

**HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
BOARD OF DIRECTORS
REGULAR MEETING**

OCTOBER 11, 2018

MINUTES

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, Honolulu, Hawaii, on Thursday, October 11, 2018, at 9:00 a.m.

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

Those present and excused were as follows:

Present: Director Milo Spindt, Chair
Director Leilani Pulmano, Vice Chair
Director Rona Fukumoto, Secretary (9:04 a.m.)
Director Sara Lin (9:12 a.m.)
Designee Scott Kami for Director Laurel Johnston
Designee Mary Alice Evans for Director Luis Salaveria

Executive Director Craig Hirai

Excused: Director George Atta
Director Donn Mende
Director Melvin Kahele

Staff Present: Sandra Ching, Deputy Attorney General
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Rick Prahl, Development Branch Chief
Stan Fujimoto, Development Section Chief
Carianne Abara, Development Support Section Chief
Holly Osumi, Chief Financial Officer
Melissa Loy, HHFDC Corporate Controller
Christopher Woodard, Real Estate Portfolio Manager
Patrick Inouye, Housing Finance Specialist
Jocelyn Iwamasa, Housing Finance Specialist
Lorraine Egusa, Budget Analyst
Kent Miyasaki, Housing Information Specialist
Jason Takata, Property Management Coordinator
Jayna Oshiro, OED Office Manager

Guests: Claire Casazza, Pacific West Communities
Kevin Carney, EAH
Mary Murtagh, EAH
Marian Gushiken, EAH
Aaron Eberhardt, EAH
Welton Jordan, EAH
Greg Goldberg, Citi
Arthur Rick Reppun, Waiahole Farmer
Jason Silverstein, Waiahole
Kimi Stu, UH Manoa
Leighton Yuen, Goodsill
Andrew Reenders, CBRE
Paige Christian, Ralph Rosenberg Court Reports, Inc.
Janis Magin, Pacific Business News

**I.
CALL TO
ORDER/
ROLL CALL**

Approval of the regular meeting minutes of July 12, 2018 was deferred to the next Board of Directors Meeting.

**II. A.
APPROVAL
OF MINUTES**
Regular
Meeting
7/12/18

Approval of the regular meeting minutes of September 13, 2018 was deferred to the next Board of Directors Meeting.

**II. B.
APPROVAL
OF MINUTES**
Regular
Meeting
9/13/18

The executive session meeting minutes of September 13, 2018 were approved in executive session.

**II. C.
APPROVAL
OF MINUTES**
Executive
Session
9/13/18

Director Fukumoto moved, seconded by Director Kami

**II. D.
APPROVAL
OF MINUTES**
Special
Meeting
9/26/18

That the special meeting minutes of September 26, 2018 be approved as circulated.

The motion was carried unanimously.

The executive session meeting minutes of September 26, 2018 were approved in executive session, as amended.

**II. E.
APPROVAL
OF MINUTES**
Executive
Session
9/26/18

Chair Spindt stated that a court reporter is present and asked that everyone state their name for the record, speaking loud and clearly on comments and motions made.

Chief Financial Officer Holly Osumi presented the For Action, stating staff's recommendation:

That the HHFDC Board of Directors accept the audited financial statements of the HHFDC Nani `O Puna Project for the fiscal year ending June 30, 2018.

**III. A.
DISCUSSION
AND/OR
DECISION
MAKING**
Accept the Audited
Financial Statements
Of the Nani `O Puna
Project for the Fiscal
Year Ended June 30,
2018

Director Pulmano moved, seconded by Director Kami

That staff's recommendation be approved.

Osumi stated that the audited financial statements of the HHFDC Nani `O Puna (Project) for the fiscal year ending June 30, 2018, was completed by Accuity LLP (Auditor). The Project's total net position decreased by \$15,000 to \$819,000 at June 30, 2018, as compared to \$835,000 at June 30, 2017. The decrease was noted to be primarily attributed to net transfers to the Dwelling Unit Revolving Fund of \$12,000 and interest expense of \$4,000 from the mortgage with U.S. Department of Agriculture (USDA), offset by a net operating income of \$1,000.

