

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

December 13, 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, December 13, 2018, at 9:00 a.m.

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

With a quorum present, Chair Milo Spindt called the meeting to order at 9:01 a.m.

Those present were as follows:

Present: Director Milo Spindt, Chair
Director Leilani Pulmano, Vice Chair
Director Rona Fukumoto, Secretary
Director George Atta
Director Donn Mende
Director Sara Lin
Director Mary Alice Evans (9:09 a.m.)
Designee Scott Kami for Director Laurel Johnston

Executive Director Craig Hirai

Excused: Director Melvin Kahele

Staff Present: Sandra Ching, Deputy Attorney General
Matthew Dvonch, Deputy Attorney General
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Rick Prahler, Development Branch Chief
Carianne Abara, Development Support Section Chief
Lorna Kometani, Sales and Counseling Section Chief
Holly Osumi, Chief Financial Officer
Melissa Loy, HHFDC Corporate Controller
Christopher Woodard, Real Estate Portfolio Manager
Leo Domingo, Housing Development Specialist
Albert Palmer, Housing Development Specialist
Kent Miyasaki, Housing Information Specialist
Esa Pablo, Secretary to the Board

Guests: Maile Vickery, Hui Malama O Ke Kai/Waimanalo Village
Wendy Lorenzo, Director WVRC
Lynn Lorenzo, Resident
Shao Yu Lee, DOD Engineering Office
Gina Ichiyama, DAGS
T.J. Joseph, Honolulu Habitat for Humanity
Carl Cunningham, Mark Development
Koali Castillo, Waimanalo Village
Derek Castillo, Waimanalo Village
Kauai Prusinski, Waimanalo Village Resident
Leighton Yuen, Goodsill
Stanford Carr, SCD
Kevin Kasai, SCD
Chris Oakes, SCD
Andrew Reenders, CBRE
Dana Peiterson, CBRE

Vice Chair Pulmano moved, seconded by Director Fukumoto

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

The motion was carried unanimously.

The meeting minutes of October 11, 2018 executive sessions were deferred to later in the meeting and approved in executive session.

Vice Chair Pulmano moved, seconded by Director Mende

That the regular meeting minutes of November 8, 2018 be approved as circulated.

Th motion was carried unanimously.

The executive session meeting minutes of November 8, 2018 was deferred to later in the meeting and approved in executive session.

Real Estate Portfolio Manager Chris Woodard noted that the Waimanalo Village subdivision is managed by both the Real Estate Portfolio & Compliance Section, which he heads, and the Real Estate Services Section, headed by Sales & Counseling Section Chief Lorna Kometani.

Woodard presented and discussed the For Information, which summarized background information on the Waimanalo Village subdivision, current lot composition and lease types of the subdivision, historical plan for leasehold conversion, rental project issues, and potential vacant lot development. The following issues were highlighted and discussed:

Based on inquiries from Waimanalo Village lessees interested to purchase the leased-fee interest in their lots, HHFDC staff has met with the Office of Hawaiian Affairs (OHA) staff to: apprise OHA of HHFDC's intent to entertain the request to sell in fee simple its Waimanalo Village land; inquire if OHA would oppose such a sale; and inquire if the 1994 HFDC Board approval meets the OHA Ceded Lands Policy.

Although OHA staff stated that prior Board approval was made prior to the onset of the ceded land litigation thereby meeting the OHA Ceded Lands Policy, HHFDC OHA would not provide written confirmation regarding the same as requested by HHFDC.

The 2004 Memorandum of Understanding (MOU), which provided for the sale of Rental Project dwellings in order to pay off the Waimanalo Village Residence Corporation (WVRC)'s HUD loan and construct a community center, remains in full force and effect. With no community center built, it is unclear whether or not the completed leased sales generated sufficient cash for construction.

The WVRC reported that the remaining 46 homes require renovation at an estimated cost of \$6.6 million (\$143,478 per unit) based on a 2018 contract proposal. Woodard noted that, according to WVRC's 2015 Internal Revenue Service Form 990, the nonprofit's revenues are generated from rent and rent subsidies, and the WVRC had \$832,845 of cash on hand as of December 31, 2015. Financing assistance may be requested for the renovations.

