HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
BOARD OF DIRECTORS
REGULAR MEETING
JULY 12, 2018

MINUTES

A regular meeting of the Board of Directors of the Hawaii Housing Finance and Development Corporation was held at the office of the organization, located at 677 Queen Street, in the city of Honolulu, state of Hawaii, on Thursday, July 12, 2018, at 9:05 a.m.

With a quorum present, Chair Spindt called the meeting to order.

Those present were as follows:

Present: Director Milo Spindt, Chair
director Leilani Pulmano, Vice Chair
director Rona Fukumoto, Secretary
director Donn Mende
director Melvin Kahele
director George Atta
designee Scott Kami for Director Laurel Johnston
designee Mary Alice Evans for Director Luis Salaveria
director Sara Lin

Executive Director Craig Hirai

Staff Present: Sandra Ching, Deputy Attorney General
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Rick Prahler, Development Branch Chief
Stan Fujimoto, Development Section Chief
Marlene Lemke, Sales and Counseling Section Chief
Holly Osumi, Corporate Controller
Christopher Woodard, Real Estate Portfolio Manager
Patrick Inouye, Housing Finance Specialist
Dean Sakata, Housing Finance Specialist
Carianne Abara, Development Project Coordinator
Ken Takahashi, Development Project Manager
Genoa Ward, Development Project Manager
Albert Palmer, Housing Development Specialist
Lorraine Egusa, Budget Analyst
Kent Miyasaka, Housing Information Specialist
Esa Pablo, Secretary to the Board

Guests: Ann Matsumoto, Powers and Associates (Court Reporter)
Lowell Chun, Pacific Catalyst LLC
Young Choi, Samkoo Pacific, LLC
Vernon Inoshita, Design Partners Inc.
Jason Kim, Design Partners Inc.
Johnny Wu, Design Partners Inc.
Paul Marx, AHED Foundation
Sara Horiuchi, AHED Foundation
Spencer Lee, Central Pacific Bank
Rusty Rasmussen, Central Pacific Bank
Glenn Okino, Mitsunaga Construction
Kevin Carney, EAH
Aaron Eberhardt, EAH
Marian Gushiken, EAH
Andrew Gomes, Star-Advertiser

HHFDC Board of Directors Regular Meeting – July 12, 2018
The approval of the regular meeting minutes of February 8, 2018, March 8, 2018, April 12, 2018, June 12, 2018, and executive sessions of June 12, 2018 were deferred to a future meeting.

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

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

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

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

II. E. APPROVAL OF MINUTES
Executive Sessions 6/14/18

III. A. DISCUSSION AND/OR DECISION MAKING
Approve the Certification of Samkoo Hawaii, LLC, or Other Successor Entity Approved by the Executive Director, as an Eligible Developer Pursuant to Section 15-307-24, HAR;

A. Certification of Samkoo Hawaii, LLC, or other successor entity approved by the Executive Director, as an Eligible Developer pursuant to Section 15-307-24, HAR;

B. Development of the The Central Ala Moana Project with the proposed exemptions for statutes, ordinances and rules of the City and County of Honolulu as recommended for approval, pursuant to Section 201H-38, HRS;

C. Execution of a development agreement required of such exemptions as approved by the Executive Director; and

D. Authorize the Executive Director to take all actions necessary to

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 Central Ala Moana Project, in Ala Moana, Oahu, Hawaii, TMK: (1) 2-3-039:011, substantially as discussed in this For Action:

HHFDC Board of Directors Regular Meeting – July 12, 2018
effectuate the purpose of this For Action;

Subject to the following:

E. Approval with or without modification by the Honolulu City Council pursuant to Section 201H-38, HRS; and

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

Vice Chair Pulmano moved, seconded by Director Mende

That staff’s recommendation be approved.

Takahashi stated that upon approval of the HHFDC Board and the Honolulu City Council, HHFDC would enter into a developer agreement with the eligible developer, which would include applicable terms and conditions. There has been indication that GET exemption on the construction costs would be sought by the developer and sale of the affordable units will be subject to HHFDC’s purchase, buyback, and shared appreciation equity program restrictions.