The audited financial statements will be sent to the USDA by October 31, 2018.

Designee Evans asked if there is an amount set aside for repair and maintenance with the \$819,000 net position. Osumi stated that the USDA does require a restricted account. Currently, there is \$110,000 that can be used for repairs with permission from USDA.

Designee Evans asked whether the Project's property management firm is authorized to make repairs as needed from the reserved amount. Osumi stated that use of the

reserved funds would require authorization from the HHFDC Real Estate Portfolio and Compliance Section.

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

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

That the HHFDC Board of Directors approve the following:

- A. Resolution No. 120, attached as Exhibit D, which authorizes a tax-exempt issuance of up to \$30,750,000 from the HMMF Bond Program, subject to the provisions and conditions recommended in Exhibit C.
- B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Director Fukumoto moved, seconded by Director Kami

That staff's recommendation be approved.

Ueki stated that the Hula Mae Multi-Family (HMMF) Bond is a private placement with US Bank, NA/Citi Corp USA, Inc. US Bank, NA will hold the bond during the interim/construction phase and Citicorp USA, Inc. will hold the bond during the permanent phase. Authorized issuance of up to \$30,750,000 compared to budgeted use of \$28,467,000 is taken as a precautionary measure against budget increases with respect to the 50% Test requirement.

Tax Equity and Fiscal Responsibility Act hearings (TEFRA) were held in September 2016 and in August 2018 (to address the higher intended tax-exempt issuance amount). There was no one from the public who attended, and no oral or written testimony was received for both TEFRA hearings conducted.

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

Designee Evans asked why the land acquisition cost of \$20 million is approximately the same amount of the rehabilitation cost and contractor profit combined. Ueki explained that acquisition costs are typically the largest amount within a project's budget. In this case, a 32-story structure was acquired.

Chair Spindt and Designee Kami inquired about the pricing of the 4% State LIHTC. Ueki stated that pricing is recovering, especially with the State credits now allowed to be taken over a 5-year term.

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

Ueki presented the For Action, stating staff's recommendation:

That the HHFDC Board of Directors approve the following:

- A. Resolution No. 121, attached as Exhibit E, which authorizes a tax-exempt issuance of up to \$50,000,000 from the HMMF Bond Program, subject to the provisions and conditions recommended in Exhibit D.
- B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Director Fukumoto moved, seconded by Director Kami

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

Approve Resolution No. 120, Authorizing the Issuance of Hula Mae Multi-Family Tax-Exempt Revenue Bonds for the Kukui Tower Project Located in Honolulu, Oahu, TMK No. (1) 1-7-005: 041 CPR 0001

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

Approve Resolution No. 121, Authorizing the Issuance of Hula Mae Multi-Family Tax-Exempt Revenue Bonds for the Kenolio Apartments Project Located in Kihei, Maui, TMK No.: (2) 3-9-001: 157

That staff's recommendation be approved.

Ueki stated that the \$10,087,423 project budget increase was primarily attributed to higher construction reserve requirements and contingency. Higher project costs are anticipated to be absorbed by a \$6,091,766 increase in LIHTC equity and a \$4,250,000 increase in permanent HMMF Bond and \$5,000,000 increase in interim HMMF Bond utilization.

The HMMF Bond is a private placement with Citicorp USA, Inc. The bond is for \$50,000,000 and provides construction and permanent financing support.

A TEFRA hearing was conducted in June 2017 in which four members of the public attended in representation of the developer. No oral or written testimony was received.

Ueki opened for questions, with Ms. Claire Casazza on behalf of the project.

In reference to page 3 of the For Action, under section III., C., proposed Financing Structure table, Designee Kami inquired about the Workforce Housing Credit Loan and pricing. Casazza stated that it is from the sale proceeds of the Maui County's Workforce Housing credits received at 88 cents on the Federal and 80 cents on the State.

