MINUTES OF THE REGULAR MEETING
OF THE HAWAII HOUSING FINANCE AND DEVELOPMENT
CORPORATION
HELD AT THEIR OFFICE AT 677 QUEEN STREET ON
THURSDAY, APRIL 12, 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, April 12, 2018, at 9:00 a.m.

With a quorum present, the meeting was called to order at 9:02 a.m. by Chair Pulmano.

Those present and excused were as follows:

Present: Director Leilani Pulmano, Chair
Director Rona Fukumoto, Secretary
Director Melvin Kahele
Director Denise Iseri-Matsubara
Director Luis Salaveria
Director Scott Kami for Director Laurel Johnston

Executive Director Craig Hirai

Excused: Director Milo Spindt, Vice Chair
Director Donn Mende

Staff Present: Sandra Ching, Deputy Attorney General
Colette Honda, Deputy Attorney General
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Rick Prähler, Development Branch Chief
Holly Osumi, Chief Financial Officer
Stan Fujimoto, Development Section Chief
Carianne Abara, Development Support Section Chief
Christopher Woodard, Real Estate Portfolio Manager
Jocelyn Iwamasa, Housing Finance Specialist
Ken Takahashi, Housing Development Specialist
Genoa, Ward, Housing Development Specialist
Lorna Kometani, Housing Sales Coordinator
Lorraine Egusa, Budget Analyst
Kent Miyasaka, Housing Information Specialist
Esa Pablo, Secretary to the Board

Guests: Alana Pakkala, Kobayashi Group
Kathy Inouye, Kobayashi Group
Elton Wong, Kobayashi Group
Matt Pennaz, Kobayashi Group
Steve Teves, Design Partners
Steve Heimler, Cirrus Asset Management
Moriah Johnson, Harcourts Island Properties
Deborah Lee Eharis, Na Lei Hale Kapuna
Vernoica L. Carreira, Na Lei Hale Kapuna
Dani Ann Vierra, Na Lei Hale Kapuna
Marlene Morris, Na Lei Hale Kapuna
Jane Smith, Na Lei Hale Kapuna
Gail Tilley, Na Lei Hale Kapuna
Gladys de Veas, Na Lei Hale Kapuna
Stan Webb, Na Lei Hale Kapuna
Shar Shidaki, Na Lei Hale Kapuna
Annie Brennan, Na Lei Hale Kapuna

HHFDC Regular Meeting – April 12, 2018
Director Salaveria moved, seconded by Director Kahele

That the regular meeting minutes of December 14, 2017 be approved, as circulated.

The motion was carried unanimously.

Approval of the regular meeting minutes of January 11, 2018, February 8, 2018, March 8, 2018, and executive session meeting minutes of February 8, 2018 and March 8, 2018, were deferred to a future meeting.

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

That the HHFDC Board of Directors approve the following:

A. Assignment of the RAP Contract dated November 15, 1992, as amended on March 12, 2013 and September 26, 2014, from Na Lei Hulu Kupuna Limited Partnership to Na Lei Hulu Kupuna Senior Rentals, LP.

B. Approve amendments to the RAP Contract as presented in Section III C.1 and C.2 of the For Action.

C. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.
Director Salaveria moved, seconded by Vice Chair Spindt

That staff’s recommendation be approved.

Ueki stated that on September 26, 2016, the Na Lei Hulu Kupuna Limited Partnership (Original Owner) submitted a letter withdrawing the request to assign the Rental Assistance Program (RAP) Contract to the Na Lei Hulu Kupuna Senior Rentals, LP (Partnership). By letter dated April 17, 2017, HHFDC consented to the sale of the Na Lei Hulu Kupuna (Project) and confirmed the Original Owner’s request to exclude the transfer of the RAP Contract and allow the said contract to terminate upon the sale of the Project, on December 29, 2017.

Following the sale of the Project and inquiries of the RAP Contract by the Project’s residents, the Department of the Attorney General reviewed relevant documents, and in a letter dated March 23, 2018, the Hawaii Community Development Authority (HCDA) informed HHFDC that the request to withdraw the assignment of the RAP Contract was an error and requested that HHFDC reinstate the RAP contract effective December 29, 2017, which was approved by the HHFDC Executive Director, through an Internal Office Memorandum, on April 6, 2018.