Mr. Lowell Chun, President of Pacific Catalyst, LLC, introduced the Project’s development team and expressed their apologies for the absence of Mr. Tim Yi, President of Samkoo Hawaii, LLC. A project handout providing specific information on talking points presented were provided to the Board.

Chun provided a detailed presentation using hard board renderings on what the project would look like. Chun stated that the project is in a prime location, near major grocery stores, banks, schools, medical facilities/hospitals, and is within the ½-mile radius (i.e., approximately 400 feet) from the planned Transit Oriented Development’s (TOD’s) Ala Moana station. Project organization and design were stated to be done in consideration of the TOD’s pedestrian-preferred circulation by providing wider walkways, various green areas, and commercial spaces serving both the residents and community at large. A breakdown of the Project’s units and pricing, amenities, and functions were also described.

Director Atta asked for the relationship between the project and the TOD Ala Moana Station, as he was not aware that the location of the Ala Moana Station had been determined. Lowell stated that the Ala Moana Station location was confirmed through its final EIS amendment.

Vice Chair Pulmano asked about the outcome of the second Neighborhood Board meeting. Chun stated that action by the Neighborhood Board was deferred due to comments made beyond the scope of the project.

Designee Evans asked if there was any City representative present for comments.

There being no City representatives present, Chair Spindt open the floor for any additional public comments. There were none.

In reference to the table of exemptions, Vice Chair Pulmano asked about the City’s ordinance for affordable housing. Takahashi stated that the City is currently working on rules for the new Ordinance 18-10.

Chun added that the City’s Ordinance 18-10 has different AMI ratio requirements for projects within a defined TOD zone as opposed to those that are not. Under the current Ordinance, the project would not be financially feasible, hence, exemption from the requirements of Ordinance 18-10 is being requested.

Vice Chair Pulmano asked what the AMI ratio requirement for this project’s location and zoning would be. Takahashi stated that there are different requirements for various unit amounts at various AMI levels.
Chun explained that under Ordinance 18-10 permitting process for TOD zoned projects, 30% of the units must be sold to households earning 120% AMI and below, and one-half of those units must be at 100% AMI and below. Given the cost of the land, the project would be found infeasible.

Vice Chair Pulmano asked whether the project is currently meeting the 30% requirement. Young Choi, Samkoo Pacific, LLC, stated that the Project fulfills the 30% at 120% AMI requirement, but is short on providing the required number of units at 100% AMI and below.

Designee Evans stated that she is in favor of the Project, which she believes to be within the Legislature’s goal to expedite housing in the area and liked that the project would include 3-bedroom units for families.

In regard to Director Lin’s question in regard to building orientation between the City, Chun stated that an East to West orientation was found to be the best option for both existing and potential surrounding uses.

Designee Kami asked how the affordable and market units were dispersed within the building. Choi stated that unit combinations were distributed equally on various floors to avoid potential stigmas, with majority of the market units being in the upper levels for its views at a higher price.

Director Kahele inquired about parking stalls. Chun stated that they have elected to have a total of 803 parking stalls (1 stall per unit), falling between the parking requirements of the Land Use ordinance (950 stalls) and TOD (450/500 stalls), as surrounding areas of the Project lacked on-street parking opportunities.

Director Kami asked whether the exemptions would still need to be transmitted to the City Council for approval. Takahashi concurred.

Prahler added that the City Council has the final authority on approving the project, disapproving, or approving the project with modifications.

Director Atta expressed concern on whether proper notification was sent to HART and the City’s Department of Planning and Permitting regarding this matter. Chair Spindt stated that sufficient opportunities are believed to have been presented for their comments. Takahashi confirmed that they have been made aware of this matter, in addition to letters received from them through the environmental assessment process.

Designee Kami commented that the project is interesting and adds affordable units in the area. Chair Spindt and Vice Chair Pulmano concurred.

There being no further discussion, the motion was carried, with Director Atta abstaining.