Designee Kami asked how a better rate was able to be obtained. Ueki explained that they were the first to utilize the 5-year acceleration of the credit, which is believed to have improved pricing. Furthermore, an administration decision was made to hold off on awarding until placed in effect in January 2017.

Chair Spindt asked if there is still a sufficient demand for State LIHTC. Ueki stated that although there is a demand for State LIHTC, ways to increase the demand further and expand its pool of state credit investors are being looked into.

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

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

That the HHFDC Board of Directors approve the establishment of a Dwelling Unit Revolving Fund budget in the amount of \$80,000 for the Kulia I Ka Nuu Affordable Rental Housing Project, Waianae, Oahu, TMK No. (1) 8-5-027: 073, as substantially described in this For Action, subject to other terms and conditions deemed necessary and acceptable by the Executive Director, including the reallocation of line item funds as the need arises, and also subject to the following:

- A. Availability of DURF funds; and
- B. Approval and release of funds by the Governor.

Director Fukumoto moved, seconded by Director Kami

That staff's recommendation be approved.

Woodard stated that with no response received from the State of Hawaii Department of Health (DOH) on the possible use of the Resource Center as a new location for the DOH's Makaha Mental Health Clinic and Clubhouse, HHFDC staff is proposing to engage a commercial real estate broker to market the vacant space for lease to relieve the financial burdens of the vacant Resource Center. Total leasing commissions payable anticipated under a brokerage contract are not to exceed \$80,000. Negotiations with Alternative Structures International d.b.a. Kahumana Community to lease the kitchen/dining space of the Resource Center are ongoing.

**III. D.
DISCUSSION
AND/OR
DECISION
MAKING**
Approve a Dwelling
Unit Revolving Fund
Budget for
Commercial Real
Estate Leasing
Services at the Kulia
I Ka Nuu Affordable
Rental Housing
Project, Waianae,
Oahu, TMK Nos.:
(1) 8-5-027: parcels
71 and 73

Woodard noted that based on a single response to a solicitation for a commercial leasing broker which proposed a 1.9-month commission schedule (30% reduction if there is no cooperating broker involved), the total cost is estimated to be \$52,000. The funding request to the governor will only reflect the amount of the bid if awarded and not protested.

Pursuant to Section 201H-191, HRS, the Dwelling Unit Revolving Fund (DURF) may be used for the necessary expenses in administering housing development programs and carrying out the purposes of housing development programs, including the expansion of community facilities in conjunction with housing.

Director Lin asked whether relinquishing management responsibilities of the property have been considered. Woodard responded in the affirmative, stating that although the goal is to exit managing the project, generation of positive cash flow is preferred to ensure reasonable marketability of the project. Issuance of an RFP was noted to be considered for the Project and an adjacent 1.5-acre parcel for possible development of additional affordable housing.

Designee Kami inquired about: (1) the level of return that would be generated from the \$50,000 of leasing commissions incurred; (2) the approximate amount of vacant space being rented out; and (3) the current market rates. Woodard stated that about 10,000 square feet of vacant space will remain after executing the Kahumana lease. In determining the lease rent for Kahumana, Woodard stated that staff considered the Weinberg Foundation's contribution of \$3 million for construction of the Resource Center divided by the total square feet of the building and applied a 3% rate of return, totaling approximately 70 cents per square foot, which covers operating costs. However, the HHFDC hopes to receive closer to a \$2.00 gross rent per square foot for the remaining vacant space.

With the change in the DOH leadership, Director Lin asked about the reason for the DOH's inaction on taking over the Resource Center. Woodard stated the HHFDC worked with the DOH for two years, meeting with the neighboring Waianae Intermediate and Kamaile Academy public schools, which expressed concern with the operation of a mental health clinic and clubhouse in the area. DOH has essentially been nonresponsive since the meetings.