Following the approval of the reinstatement of the RAP Contract to the Original Owners, the HHFDC Executive Director instructed staff to obtain HHFDC Board approval for the following: (Section III C.1 and C.2 of the For Action)

1. Assignment of the RAP Contract dated November 15, 1992, as amended on March 12, 2013 and September 26, 2014, from the Original Owner to the Partnership; and

2. Amend the RAP Contract as follows:

   a) Rental Subsidy will be limited to existing tenants that were previously approved for rental assistance on December 29, 2017, and who continue to meet the eligibility criteria, including having an income of 80% and below the HUD area median income.

   b) Exhibit B to be amended or replaced to reflect the following rent schedule:

<table>
<thead>
<tr>
<th>Type of Units*</th>
<th>Current Approved Rent</th>
<th>Proposed Maximum Rent</th>
<th>Effective Date of Rent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing tenants that were previously approved for rental assistance on December 29, 2017</td>
<td>$675</td>
<td>$916</td>
<td>February 1, 2018</td>
</tr>
</tbody>
</table>

*Owner will be required to obtain approval for future rent increases on RAP assisted units only. The LIHTC program will restrict the rents of 100% of the units to 60% AMGI and below.

In further discussions with the Partnership, Ueki stated that the Partnership has indicated its commitment of additional rental subsidies through December 31, 2019, as opposed to 2018, as stated within the For Action. The Partnership continues to work with the existing tenants to obtain rental subsidies.

Before opening for questions, Chair Pulmano asked if there was anyone in the audience who wanted to speak on the matter.

Stan Webb and Deborah Harris, Na Lei Hulu Kupuna Residents, stated that their concerns were with the increase in rents and tenant displacement for those who no
longer could afford the increased rents. However, with the RAP subsidies now confirmed to be in place, they stated it would be something they could work with.

In regard to Governor Ige’s 15-year commitment to the tenants of the Project, Director Iseri-Matsubara asked that it be explained how the reinstatement of the RAP Contract would impact the residents. Ueki explained that the $250 in rental assistance that was available prior to the change in ownership will be reinstated. Therefore, the original RAP commitment expiring in November 2022, will be transferred to the Partnership, who will then have the discretion to extend the RAP for the Project prior to the 2022 expiration date.

Director Kahele recused himself from the vote.

Director Kami asked whether an extension of the RAP contract was considered to be done now. Ueki stated that such an extension was looked at; however, given the urgency and remaining consistent with how HHFDC handles other projects within the RAP, staff has elected to keep the original term.

Marlene Morris, a resident of Na Lei Hulu Kupuna, asked for the reasoning of a 3-year plan of RAP being considered as opposed to a 15-year plan as stated by the Governor. Executive Director Hirai clarified that the a 15-year commitment was subject to the HHFDC Board’s approval and the RAP requirements, and based on such, the preferred course of action was to first reinstate the RAP Contract to the owner so that a benefit to the residents could be made first and foremost.

Morris requested that tenants who did not receive RAP subsidies prior to the transfer of ownership and rent increase, would not be displaced should they be unable to pay the increased amount. Ueki stated that such an agreement is not between HHFDC, but rather with the Partnership and HCDA. However, Ueki stated that believes there is language that states there would be no displacement through the sale or change of ownership.

Craig Watase, representing the Partnership, stated that their intent is to not have anyone move because of the rent increase and is committed in maintaining rents until 2019, allowing time to work on other project subsidies.

Director Salaveria asked how many tenants would fall within the 60% AMI range (Tenants that do not qualify for RAP subsidies). Watase stated that there are about 5 tenants who fall within the 60% AMI range.

With no further discussion, the motion was carried, with Director Kahele recusing himself from the vote.

The Board recessed at 9:28 a.m. and reconvened the meeting at 9:30 a.m.