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

That the HHFDC Board of Directors approve the following:

A. Resolution No. 113 attached as Exhibit F, which provides for official intent with respect to the issuance of revenue bonds up to $17,000,000 for the Queen Emma Tower project, subject to the provisions and conditions recommended in Exhibits C and E.

B. Reserve up to $886,358 in annual Federal LIHTC over a 10-year period and $886,358 in annual State LIHTC over a 5-year period from the non-volume cap pool (4% LIHTC) for the Queen Emma Tower project, subject to the provisions and conditions recommended in Exhibits D and E.

III. B. DISCUSSION AND/OR DECISION MAKING
Approve: (1) Resolution No. 113, 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 Queen Emma Tower Project
C. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Director Kahele moved, seconded by Director Mende

That staff’s recommendation be approved.

Ueki stated that the Inducement Resolution for the Queen Emma Tower (Project) states HHFDC’s intent to possibly issue Hula Mae Multi-Family (HMMF) tax-exempt revenue bonds for the Project. Approval of the Inducement Resolution will allow for eligible expenditures made by the developer 60 days prior to approval to be recognized and facilitates further discussions and negotiations between appropriated parties to determine the feasibility of the contemplated Project.

If the Board approves Resolution No. 113 and the bond issue is deemed feasible, staff will return to the Board at a later date for final approval for the issuance, sale, and delivery of the Bonds, subject to the approval of the Department of Budget and Finance and the Governor.

Ueki opened for questions, along with Ms. Makani Maeva and Mr. Paul Fortino, on behalf of the Project.

Designee Evans asked for the time remaining on the lease and whether the related entity will own the fee. Ueki concurred that the entity will own the fee, with 5 years remaining on the lease. He further stated that for financing purposes, the length of the mortgage is required to be at a minimum of five years beyond the affordability period (i.e., 61 years).

Vice Chair Pulmano commented that she liked the elected adaptive reuse concept by utilizing commercial/real estate spaces that are vacant.

There being no further discussion, the motion was carried unanimously.

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

That the HHFDC Board of Directors approved the following:

A. A RHRF Project Award Loan of $16,464,191 to Queen Emma Partners LP for the benefit of the Queen Emma Tower 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 the 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 Program requirements, including, but not limited to, Chapters 343, 103D, §103-50 and §104, Hawaii Revised Statutes, as they may relate to the use of State funds.

III.C.
DISCUSSION
AND/OR
DECISION
MAKING

Approve a Rental Housing Revolving Fund Project Award for the Queen Emma Tower Project located in Honolulu, Oahu, TMK Nos.: (1) 2-1-009: 009 and 008

HHFDC Board of Directors Regular Meeting – July 12, 2018
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 $3,750,000.

6. Availability of RHRF program funds.

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

Director Kahele moved, seconded by Director Mende

That staff’s recommendation be approved.

Ueki opened for questions, along with Ms. Makani Maeva and Mr. Paul Fortino, on behalf of the Project.

Designee Evans asked for clarification on the land tenure being separated and held in a separate LLC rather than being held in a traditional method of a fee simple organization.

Makani and Fortino explained that in Hawaii, the value of the transaction is led substantially by the land. Therefore, by owning the land long-term controls and ensures land value and additional equity for capital improvements as the buildings age as opposed to reserving and recapitalizing at Year 15.

Executive Director Hirai asked whether there are mechanisms within the lease where the fee owner guarantees the affordability. Makani concurred.

There being no further questions, the motion was carried unanimously.

The Board recessed the meeting at 10:19 a.m. and reconvened at 10:30 a.m.

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 Multi-Family Tax-Exempt Revenue Bonds for Kawaihaine Village aka Kawaihaine Village Phase I to December 31, 2018:

1. Subject to provisions and conditions for Exhibit E & G and

2. All other terms and conditions of Resolution No. 096 and the intended tax-exempt issuance from the HMMF Bond Program approved by the HHFDC Board of Directors on January 12, 2017, remain the same.