Woodard noted that a request for quotations included certain minimum contractor qualifications, and that the \$52,000 commission assumes a \$2.00 per square foot gross rent and the use of a cooperating broker. The commission is tied to the actual rent obtained so that, for example, if a \$1.00 gross rent is achieved, then the commission would be cut in half.

With no further discussion, the motion was carried unanimously.

Development Support Section Chief Carianne Abara and Property Management Coordinator Jason Takata presented the For Action, stating staff's recommendation:

That the HHFDC Board of Directors approve the following:

- A. Authorize the Executive Director to undertake all tasks necessary to execute the purposes of this For Action, including transferring the previously approved tenant allowance of \$59,800 to Arthur F. Reppun for use under his current Agricultural ground lease located on Lot 128, and to allow Mr. Reppun to transfer his rights for the Agricultural Lot Ground Lease for Waiahole Valley Lot No. 126 to Mr. Jason Silverstein on the key terms outlined herein (subject to HHFDC approval process and fees for a non-permitted assignment of lease), thereby satisfying compliance with Act 330.

Vice Chair Pulmano moved, seconded by Designee Kami

That staff's recommendation be approved.

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

Approve Transfer of
Tenant Improvement
Allowance and Rights
to Agricultural Lot
Ground Lease for
Waiahole
Agricultural Park
And Residential Lots
Subdivision Lot No.
126 Pursuant to Act
330, Session Laws of
Hawaii 1993

Abara stated that pursuant to Act 330, Session Laws of Hawaii 1993, HHFDC proposed to lease Lot No. 126 to Mr. Arthur F. Reppun consistent with the terms of HHFDC's other agricultural lot ground leases in Waiahole Valley, with an additional term proposed by staff, that HHFDC fund a \$59,800 lessee improvement allowance to be used for diversified agriculture at the property, with disbursements of such allowance to be managed by HHFDC staff, which was approved at the May 2016 Board of Directors Meeting.

Due to location and drainage issues, Lot 126 endured several periods of heavy flooding and a drainage study was considered and estimated to be \$38,991 but was not pursued.

To date, HHFDC and Reppun have not entered into a ground lease agreement for Lot 126 due to Reppun's concerns relating to the flooding and other matters. Mr. Reppun has obtained a current and approved conservation plan for Lot 126.

A letter dated August 17, 2018, Reppun proposed to voluntarily transfer his rights to the Lot 126 Agricultural Ground Lease to Mr. Jason Silverstein, who is willing and able to farm the parcel "as-is" without the requirement of a drainage study. Furthermore, Reppun has also proposed transferring his previously approved \$59,800 tenant allowance for Lot 126 to his current Agricultural Ground Lease under Lot 128.

Abara opened for questions, along with Takata, Woodard, Reppun, and Silverstein.

In response to Vice Chair Pulmano's questions, the following were noted:

- Woodard stated that the current lease rent is \$100 per year.
- Reppun stated that currently about half the lot gets flooded by garbage being dumped on/near the property from surrounding property lots, which has altered the drainage flow and types of farming that can be grown. However, with proper drainage the lot would be farmable.
- Silverstein confirmed acceptance of the transfer, stating that choosing the right crops for the lot and transfer of soil placement is believed to mitigate drainage and farming issues.

In regard to the McGinn boundary issue, Reppun stated that the boundary should be surveyed and done correctly.

Chair Spindt ask for a motion to go into executive session.

Director Lin moved, seconded by Vice Chair Pulmano

That the Board convene in executive session pursuant to Section 92-5(a)(3), Hawaii Revised Statutes, to deliberate concerning the authority of persons designated by the board to negotiate the acquisition of public property, or during the conduct of such negotiations; and 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 meeting resumed in regular session at 10:25 a.m.

In addition to the motion, Chair Spindt stated that the Board would like for the property to be surveyed to address the boundary issue.

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

**EXECUTIVE
SESSION**
10:01 a.m.

RECONVENED
10:25 a.m.