Housing Development Specialist Ken Takahashi presented the For Action, stating staff’s recommendation as follows:

That the HHFDC Board of Directors approve the following for the development of the Proposed Mixed-Used Affordable Rental Housing and Juvenile Services Center/Shelter Facility, located at 902 Alder Street, Honolulu, Hawaii, TMK: (1) 2-3-012: 019, substantially as described in the For Action:

A. Proposal submitted by Kobayashi Group, LLC, or other successor in interest entity approved by the Executive Director, for the development of its project proposal;

B. Kobayashi Group, LLC, or other successor in interest entity approved by the Executive Director, as Successful Offeror
pursuant to the RFP, and Eligible Developer pursuant to Section 15-307-24, HAR;

C. Conveyance of Property by ground lease to the Successful Offeror, and

D. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of the For Action, including but not limited to the negotiation and execution of a development agreement with Successful Offeror, ground lease, restrictive covenants, and other transaction and financing documents, and to undertake all actions necessary to effectuate the purposes of the For Action;

Subject to the following:

A. If a development agreement is not executed with the Successful Offeror within eight (8) months from the date of this approval, HHFDC reserves the sole and absolute right to terminate negotiations with the Successful Offeror;

B. Approval of the project proposal does not obligate HHFDC to make an award for any of its financing programs, such as HMMF Bonds, LIHTC, RHRF and DURF; and

C. Approval by the Board of Land and Natural Resources for the cancellation of Executive Order No. 1577 to the Hawaii State Judiciary and the setting aside of the property at 902 Alder Street to the HHFDC for the purpose of mixed-use residential and current and future Family Court Services including shelter services for juveniles under the jurisdiction of the court.

Director Fukumoto moved, seconded by Director Salaveria

That staff's recommendation be approved.

Takahashi stated that this For Action marks a major milestone in the development of the Proposed Mixed-Used Affordable Rental Housing and Juvenile Services Center/Shelter Facility, located at 902 Alder Street, Honolulu, Hawaii (Project).

Based on the Evaluation Committee's evaluation of the proposals on April 2, 2018, the Kobayashi Group LLC (KG) was selected as the “Successful Offeror” in accordance with the Request for Proposals (RFP).

Takahashi noted a correction on page 5 of the For Action, III. E. Financial Proposal, within the second table, HHFDC Planning/Design. Both Interim and Permanent dollar amounts, should read: $1,700,000.

Pursuant to Section 15-307-24, Hawaii Administrative Rules and minimum requirements of the RFP, HHFDC finds KG as an Eligible Developer.

Takahashi called upon the KG Team, to introduce themselves and provide the Board with a brief presentation.

Director Salaveria asked about the status on the cancelation of the Executive Order (EO) with the Department of Land and Natural Resources. Takahashi stated that a development agreement would be negotiated before proceeding with a request for cancelation of the EO. Chief Planner Janice Takahashi stated that HHFDC has already discussed the matter with DLNR and when ready will proceed accordingly.

KG's Chief Operating Officer Alana Kobayashi-Pakkala, along with Senior
Advisor Kathy Inouye introduced the KG Team, as follows, and provided a brief introduction on KG’s history and experience in the development of affordable homes. Architect: Steve Teves, with Design Partners; General Contractor: Michael Young, Vice President of Albert C. Kobayashi Inc.; Property Manager: Steve Heimler, President of Cirrus Asset Management, Inc.; Management Partner: Elton Wong and Matt Panaz, Executive Project Managers of KG.

Teves presented the concept plans for each floor of the Judiciary and residential components of the Project based on the RFP requirements, highlighting the separate entrances between the Judiciary and residential components as well as the parking garage. He further stated that the “L-shape” design would allow for a lot of windows, bringing in natural lighting and ventilation.

Director Salaveria asked how noise would be handled. Teves reiterated that each component will be separate and have their own enclosed area, with recreation open space located away from the building itself. Furthermore, its design team includes an acoustical engineer to assist accordingly. Inouye added that noise is expected when living next to a park or recreational area.

Hiemler talked about the operations and management of the Project, stating that they have worked very closely with the design team. For example, the unit mix is geared towards studios and one-bedrooms, which are high in demand, helping the overall layout of the Project.

Director Salaveria asked whether there are similar projects like this, where there is a residential component and Judiciary component together in one. Inouye stated that this type of model probably does not exist, but the State of Hawaii needs to maximize underutilized State lands, especially if the desire is to build affordable housing at 60% AMI and below.

