFDC’s consent to the sublease.

The Lessee stated that Hina Mauka’s possible occupancy was discussed with Community Action Program, Inc. (HCAP) and a draft Hina Mauka sublease was provided to HHFDC, stating their proposal to use the space to operate programs that provide outpatient prevention treatment and supportive services for alcoholism, chemical dependency, and related challenges, operating both day and evening programs.

Mr. Woodard stated that on January 12, 2018, staff informed the Lessee’s representative that Hina Mauka’s proposed use does not comply with the Lease; however, staff could seek approval of the HHFDC Board to change the use at its February 8, 2018 meeting.

However, on January 26, 2018, staff learned that the adjoining sublessee HCAP had concerns about Hina Mauka’s occupancy in the same building as its Waipahu Head Start program and was consulting with the Office of Head Start San Francisco Regional Office regarding the matter.

Mr. Woodard noted that pursuant to the Hawaii Administrative Rules Section 17-892.1-33(12), “[i]f a lodging house, boarding house, or any other business
conflicts with the regular operation of the child care facility, the lodging house, the boarding house, or other business shall not be conducted at the facility.”

On January 27, 2018, staff was informed by HCAP’s Assistant Director that Hina Mauka had moved into the building on or about January 19, 2018 and in a subsequent meeting held on January 28, 2018, HCAP objected to Hina Mauka’s occupancy at the Waipahu property. Staff visually confirmed Hina Mauka’s occupancy at the formerly vacant space.

On February 2, 2018, HHFDC issued a Notice of Default to the Lessee for the violations of: (1) executing a sublease/assignment with Hina Mauka without prior consent and approval of the HHFDC; and (2) the use of the property and project operations for purposes not allowed by the Lease.

Mr. Woodard introduced representatives of the interested parties present:

- Waipahu Community Day (Lessee) - Mr. Alex Sonson, Mr. Jimmy Van Bokhoven
- HCAP – Mr. Grant Kogami and Ms. Suzie Uyeda
- Hina Mauka – Mr. Alan Johnson, Ms. Sherrie Kinoshita, Mr. Bill Mousser, Ms. Nora Bland (Sofos Realty)

In response to the two issues mentioned within its Notice of Default, Mr. Sonson apologized and stated that not obtaining consent from the HHFDC was not intentional; however, the Lessee was obligated to provide the space to Hina Mauka, thorough its sublease contract signed on January 9, 2018. In reference to the Lease, Mr. Sonson further stated that “the consent should not be unreasonably withheld.” Secondly, Mr. Sonson stated that he found the Lease language to be broad and, therefore, believed that Hina Mauka’s services fit the Lease’s use clause.

Chair Pulmano opened for questions. With none, she asked whether Hina Mauka had any comments.

Mr. Johnson thanked the Board for the opportunity to speak, providing background on Hina Mauka’s history and services provided to the community of low-income, non-violent, and low-risk population. Services were noted to include day educational and managed treatments for adults and seniors. Being a non-profit and serving the low-income population, Mr. Johnson stated that Hina Mauka was unaware of this situation when moving in and was in need of finding property of which they can afford to continue its services within the area.

Director Iseri-Matsubara inquired about the rent amount charged to Hina Mauka. Mr. Woodard stated that it is his understanding that the sublease that Hina Mauka signed is around $1.33 per square foot, plus CAM. Mr. Johnson concurred, stating that the lease rent is about $11,000 per month.

Although understanding the concerns of HCAP, Director Iseri-Matsubara stated that she believes the services provided by Hina Mauka are critical within the community and fill a great need.

Director Iseri-Matsubara asked about security at the property. Mr. Johnson stated that there is fencing that separates the two uses and that their clients are supervised the entire time by staff of ten persons. Mr. Johnson further noted that at its prior location of 15 years, their services had been provided near youth groups with no incidents.

Director Kahele asked whether the problem would be resolved by amending the Lease agreement. Mr. Woodard stated that would have been the recommendation of staff prior to learning of HCAP’s objection and the Lessee’s violations.
Chair Pulmano called upon HCAP.

Mr. Kogami clarified that HCAP does not have concerns on the services that Hina Mauka provides, but rather the lack of notification of occupancy, which has not allowed HCAP enough time to prepare a comprehensive safety plan, provide notification, and obtain approval from the DHS Child Care Licensing to continue its services.

Discussion ensued on possible options to resolve HCAP’s concerns in order to address its comprehensive safety plan in a timely manner, which included:

1) the hiring of a security guard on the site;

   In discussions with DHS, the comprehensive safety plan would probably need to consist of a security guard on site. Potential costs were discussed to be paid by Hina Mauka.

2) gate relocation and signage; and

   Due to fire code restrictions, exterior gates would not be able to be locked from HCAP’s side, blocking an exit/pathway for children and staff. Therefore, relocation of the gate was suggested.

3) parking.

   HCAP parents use the church parking lot and administrative office staff use the community center parking lot.

Designee Kami asked how long would it normally take to hear back from DHS. Mr. Kogami stated approximately four weeks from the time the safety plan is submitted.