II. A.
APPROVAL
OF MINUTES
Regular
Meeting
10/11/18

II. B.
APPROVAL
OF MINUTES
Executive
Sessions
10/11/18

II. C.
APPROVAL
OF MINUTES
Regular
Meeting
11/8/18

II. D.
APPROVAL
OF MINUTES
Executive
Sessions
11/8/18

III. A.
DISCUSSION
AND/OR
DECISION
MAKING
Information on the
Waimanalo Village
Project, Waimanalo,
Oahu, TMK Nos.:
(1) 4-1-102: various,
(1) 4-1-034; various,
and (1) 4-1-009: 048

For the remaining three developable lots of the 1978 Master Lease lots, a \$250,000 DURF budget was approved at the November 8, 2018 Board of Directors Meeting for planning and environmental studies, and other related costs, for the development of homes on developable lots. A developer will be selected through a Request for Proposal (RFP) process.

Woodard introduced the following guests from the community: Maile Vickery, resident and former president of the WVRC; Windy Lorenzo, resident and current Director of the WVRC Board; Derek Castillo, resident and site manager; Kauai Prusinski, leasehold homeowner; and T.J. Joseph, Honolulu Habitat for Humanity.

Chair Spindt opened the floor for public testimony.

Prusinski stated that the residents' request is that they would have an option to purchase the land, providing a way for the community to continue their place in Hawaii. She further requested the Board's cooperation and support.

Lorenzo stated that having the opportunity for lease-to-fee conversion or a 55-year lease, extended with 20 years would help the community.

Vickery thanked the Board for their time and thanked Woodard and Kometani for all their hard work over the past two years with the community. Vickery reiterated the request for the option of a lease to fee conversion and lease extension, asking that the Board look at the various types of leases that make up the community.

In regard to the \$250,000 DURF budget for the three developable lots, Director Lin inquired on the infrastructure capacity in the area. Woodard stated that both water and sewer capacity has been confirmed sufficient for the planned development. Additional homes will be developed pursuant to 201H and will require street and overhead utility exemptions.

Vice Chair Pulmano asked why leases have not been extended. Woodard stated that to his knowledge, the HHFDC's internal policy requires that extended leases be set with an annual lease rent to be equal to 4% of the assessed value of the land. With the land value in Waimanalo Village being high, such lease extensions for lessees have become difficult to afford, with land values being \$30,000 at the time of the 1990s approval and then ballooning to \$400,000 today.

Chair Spindt asked whether the assessed value of the land was determined by sales of the fee simple units within the development or based on sales outside of the area. Woodard stated that the internal policy uses the City and County of Honolulu's (City's) assessed value of the land with the applied 4% rate of return.

In response to Chair Spindt's question, Vickery stated that because there is not a lot of fee simple residential units/parcels, assessors often look at what is being sold in the closest proximity of the area, which in this case, are often times the beachfront properties that are higher in value and skew the numbers.

Chair Spindt questioned the assessed land value of \$400,000, stating that in the broader scheme of the market on Oahu, the disparity between values of the beach lots in comparison to the homestead lots are significant, and such formulated assessed values may not be equitable to tenants within the Waimanalo Valley.

Woodard noted that staff has a list of leasehold parcel sales over the last five years, which could be provided to the Board.

Director Mende asked whether a benchmark appraisal should be done to compare the City's assessed values. Woodard stated that staff could look at that.

Vice Chair Pulmano asked whether the income demographics are known. Woodard stated that HHFDC is privy to household income information for the rental project; however, was not sure that would be a representation of the entire subdivision.

Vice Chair Pulmano asked what kind of things have been looked at in resolving how land values are assessed for lease extensions. Woodard stated that a leasehold conversion is being looked at. This way, if one is unable to purchase the fee, it would allow another person to come in to purchase the lease for a more marketable asset, only applying to the parcel; not to the person or lessee.

Woodard posed the question on whether HHFDC's leasehold policies should be changed to address the Board's concern of how the annual rents are set and if so, what restrictions, if any, should be attached (i.e., household income affordability restriction).