Director Kami asked where the responsibility lies in regard to the maintenance of the Judiciary component. Hiemler stated that the property management assignment would be to upkeep both the Judiciary and residential components, which his organization has the skills to do both independently. Furthermore, having the manager and/or maintenance technician available on a daily basis is believed to be beneficial.

Director Salaveria asked what the average cost per square foot for the residential facility is. Young stated that it is approximately $280 per square foot.

Chair Pulmano asked about available outdoor space for residents. In addition to the adjacent park, Teves stated that there is open space in the common areas on the ground floor and a recreational area on top of the parking garage.

Inouye stated that the targeted date for breaking ground is anticipated in January 2020; however, KG would like to expedite its schedule as much as possible.

Chair Pulmano asked about the development agreement schedule. Takahashi stated that the 8-month development agreement period for negotiations and execution is an estimate and will depend on how well negotiations go and what kind of issues come up.

Development Branch Chief Rick Prahler noted that development of the Project is dependent upon the awarding of financing for the affordable housing component. In addition, Inouye added that there are also certain permits that need to be in place before proceeding as well.

Director Kami asked what source of funds will be used for the $1.7 million in planning and design. Chief Planner Janice Takahashi stated that General Obligation bonds and Capital Improvement Project monies would be sought.

Chair Pulmano expressed her excitement in seeing the Project proceed forward.
With no further discussion, the motion was carried unanimously.

The Board recessed the meeting at 10:12 a.m. and reconvened at 10:23 a.m.

Chair Pulmano stated that item III. C. will be deferred to a future meeting.

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

That the HHFDC Board of Directors approve amendments to the previously approved Dwelling Unit Revolving Fund interim loan terms impacting the loan amount, term, presale requirements, and development period for the purposed 803 Waimanu for sale condominium project, located at Kakaako, Oahu, TMK Nos.: (1) 2-1-049:050, 070, and 072, substantially as described in the For Action, subject to the following:

A. Availability of DURF funds;

B. Approval and release of amended DURF loan funds by the Governor;

C. Approval and execution of necessary amended loan documents by the Executive Director;

D. Developer shall provide to HHFDC (prior to closing of the DURF loan) an appraisal acceptable to HHFDC, which shall include estimates of the completed retail value and the bulk sales value of the completed Project. THE LTV of the DURF interim loan and all mortgages and payments with priority before the DURF loan shall not exceed 87.79% of the appraised bulk value prior to closing, unless otherwise approved by the Executive Director.

E. Closing of the DURF interim loan shall be concurrent with the closing of the primary construction financing, unless otherwise approved by the Executive Director;

F. Commencement of construction of the Project by June 15, 2018, unless otherwise extended at the sole discretion of the Executive Director;

G. Completion of the Project by October 21, 2019, unless otherwise extended at the sole discretion of the Executive Director; and

H. Compliance with all rules and regulations and such other terms and conditions as may be required by the Executive Director; and

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I. The Executive Director shall be authorized to take all actions necessary to effectuate the purpose of this For Action.

Director Salaveria moved, seconded by Director Kahele

That staff’s recommendation be approved.

Prahler stated that in March 2018, MJF Development Corporation (Developer) submitted a request for Dwelling Unit Revolving Fund (DURF) loan modifications, including an extension of the loan term from 18 to 24 months, revision of the deadlines for loan closing, construction start and completion, and increase in the DURF loan amount to cover additional interest and fees, and changes to presale requirements, due to delays attributed to, but not limited to, the review process of required documents.

Amended DURF interim loan terms for the Project were noted as follows:

1. Loan Amount: An increase of $640,000 for a total amended loan amount of up to $9,830,000.

2. Loan Term: An extension of six (6) months for a total of twenty-four months, with two optional six (6) month extensions, at the sole discretion of the Executive Director, subject to a loan extension fee of 0.5% of the then outstanding loan balance for each extension.

3. Presale Requirement: Prior to disbursement of any DURF loan funds, the Borrower shall have entered into binding sales contracts with pre-approved buyers which shall provide gross sale proceeds not less than 100% of the aggregate amount of the Construction loan and the DURF loan (currently estimated to be $41.73 million). Additionally, 39 of the 77 HHFDC units, 100% of the HCDA restricted units, and 100% of market rate units must be pre-sold.

Prahler opened for questions, along with Ken Takahashi, Genoa Ward, and Developer Franco Mola, on behalf of the Project.