B. Resolution No. 114 attached as Exhibit H, which amends Resolution No. 096 by increasing the intended tax-exempt issuance for the Kawaihaine Village aka Kawaihaine village I to up to $17,500,000 from $12,789,000:

1. Subject to provisions and conditions for Exhibit E & G and

2. All other terms and conditions of Resolution No. 096 and the intended tax-exempt issuance from the HMMF Bond Program approved by the HHFDC Board of Directors on January 12, 2017, remain the same.

C. Increase the award of annual Federal 4% LIHTC over a 10-year

HHFDC Board of Directors Regular Meeting – July 12, 2018
period to $1,386,600 from $999,021 and the award of annual State 4% LIHTC over a 5-year period to $1,386,600 from $999,021.

1. Subject to provisions and conditions for Exhibit F and G and

2. All other terms and conditions of the Federal and State LIHTC reservation approved by the HHFDC Board of Directors on January 12, 2017, remain the same.

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

Director Kahele moved, seconded by Director Mende

That staff’s recommendation be approved.

Ueki noted a correction on page 3 of the For Action, under section III. A. 2., which should read: “Collateral and compliance enforcement, along with documentation and construction, shall take place on both phases and project owners (Awardee and A0688578 Kihei, L.P.) on a combined basis.

Ueki opened for questions, along with Mr. Doug Bigley, on behalf of the project.

Director Lin asked the reason for the delay in application submittals (January 2017 and May 2018). Ueki explained that this is not unusual; however, delays were attributed to the change in the state credit law, construction climate, and requirements of the Maui County that were imposed, increasing the overall project budget.

Vice Chair Pulmano asked what attributed to the increase in site work. Bigley stated that the increase was attributed to road work imposed by the Maui County’s 201H approval and water system work to provide adequate water pressure to meet Fire Department requirements.

Vice Chair Pulmano commented that she appreciated the lower AMI levels for the two- and three-bedroom family units.

There being no further discussion, the motion was carried unanimously.

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

That the HHFDC Board of Directors approve the following:

A. Extend the RHRF LOI dated January 18, 2017, for the Kawaihaine Village aka Kawaihaine Village Phase I RHRF Loan to December 31, 2018, subject to the requirements as set forth in the For Actions dated January 12, 2017; and

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

Director Kahele moved, seconded by Director Mende

That staff’s recommendation be approved.

Ueki stated that the commitment from the Rental Housing Revolving Fund (RHRF) is being asked to be extended to coincide with the bonds, based on progress made in site control, zoning approvals, and financing commitment.

The grading and grubbing permit was noted to be “ready for pick-up” as of June 2018, with the full building permit pending. Furthermore, the A0578 Kihei, L.P. continues to work with Citicorp USA, Inc. on the tax-exempt issuance from the
HMMF Bond Program and Hunt Capital Partners on the Low Income Housing Tax Credit (LIHTC) syndication.

Ueki opened for questions along with Mr. Doug Bigley, on behalf of the project.

There being no questions, the motion was carried unanimously.

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

That the HHFDC Board of Directors approve the following:

A. Resolution No. 115 attached as Exhibit G, which amends Resolution No. 109 by increasing the intended tax-exempt issuance for Kaiwahine Village Phase II to up to $15,680,000 from $14,395,000.

1. Subject to provisions and conditions for Exhibit D and F; and

2. All other terms and conditions of Resolution No. 109 and the intended tax-exempt issuance from the HMMF Bond Program approved by the HHFDC Board of Directors on December 14, 2017, remain the same.

B. Increase the award of annual Federal 4% LIHTC over a 10-year period to $1,212,107 from $1,110,936 and the award of annual State 4% LIHTC over a 5-year period to 1,212,107 from $1,110,936.

1. Subject to provisions and conditions of Exhibit E and F; and

2. All other terms and conditions of the Federal and State LIHTC reservation approved by the HHFDC Board of Directors on December 17, 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 Director Mende

That staff’s recommendation be approved.