With housing as one of its goals, Director Lin suggested that HHFDC collaborate with OHA on possible solutions. Woodard stated that such discussions with OHA could be scheduled.

Vice Chair Pulmano asked whether it is HHFDC's responsibility to engage with OHA or whether it is community's responsibility. Woodard stated that he believes a joint responsibility would be most effective.

Discussion ensued on HHFDC's policies on the 4% land value and extension requests for the various leasehold subdivisions. Although interested in looking at different options other than the current 4% internal policy, Chair Spindt stated that perhaps a subcommittee could later be formed to look at and evaluate HHFDC's policies, as it would require a policy change not only for Waimanalo, but for all of its leasehold subdivisions.

Given the ongoing issues with its various leases, Vice Chair Pulmano suggested that the Board consider establishing a subcommittee at this meeting, to look into its current HHFDC leasehold policies. However, Pulmano noted that because her mother owns property in Uluwehi, she requested that she not participate as a member of the subcommittee.

The HHFDC Leasehold Policy Subcommittee was established for the purpose of reviewing current HHFDC leasehold policies and recommending possible modifications. Members of the subcommittee were named as follows:

1. Milo Spindt
2. George Atta
3. Sara Lin
4. Mary Alice Evans

The Board recessed at 9:58 a.m. and reconvened the meeting at 10:07 a.m.

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

That the HHFDC Board of Directors approve the increase to the Villages of Kapolei (VOK) Master Plan Budget as presented in this For Action (attached as Exhibit E) and approve the activation and release of funds from the VOK Master Plan Budget into the VOK Spending Approved Budget (attached as Exhibit F) substantially as discussed in this For Action, and authorize the Executive Director to take all actions necessary to effectuate the purpose of this For Action, subject to:

- A. Availability of Dwelling Unit Revolving Funds (DURF) and/or Capital Improvement Program (CIP) funding.
- B. Approval and release of funds by the Governor.
- C. Compliance with all HHFDC rules and regulations and such other

**HHFDC
LEASEHOLD
POLICY
SUBCOMMITTEE**

RECESSED
9:58 a.m.
RECONVENED
10:07 a.m.

**III. B.
DISCUSSION
AND/OR
DECISION
MAKING**
Approve: (1)
Amendments to the
Villages of Kapolei
Master Plan Budget;
and (2) Increases to
the Villages of
Kapolei Spending
Approved Budget
for Planning, Design,
Construction, and
Maintenance

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.

Prahler stated that the Villages of Kapolei (VOK) Master Plan Budget is the total estimated budget to complete the entire project, based upon staff's best estimate of tasks necessary to close out, subject to prevailing economic conditions and assumptions. The VOK Spending Approved Budget is the amount of funds released from the VOK Master Plan Budget, approved by the Governor, to cover expenditures of the VOK Master Plan Budget, dependent on the availability of funds.

Since its last Board approval in 2002, of the VOK Master Plan Budget and VOK Spending Approved Budget, HHFDC has been unable to dedicate the project to the City and/or the VOK Association (Association), and its dealings with sewer lines under roads owned by the Department of Hawaiian Home Lands (DHHL). HHFDC is currently in discussion with the City and the Association to dedicate and convey infrastructure and common area amenities.

Handouts of the Net Share of Appreciation Receivable Revenues as of December 3, 2018 and Villages of Kapolei Affordable Recap were distributed to the Board for review.

The VOK Spending Approved Budget expenditures are expected to be implemented over a 5-year period, depending on the progress of terms of negotiated dedication agreements for the acceptance of the improvements by the City and the Association.

In the event that HHFDC receives Capital Improvement Project (CIP) funds appropriation for infrastructure, such CIP funds will be utilized first or replace DURF for work in progress and adjustments to the VOK Spending Approved Budget.

MOUs are being worked on with the City that outline the condition of improvements that are required for turn over.

Given the complexity of the situation, the Development Branch has hired Development Support Section Chief Carianne Abara.

Prahler opened for questions, along with Abara and Development Housing Specialist Leo Domingo.