Chair Pulmano asked when did the sales process start. Mola stated that sales started in September 2017.

Discussion ensued on the reasoning for the slow absorption rate in comparison to the HCDA units. Mola stated that although being the lowest priced units in the area, he believes the slow absorption is primarily due to HHFDC’s 10-year buyback restrictions (i.e., tenants in the military not being able to rent out its unit during a deployment period); while HCDA was a 5-year buyback being more palatable to the potential buyers. Furthermore, Mola stated that potential buyers in the 80% AMI bracket are harder to qualify given the lack in down payment needed.

In response to Mola’s comment on military tenants, Prahler clarified that HHFDC does have programs to allow people to move away for a period of time through a granted waiver (e.g., tenant has lived in the unit for 3 years, gets transferred for 3 years, a 3-year waiver is granted, they then comeback to complete the remaining 7 years of their owner occupancy).

Moriah Johnson, with Harcourts Island Properties, asked how the sales agency is selected. Mola stated that the selection of the sales agency is determined through relationships and the agency’s experience in dealing with a particular product.

With no further discussion, the motion was carried unanimously.

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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 Servco Pacific Inc. for reasonable legal expenses (subject to a cap of $25,000) relating to the review of and possible amendments to the Hawaii Community Development Authority 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 to 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 Fukumoto moved, seconded by Director Kahele

That staff’s recommendation be approved.

Woodard stated that as part of due diligence on the Portfolio, the joint offerors Standard Property Company, Inc. and Stanford Carr Development, LLC (Buyer), HHFDC’s Special Deputy Attorney General Leighton Yuen of Goodsell Anderson Quinn & Stifel, Hawaii Community Development Authority (HCDA), and Servco Pacific Inc. (Servco), are working to resolve the following issues relating to the permitting and development of Pohulani Elderly project (Pohulani):

1. Cancellation of the 1989 Agreement between HCDA and Servco recorded against the Pohulani and 609 South Street Parcels.

Woodard noted that the HCDA has stated that cancelation and removal of title from the Amended 1989 Agreement would require approval by the HCDA Board.

2. Separation of Planned Development Permit obligations of Pohulani and 609 South Street, which remain linked under the permit.

3. Other matters relating to the permitting and development of Pohulani that require attention as the Buyer’s due diligence progresses.

Servco is amenable to exploring the matters further and cooperating with possible documentation required in connection with the leasehold sale of Pohulani. However, concern has been expressed that there is no resulting prejudice to rights previously obtained by Servco and the treatment of its $311,400 in reserved housing credits paid to HCDA. Therefore, Servco has requested HHFDC reimburse the related legal costs incurred on its behalf. Funds are available through the Hawaii Rental Housing System Revenue Bond Fund.

Director Salaveria noted a discrepancy on Exhibit A. Woodard noted a correction that the site map should read 609 South Street; not 690 Coral.

With no further discussion, the motion was unanimously carried.

Chair Pulmano proceeded to the Report of the Executive Director.

Hirai reported on the following:

- The House Budget for the Rental Housing Revolving Fund (RHRF) is $25 million, with the Senate proposing $35 million.
- The House Budget for the Dwelling Unit Revolving Fund is $10 million, with the Senate proposing $8.5 million.
• In regard to the conveyance tax for the RHRF, the $38 million cap may be reached based on its 3rd Quarter estimates showing and aggregate amount of $35 million.

• Both the House and Senate Budget for the Kahului Civic Center is $2.5 million. $1.5 million by the Senate to the County of Maui is to be determined.

• Senate Resolutions within Exhibit C were referenced, specifically noting confirmations for Directors Milo Spindt (term to expire 6-30-2022); Melvin Kahele (term to expire 6-30-2022); and George Atta (term to expire 6-30-2020). Decision making is scheduled this afternoon at 2:50 p.m.

With no further discussion, executive sessions of February 8, 2018 and March 8, 2018 were moved and seconded by Directors Salaveria and Kahele, respectively.

The motion was carried unanimously.

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

Director Salaveria moved, seconded by Director Fukumoto

That the meeting be adjourned at 11:07 a.m.

The motion was carried unanimously.

RONA FUKUMOTO
Secretary