Ueki stated that the $1,876,000 Project budget increase was primarily attributed to higher construction, interim, and soft costs prompted by the additional water system work, road work imposed by the Maui County through their 201H approval, and upgrade to steel framing, further resulting in higher engineering fees and construction costs.

Construction is anticipated to begin in September 2018, with project completion anticipated in December 2019.

Director Kahele asked for the reasoning of the project being presented in two separate For Actions. Ueki explained that initially the project was planned to be one project with two phases. However, water issues prevented the Maui County from consenting to a subdivision or a condominium property regime on the site, preventing a legal separation of the two phases. Due to timing issues, the developer, therefore, proceeded with both phases as one. However, for financing purposes, action is being taken separately.

There being no further discussion, the motion was carried unanimously.

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

That the HHFDC Board of Directors approve the following:

HHFDC Board of Directors Regular Meeting – July 12, 2018
A. Resolution No. 116 attached as Exhibit G, which amends Resolution No. 087 by increasing the intended issuance amount of revenue bonds up to $30,750,000 from $17,087,575 for the Kukui Tower project:

1. Subject to provisions and conditions for Exhibit D and F; and
2. All other terms and conditions of Resolution No. 087 and the intended tax-exempt issuance from the HMMF Bond Program approved by the HHFDC Board of Directors on June 9, 2016, remain the same.

B. Increase the annual Federal LIHTC over a 10-year period to $1,719,506 from $966,016 and the annual State LIHTC over a 10-year period to $859,753 from $461,008 from the non-volume cap pool (4% LIHTC) for the Kukui Tower project:

1. Subject to provisions and conditions of Exhibit E and F; and
2. All other terms and conditions of the Federal and State LIHTC reservation approved by the HHFDC Board of Directors on June 9, 2016 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 Director Mende

That staff’s recommendation be approved.

Ueki stated that the project receives operating subsidies for 76 units from a Project Based Section 8 Housing Assistance Payment (HAP) contract until December 31, 2046. The HAP contact allows renters to pay 30% of their income by subsidizing the owner's balance of the contract rent.

The rehabilitation of the building will address health and safety issues.

Construction is anticipated to start in October 2018, with project completion anticipated in April 2020.

Ueki opened for questions, along with Mr. Kevin Carney, Ms. Marian Gushiken, and Mr. Aaron Eberhardt, on behalf of the project.

Director Kahele asked about the increase to the tax-exempt issuance from the HMMF Bond Program from $17,087,575 to $30,750,000. Ueki stated that it is primarily attributed to acquisition costs.

Director Lin asked for clarification on the approval process for the bond issuances. Housing Finance Specialist Dean Sakata explained that last month was a request for a year extension to issue the bonds and this request is to increase the bond and tax credit allocation amount.

There being no further questions, the motion was unanimously carried.

Director Mende was excused at 11:01 a.m.

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

That the HHFDC Board of Directors approved the following:

A. Extend the deadline issue HMMF Bonds for the Kahului Lani I Project to July 31, 2019; and
B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Director Kahele moved, seconded by Vice Chair Pulmano

That staff’s recommendation be approved.

Ueki stated that staff evaluated the extension request based on progress made in site control, zoning approvals, and financing commitment.

Building permits are pending as Kahului Lani I LP continues to work with Bank of Hawaii on the tax-exempt issuance from the HMMF Bond Program and Hawaii Housing Finance, LLC on the LIHTC syndication.

Construction is anticipated to start in the third quarter of 2018, with project completion anticipated in the first quarter of 2020.

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

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

Designee Kami asked for an explanation on the delay. Furuta stated that it is not so much a delay, but rather the process time for entitlements and its building permit.

There being no further questions, the motion was carried unanimously.

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

That the HHFDC Board approved the following:

A. Extend the RHRF LOI dated January 18, 2017, for the Kahului Lani I RHRF Loan to July 31, 2019, subject to the requirements as set forth in the For Actions dated January 12, 2017 and June 14, 2018; and

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

Director Kahele moved, seconded by Vice Chair Pulmano

That staff’s recommendation be approved.