Real Estate Portfolio Manager Chris Woodard provided a recap of events leading up to the current portfolio sale due diligence expiration date currently set to expire on Monday, October 15, 2018, after being previously extended three times. Woodard explained that the reasons for the extensions relates to the buyer’s request to modify the RFP award based on their findings of substantially higher than anticipated capital improvement costs.

III. F. DISCUSSION AND/OR DECISION MAKING
Discussion on Requested Modifications to Award of Request for Proposals No. 17-010-PPMS Affordable Rental Housing Portfolio Restructuring and Preservation to Joint Offerors Standard Property Company, Inc. and Stanford Carr Development, LLC as Successful Offeror

Designee Evans moved, seconded by Vice Chair Pulmano

EXECUTIVE SESSION
10:28 a.m.

That the Board convene in executive session pursuant to Section 92-5(a)(3), Hawaii Revised Statutes, to deliberate concerning the authority of persons designated by the board to negotiate the acquisition of public property, or during the conduct of such negotiations; and 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 meeting resumed in regular session at 11:16 a.m.

RECONVENED
11:16 a.m.

Woodard requested that the Board take action on this item by approving a further extension to the due diligence period for the Buyer through November 13, 2018.

Vice Chair Pulmano moved, seconded by Designee Kami

That the HHFDC Board of Directors amend the previously approved award of Request for Proposal No. 17-010-PPMS Affordable Rental Housing Portfolio Restructuring and Preservation to Joint Offerors Standard Property Company, Inc., and Stanford Carr Development, LLC, as successful offeror, as amended, to provide for a revised due diligence expiration date to end no later than November 13, 2018.

The motion was carried unanimously.

Chair Spindt proceeded to the Report of the Executive Director.

IV. REPORT OF THE EXECUTIVE DIRECTOR

Executive Director Hirai reported on the upcoming county council committee meetings scheduled:

- Maui County, Tuesday, Oct 16, 2018 – Front Street Memorandum of Understanding (MOU)
- Maui County, Wednesday, Oct 17, 2018 – Kahului Civic Center MOU
- Kauai County, Oct 24, 2018 – Lima Ola DURF

V. ADJOURNMENT
11:36 a.m.

Chief Planner Janice Takahashi and Executive Director Hirai distributed and presented the HHFDC Legislative Proposals for the 2019 Session handout to the Board. (See Attachment A)

Chair Spindt asked for a motion to adjourn.

Director Fukumoto moved, seconded by Designee Kami

That the Board adjourn the meeting at 11:36 a.m.

The motion was carried unanimously.