Executive Director Hirai noted that even if approved, the spending and funding will still need to be determined in coordination with Fiscal Management for the potential DURF budget.

Director Evans asked whether the City's dedication infrastructure standards have changed. Prahler stated that although the City is much more amenable to the matter, there is an understanding that acceptance on the standards placed at the time the improvements were built should be accepted. Hence, the work process on a master MOU to avoid doing repetitive work.

Chair Spindt asked why no easement was done at the time the sewer line was put in. Prahler stated that DHHL staff suggested that the roads be carved out; however, it was politically expedient to transfer, and therefore, is owned by DHHL.

Vice Chair Pulmano asked whether there was a homeowner's association fee regarding maintenance of the infrastructure improvements. Prahler stated that no dedication was made at the time of the development.

Chair Spindt asked whether there was a revenue stream for the maintenance of

infrastructure improvements. Prahler stated no, other than the sale proceeds of the original parcels and shared appreciation equity payments over time.

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

Development Support Section Chief Carianne Abara presented the For Action, stating staff's recommendation:

That the HHFDC Board of Directors approve the following for the development of a new Hawaii State Veterans Home on a southeast corner of the 26-acre land site at the Villages of Kapolei known as the "Northwest Corner" located at the intersection of Fort Barrette Road and Farrington Highway, Kapolei, Oahu, Hawaii; TMK No. (1) 9-1-16:035 (por.), substantially as described in this For Action:

- A. Authority to negotiate and execute a Memorandum of Understanding or Agreement with the State of Hawaii Department of Defense (DoD), substantially consistent with this For Action; and
- B. Enter into a long-term lease with DoD for a portion of the Northwest Corner parcel in accordance with this For Action and the executed Memorandum of Understanding or Agreement;

Subject to the following:

- 1. If a Memorandum of Understanding or Agreement is not executed with the DoD within one calendar year from the date of this approval, HHFDC reserves the sole and absolute right to terminate negotiations with the DoD;
- 2. Approval of the project proposal does not obligate HHFDC to make an award for any of its financing programs, such as LIHTC, Federal tax exempt private activity bonds, RHTF and DURF; and
- 3. Other terms and conditions deemed necessary and acceptable by the Executive Director and Attorney General.

Vice Chair Pulmano moved, seconded by Director Mende

That staff's recommendation be approved.

Abara provided the Board with a brief history on the Northwest Corner, one of the few remaining vacant parcels in the Villages of Kapolei, occasionally rented out for large community gatherings and festivals. Abara stated that although HHFDC issued an RFP for the development of a mixed-use project on the site, sewer issues and market changes were not found favorable for its original plan, which eventually led to discussions with the Department of Accounting and General Services (DAGS) and the State of Hawaii Department of Defense (DoD) for the development of a Hawaii State Veterans Home design concept on a 6 - 7 acer portion of the Northwest Corner.

The DoD proposes a two-story, 120-bed facility with single occupancy rooms, in a 135,000 square foot facility, designed to the U.S. Department of Veterans Affairs' (VA's) community living center standards, serving, but not limited to, the nation's aging veterans with a wide range of services for, but not limited to, skilled nursing care, rehabilitation therapies, hospice care, and Alzheimer's care.

The DoD will assist HHFDC in creating a condominium property regime and the remainder site will be solicited for development through an RFP process. The DoD will also prepare a traffic impact analysis report, cultural impact assessment, conforming to all application federal, state, local laws, codes, ordinances, and

III. C. DISCUSSION AND/OR DECISION MAKING

Approval of a Long-Term Lease with the State of Hawaii Department of Defense and Authority to Negotiate and Execute a Memorandum of Understanding or Agreement at the Villages of Kapolei Known as the "Northwest Corner" Located at the Intersection of Fort Barrette Road and Farrington Highway, Kapolei, Oahu, Hawaii, TMK No.: (1) 9-1-16:035 (por.)

regulations. A separate sewer allocation from the City will be obtained by DoD, and if not attainable, then HHFDC will consider releasing a portion of the HHFDC Northwest Corner sewer allocation to DoD.