Ueki stated that the Board is being requested to approve an extension to the RHTF Letter of Intent for the Kahului Lani I project.

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

There being no questions, the motion was carried unanimously.

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 Kaiaulu O Waikoloa to July 31, 2019; and

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

Vice Chair Pulmano moved, seconded by Director Kahele

That staff’s recommendation be approved.
Ueki stated that a “No Further Action Letter” issued by the Hawaii Department of Health (HDOH) is required. The U.S. Army Corps of Engineers completed an on-site review of the site and is preparing a Remedial Action Report that will be submitted to the HDOH by the K00674 Waikoloa, L.P. for review. Furthermore, the K99674 Waikoloa, L.P. is working on the acceptance of the Environmental Assessment and issuance of the Finding No Significant Impact, as well as with Hunt Capital Partners, LLC on the private placement of the HMMF Bonds and syndication of LIHTC.

Construction is anticipated to start in July 2019, with project completion anticipated in September 2020.

Ueki opened for questions, along with Mr. Doug Bigley, on behalf of the project.

Designee Evans asked what the U.S. Army Corps of Engineers’ jurisdiction over the project site is. Chief Planner Janice Takahashi explained that because the site was identified as a Formerly Used Defense Site (FUDS), the U.S. Army Corps of Engineers is responsible to clear the site of unexploded ordinance.

Ueki noted that HHFDC’s commitment was made a few weeks before the area was designated as a defense site.

Director Lin stated that meetings with the Governor, Department of Health, and the Attorney General’s Office, is to be scheduled in hopes of finding how the FUDS process could be expedited.

In regard to the FUDS issue, Vice Chair Pulmano questioned whether the Board should consider approving an 18-month extension as opposed to a 12-month. Ueki stated that staff’s recommended length of extension is usually derived from discussions had with the applicant. However, the extension term is ultimately at the discretion of the Board.

The Board asked that further discussion on extension terms be continued while more information on the FUDS issue can be obtained.

With no further discussion, the motion was carried unanimously.

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

That the HHFDC Board of Directors approved the following:

A. Extend the LOI dated January 17, 2017, for the Kaaiaulu O Waikoloa project to July 31, 2019; subject to the requirements as set forth in the For Action dated January 12, 2017; and

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

Director Kahele moved, seconded by Vice Chair Pulmano

That staff’s recommendation be approved.

There being no questions, the motion was carried unanimously.

Chief Planner Janice Takahashi presented the For Action, stating staff’s recommendation as follows:

That the HHFDC Board of Directors ratify said correction to the Agenda and the title of For Action Item No. III.B. of the June 14, 2018 Regular Meeting.

Vice Chair Pulmano moved, seconded by Designee Evans

HHFDC Board of Directors Regular Meeting – July 12, 2018
Regular Meeting to “Approve Proposed Amendments to and Compilation of Chapter 15-306 “General Excise Tax Exemptions,” Hawaii Administrative Rules, to Implement Changes to the General Excise Tax Exemption Program made by Act 54, SLH 2017, as amended by House Bill 2748, House Draft 2, Senate Draft 2, Conference Draft 1 (2018); to Clarify that Projects of the Hawaii Public Housing Authority are Government Assistance Projects Under The Rules; to Amend the Definition of Regulatory Agreements; to Amend the Process of Approval and Certification of Eligible Projects; to Amend the Process of Certification of Rental Housing Projects; to Increase Program Fees; and to Make Other Conforming Housekeeping, and Technical Amendments.”

III. M. DISCUSSION AND/OR DECISION MAKING Discussion on Proposed Amendments to the Rental Assistance Program Procedural Handbook

Real Estate Portfolio Manager Chris Woodard presented the For Discussion, stating that HHFDC operates the Rental Assistance Program (RAP) in accordance with Chapter 201H, Part III, Subpart C, Hawaii Revised Statutes (HRS) and Chapter 15-164, Hawaii Administrative Rules (HAR).