RONA FUKUMOTO
Secretary

HHFDC Legislative Proposals for the 2019 Session

Proposal Number	Subject/ Category based on Gov's Strategy	Proposal Summary. What is the key points? What will happen if this bill does not become law? How does this bill align with Governor's priorities?	Problem to be Solved (include whether it is in response to report or other)	HRS, Session Law Affected	Previously Introduced Bill # & Year, Reasoning for non-passage
BED-03	Streamlining government	Amend the definition of public lands to add to HHFDC's exclusion lands set aside to HHFDC by Executive Order and leased to HHFDC by a State department or agency.	HHFDC has statutory exemption from the definition of "public lands" for lands it holds in its corporate capacity. Extending it to lands set aside to HHFDC by Executive Order will help to ensure that its efforts to promote affordable housing development on state lands can proceed smoothly.	171-2(6), HRS	N/A
BED-04	Affordable rental housing development	Amend section 11 of Act 291, SLH 1980 to increase the Housing Loan and Mortgage Program bond authorization from \$1,500,000,000 to \$3,000,000,000.	Provide increased funding for affordable rental housing statewide. As of 9/13/18, HHFDC has \$506,927,198 in bond authority remaining and 3 applications under review requesting a total of \$99,328,783.	Act 291, SLH 1980	N/A
BED-05	Affordable Housing	Waives the at-risk and passive activity loss rules with respect to State Low-Income Housing Tax Credits (LIHTC)	The proposed amendments to the State LIHTC would increase demand for the credits by broadening the number of Hawaii taxpayers that can use them. This will increase the amount of equity generated by the credits by affordable rental housing developers.	235-110.8, HRS	HB2332/ SB2759 (2018) HB2332 died in conference. SB2759 was not scheduled for hearing.
BED-06	Affordable housing	Amends 46-15.1, HRS by removing the ability to grant GET exemptions for affordable housing developments from county housing powers.	Ensures that the decision to grant exemptions of a State tax is limited to a state agency only (HHFDC). This will help HHFDC in providing data to the Auditor for the periodic reviews of all tax credits and exemptions, since HHFDC is barred by statute from viewing data relating to County-approved or certified GET exemptions under taxpayer privacy laws.	46-15.1; 201H-36; 237-29, HRS.	N/A
BED-07	Streamlining government	Session Law exempting HHFDC leasehold house lots and condominium units in developments constructed in the 1970s and 1980s, in which a majority of units has already been converted to fee simple homeownership to be exempted from the legislative approval process.	Reduces need for lengthy, duplicative, and uncertain legislative approvals process for leasehold homeowners to be able to purchase the leased fee interest in their home. There are only 17 condominium units and 52 house lots remaining.	N/A	HB2327/ SB2754 (2018). HB2327 was not scheduled by WAL. SB2754 was not scheduled for hearing by the joint HOU/WTI
BED-08	Affordable housing	Creates an interim construction financing program for non-profit organizations that want to develop or acquire affordable for-sale homes for Hawaii residents.	Providing interim construction loans for small nonprofit organizations to develop or acquire/rehabilitate affordable for-sale housing.	Sections 201H-47 through 201H-50, HRS.	HB2459 (2018) This bill did not pass because its language was flawed and its intent was unclear.
BED-09	Affordable housing	Creates a source of funding to develop and financing housing by non-profit self-help housing organizations	Lack of support from conventional lenders for nonprofit self-help housing organizations.	Part II of Chapter 201H, HRS.	SB2472 (2018). This bill did not pass because its language was flawed and its intent was unclear.

HHFDC Legislative Proposals for the 2019 Session

Proposal Number	Subject/ Category based on Gov's Strategy	Proposal Summary. What is the key points? What will happen if this bill does not become law? How does this bill align with Governor's priorities?	Problem to be Solved (include whether it is in response to report or other)	HRS, Session Law Affected	Previously Introduced Bill # & Year, Reasoning for non-passage
BED-10	Affordable Housing	Requires that 201H affordable housing projects located within a community development district administered by HCDA to be constructed, renovated, or improved in consultation with HCDA.	Requiring 201H affordable housing projects to consult with HCDA establishes a formal record of entitlement.	201H-38 and 206E-13, HRS	HB2331 HD1/SB2748 SD2 (2018). This bill was not heard by House Water Land committee.
BED-19	Affordable housing preservation	Makes technical and housekeeping amendments to Act 150, SLH 2018. Appropriates funds for the acquisition of the ground lease on the Front Street Apartments property.	Provides the tools and means with which HHFDC can facilitate the preservation of Front Street Apartments in Lahaina, Maui as affordable rental housing.	Act 150, SLH 2018	N/A
BED-R1	Affordable housing development	Concurrent Resolution approving the transfer of the fee interest in HHFDC land under Na Lei Hulu Kupuna Senior Apartments (TMK No. (1) 2-1-051:004) to the City and County of Honolulu.	Consolidation of land ownership under affordable senior rental project.	171-64.7, HRS	N/A
BED-R2	Affordable home ownership	Concurrent Resolution approving the sale of the leased fee interest in 94-940 Meheula Parkway No. 252, Mililani, HI 96789 to its leasehold owner.	Affordable homeownership.	171-64.7, HRS	N/A