With the increased demand for adult day care services, Vice Chair Spindt asked what happened to the adult day care service that was using the space prior to Hina Mauka. Mr. Sonson stated that because of losing its Federal funding they could no longer make the necessary income needed to operate its services at that location.

Vice Chair Spindt moved, seconded by Designee Kami

   That the Board convene in executive session at 11:39 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 12:20 p.m.

Chair Pulmano thanked all representatives of the respective parties for coming and for the services they provide. It was noted that Mr. Sonson was no longer present.

Chair Pulmano stated that the Board is very disappointed to learn that the sublease had not been afforded staff’s review prior to being signed and asked that Mr. Woodard proceed to work with the different parties to devise a viable plan going forward.

With no further discussion, Chair Pulmano proceeded to the Report of the Rental Housing System Portfolio Proceeds Subcommittee.
Chief Planner Janice Takahashi distributed the February 8, 2018 “Rental Housing System Portfolio Proceeds Subcommittee, A Report of Initial Findings and Recommendations,” handout to the Board.

Ms. Takahashi stated that the restructuring of HHFDC’s Rental Housing System (RHS) portfolio is estimated to generate excess net proceeds of approximately $81.275 million, and based on the Subcommittee’s objectives, summarized its initial findings and recommendations for the allocation of the excess net proceeds to the Rental Housing Revolving Fund (RHRF), the Dwelling Unit Revolving Fund (DURF), and the Rental Assistance Revolving Fund (RARF), respectively.

The Subcommittee’s recommended uses for the respective funds were noted as follows:

RHRF – (1) Continue to provide equity gap low-interest loans to qualified owners and developers constructing affordable rental housing units; and (2) additional assistance to projects with prior HHFDC funding awards which may face financing gaps due to factors contracting the Low Income Housing Tax Credit (LIHTC) equity or increases in financing and syndication costs.

Ms. Takahashi stated that the application requests received exceeds the funding that HHFDC has available. Therefore, any excess proceeds could be used to finance more projects in the current funding round or future funding rounds.

DURF – (1) Purchase the leased fee interest in land beneath HHFDC rental housing projects; (2) Negotiate acquisition rights for expiring rental housing projects; (3) continue to finance the development of regional state infrastructure to support new housing development and accept the conveyance of improved/entitled land in repayment.

RARF – (1) Make RARF commitments to provide shallow, project-based rental assistance payments (RAP) to eligible Owners of new or acquisition/rehab projects that set aside units for households earning 80% of the Area Median Income (AMI) and below; and (2) if feasible and desirable, commit RAP to the Front Street Apartments in Lahaina, Maui, to assist existing tenants with incomes of 80% and below the AMI.

Ms. Takahashi stated that the Subcommittee is looking at approximately $5 million over 8 years, to assist existing residents of the Front Street Apartments, until such time as new housing stock can be built and a set aside of approximately $100,000 to hire a third-party contractor that would monitor the renovations of projects in our RHS, as well as monitor financing draws and inspections.

Given the homeless situation, the Subcommittee discussed whether HHFDC could transfer monies to the Department of Human Services for rent subsidies to people transitioning from homeless to permanent housing or to prevent homelessness. However, HHFDC is not able to do so, as it is not a part of its core mission and lacks statutory authority, and pursuing that, if desired, would require legislation.

Vice Chair Spindt stated that the intent of the RHS portfolio sale was to refocus HHFDC back on doing development within its span of 60% - 120% AMI and focusing its funds on its core services.

Chair Pulmano asked what was the thought process of setting aside proceeds to hire a third-party contractor to monitor renovations, financing draws, and inspections. Mr. Woodard stated that intent of hiring a third-party contractor was to monitor that such provisions of the lease and regulatory agreements are executed in a timely manner and in the scope of what was approved.
Chair Pulmano asked whether this was a normal procedure in its dealings with acquisition/rehab projects. Mr. Ueki stated that this is something negotiated with the buyer; however, strongly suggest that HHFDC stay away from getting involved in approving draws, bringing lender liability.

Designee Kami inquired about a communications plan to inform tenants. Ms. Takahashi stated that the Executive Director Hirai, Mr. Woodard, Housing Information Specialist Kent Miyasaki, and the new Owner, are working on scheduling resident meetings.

The HHFDC's talking points, fact sheet, and communication plan will be provided to the Board. Vice Chair Spindt commented that as board members, and ultimately the decision makers, it is vital that the Board acquaint themselves with the process and refrain from deferring all questions to staff.

Chair Pulmano thanked and commended staff in laying out the Board’s proposed plan and uses of its funds.

Ms. Takahashi stated that at its next meeting, staff will be asking for the Board’s approval on the proposed recommended allocation ranges subject to the actual closing costs and application requests received.

Executive Director Hirai stated that staff will have a better idea on the Legislative Bills after the first-crossing; however, noted that there are a lot of bills that are proposing more funding for the HHFDC to do a lot more.

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

Director Iseri-Matsubara moved, seconded by Designee Kami.

That the meeting be adjourned at 12:45 p.m.

The motion was carried unanimously.

V. REPORT OF THE EXECUTIVE DIRECTOR

V. ADJOURNMENT
12:45 p.m.

RONA FUKUMOTO
Secretary