Pursuant to §201H-122, HRS, HHFDC may enter into a rental assistance contract with an owner of an eligible project which:

1. Is financed by HHFDC pursuant to Part III, Subpart B or D of Chapter 201H, HRS (i.e., with tax-exempt revenue bonds or taxable mortgage securities); or

2. HHFDC determines will require rental assistance to make it financially feasible.

Staff determined that the Portfolio properties require rental assistance to make them financially feasible. In summary, this is because:

1. Many of the household members have limited means;

2. A priority of the Portfolio’s restructuring and preservation was to minimize tenant displacement, resulting in the incorporation of Protected Tenant rent-increase restrictions into the RFP; and

3. The annualized Portfolio rental income generated by tenants participating in the Program represents over one-quarter of total residential rental income.

HHFDC Board of Directors Regular Meeting – July 12, 2018
Part 7 of the Procedural Handbook outlines a procedure by which HHFDC approves annual rent adjustments. Woodard stated that staff believes that an amendment to Part 7 should be considered. In collaboration with the Finance Branch, Deputy Attorney General, and outside counsel, Goodsill, possible language may be appended to the section entitled "Adjustments to Rental Schedule," as follows (subject to change):

"Notwithstanding the foregoing, in cases where the Qualified Owner has entered into a lease with the Corporation which is subject to contractual tenant rent-increase restrictions, the Qualified Owner shall obtain the Corporation’s approval that the adjusted rent does not exceed the maximum allowed rents as set forth thereunder.

For the avoidance of ambiguity and to the extent permitted by State statutes and administrative rules promulgated pursuant to HRS Chapter 91, in cases where the Qualified Owner is subject to a lease from the Corporation which is subject to contractual rent-increase restrictions, the Handbook in effect as of the effective date of such lease will apply to the Qualified Owner’s Rental Assistance Contract and Regulatory Agreement."

The amended language would serve to effectively ratify the rent-increase restrictions set forth within the terms of the RFP.

Director Lin asked would the sale of the portfolio be delayed if the proposed change is not made. Woodard stated that it would delay the sale, requiring the buyer to explore additional sources of debt financing and possibly change the current form of the transaction, including the sales price and financing structure.

Executive Director Hirai stated that based on today’s discussion, a For Action will be provided to the Board at the next Board of Directors’ meeting.

Chair Spindt asked if there were any potential drawbacks in changing the language in regard to other projects receiving RAP. Woodard stated not that he is aware of.

In response to Director Fukumoto’s question about lease restrictions, Woodard stated that by law, project owners need to have their rent schedules approved annually.

Deputy Attorney General Sandra Ching clarified that making the amendment will ensure that HHFDC is complying with the statute in this particular circumstance.

Designee Evans asked for the reason why the Board is not taking action today. Deputy Attorney General Ching stated that the intent of the For Discussion was to allow staff to present background information to the Board. Based on today’s discussion, staff could present a recommendation at the next Board meeting. However, the Board could elect to take action today as well.

Woodard stated that the proposed language is still being worked on.

Designee Kami asked whether the change in the language would affect the scoring of the RFP selection process. Woodard stated that he believes any proposer would have had a substantially similar request going through their due diligence period. Furthermore, although following the State Procurement Code RFP process, HHFDC is exempt from the code for real estate transactions.

There being no further no further discussion, Ueki introduced Kathleen Orlandi, with Hawkins Delafield and Woods LLP, to the Board, who is a part of HHFDC’s bond counsel.

Chief Planner Janice Takahashi presented the For Action, stating staff’s recommendation as follows:

HHFDC Board of Directors Regular Meeting – July 12, 2018
That the HHFDC Board of Directors:

A. Approve the establishment of a Dwelling Unit Revolving Fund Housing Information System and Research Budget in the amount of $100,000 for the purposes set forth in Section 201H-6 and 7, HRS, for application of housing development programs and projects; and

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

Vice Chair Pulmano moved, seconded by Designee Evans

That staff’s recommendation be approved.

Takahashi stated that DURF funds may be used to finance the development of regional state infrastructure, provided that there is a repayment mechanism plan to recapture a majority of the high development and off-site infrastructure costs that make opportunities to develop affordable housing on State land near the proposed rail stations challenging.

Existing affordable rental housing project models cannot absorb such costs. However, it may be possible for proceeds from the leasehold sale of affordable homes to generate revenue to provide a source of repayment, as well as pay for all or a part of the construction costs. Therefore, the establishment of a DURF Housing Information System and Research Budget of $100,000 should be sufficient to obtain information that will be needed to pursue new or revised housing programs and projects, such as 99-year leases on State land, along with a market study to measure consumer interest as part of an impending statewide housing study.

Director Lin commended staff for their efforts to obtaining information and suggested that perhaps the Special Action Team report, anticipated to be finalized at the end of the month, could be looked at to avoid duplication of work.

There being no further discussion, the motion was carried unanimously.

Takahashi presented the For Discussion, citing facts on the $200 million RHRF appropriation, rental housing need, HHFDC’s goals and guiding principles, RHRF evaluation criteria, and stating that the purpose for this discussion is to elicit guidance from the Board on making RHRF project awards. Therefore, the following questions were posed and discussed:

1. With the large infusion of funds for FY2018, to what extent should HHFDC deviate from its current practice of limiting RHRF funding commitments to the amount of funds that have been made available in a funding round?

2. What is the most cost-effective option?

3. A guiding principle is to be a good steward of the resources entrusted to HHFDC. What project outcomes represent a good value for the RHRF?

The Board discussed that although indication from the Legislature to accelerate unit production and expend the monies should be of priority, each project should hold its own merits (meeting minimum requirements, financial feasibility, shovel-ready), while the State holds true to its fiduciary duty of the monies appropriated. While cost reasonableness and feasibility were also noted as important, such mechanisms to determine what is reasonable cost would need to be defined.

Until cost reasonableness can be defined, the Board suggested that staff bring all projects that meet the current minimum requirements set forth since funding is available, with staff or the developer explaining the project outliers for the Board’s consideration to approve or disapprove.

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Ueki stated that staff does have awarding mechanisms that look at cost reasonableness and feasibility through discussions and guidance provided by the Board (i.e., QAP), which he believes should be laid out beforehand through staff’s review process as opposed to a board meeting.

Executive Director Hirai stated that, according to the National Council of State Housing Agencies, cost reasonableness is a national issue.

The Board suggested that the QAP Subcommittee continue to work on possible criteria recommendations for the upcoming 2019/2020 QAP.

Vice Chair Pulmano asked that project outliers be highlighted within staff’s reports to ensure effective discussion points.

Executive Director Hirai stated that Senate Bill 2293, Act 150, was signed by the Governor, regarding $30 million in RHRF monies for Lei‘ali‘i and a matching $250,000 from both the State and the County for condemnation preparations for the Front Street Apartments.

With no further discussion, Chair Spindt ask if there was anyone from the public that wished to comment on the Board’s discussion on guidelines for Rental Housing Revolving Fund Project Awards.

In regard to the QAP, Mr. Doug Bigley, UHC, stated that in California, the committee defined what an outlier would be. For example, if it exceeds 30% of the threshold amount, then additional details explaining why was stated. Furthermore, Bigley stated that there are vast cost differences depending on the type and location of the project that would require different mechanisms.

Mr. Stanford Carr, of SCD, concurred with Bigley in terms of the type and location of project construction, suggesting that benchmarking ranges per unit be established, with consideration of anomalies and nuances of major off-site improvements (i.e., categorizing by new construction, acquisition/rehab, or adaptive reuse).

Chair Spindt concurred that providing a percentage over a normal range of costs is a method of quantification and would provide staff with parameters for evaluating project costs.

There being no further business on the agenda, the meeting was adjourned at 12:58 p.m.

[Signature]
RONA FUKUMOTO
Secretary

IV.
REPORT OF THE EXECUTIVE DIRECTOR

V.
ADJOURNMENT
12:58 p.m.