Abara stated that HHFDC will request a waiver from the City from the strict application of development or design standards of the Land Use Ordinances for the BMX-3 zoning district.

Abara noted that III. E. 1. be stricken from the For Action, as waiver from the submission of a master site development plan for the Northwest Corner was uncertain.

Abara introduced Shao Shao Yu Lee, with the State DoD; and Gina Ichiyama, with DAGS.

On behalf of the State DoD Director Ron Han, who could not be here, Ichiyama and Lee thanked Executive Director Hirai and HHFDC staff for the opportunity and collaboration in supporting the proposed project. A video on the community centers were shown to the Board.

(https://www.va.gov/geriatrics/guide/longtermcare/va_community_living_centers.asp)

Designee Kami asked whether the VOK sewer lines and DHHL issue would impact this development. Abara stated that DoD will be requesting a separate sewer allocation, and therefore, the Northwest Corner allocation would provide the necessary capacity for the amount of housing planned.

Designee Kami asked whether a budget was needed to proceed with the project. Executive Director Hirai stated that staff is not aware of anything at this point.

Director Lin thanked Executive Director Hirai and HHFDC staff for working with the Governor's Office in helping identify the proposed project site.

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

Real Estate Portfolio Manager Chris Woodard recapped events leading up to the revised RFP Award Modification Request from the Buyer received on December 11, 2018. Pursuant to action taken by the Board, the due diligence period has been extended five times and is currently scheduled to expire on Monday, December 17, 2018.

III. D. 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

Vice Chair Pulmano moved, seconded by Director Mende

**EXECUTIVE
SESSION**
10:54 a.m.

That the Board convene in executive session pursuant to Section 92-5(a)(3), Hawaii Revised Statutes (HRS), 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), HRS, 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 convened in executive session at 10:54 a.m.

The Board reconvened in regular session at 11:51 a.m.

RECONVENED
11:51 a.m.

Woodard presented staff's recommendation within the distributed For Action, based on the Buyer's modification request submitted on December 11, 2018, replacing the For Discussion in its entirety:

That the HHFDC Board of Directors take the following actions relating to the previously approved 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:

A. Approve staff's recommended modifications to the RFP award substantially as described herein, including but not limited to:

1. A purchase price of \$130 million;
2. A capital improvement plan budget of approximately \$85.1 million;
3. A financing plan utilizing:
 - a. A Senior Loan (secured by first mortgages on the Buyer's leasehold interests in the Portfolio properties) in the amount of approximately \$149.4 million to be provided by Freddie Mac or other institutional lender approved in writing by the Executive Director in his reasonable discretion;
 - b. A Mezzanine Loan (secured by first-priority pledges of 100% of the equity interests in the borrower) in the amount of approximately \$15.5 million to be provided by Freddie Mac or other institutional lender approved in writing by the Executive Director in his reasonable discretion; and
 - c. Seller Deferred Financing (secured by second mortgages on the Buyer's leasehold interests in the Portfolio properties) in an amount not to exceed \$26.4 million;
 - d. Equity in the amount of approximately \$30.6 million provided by persons and entities who are affiliates of the Buyer; and
4. A closing period of 60 days, with two Buyer options to extend the closing date by up to 30 days and subject to reasonable further extension at the Executive Director's sole and absolute discretion.

B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action, including but not limited to the negotiation and execution of:

1. An amendment to the Purchase and Sale Agreement;

2. Ground leases;
3. Regulatory agreements;
4. Rental Assistance Program contracts; and
5. Other related transaction documents with the Buyer,

Each substantially on the terms described herein or, as applicable, pursuant to the approved December 14, 2017 For Action (in either case allowing for modifications as may be deemed reasonable in the Executive Director’s sole and absolute discretion), and to undertake any actions related thereto.

Vice Chair Pulmano moved, seconded by Director Mende

That staff’s recommendation be approved.

The motion was carried unanimously.

There being no discussion, Chair Spindt asked that the agenda be taken out of order, proceeding on to item III. F.

Finance Manager Darren Ueki presented the For Action, and stated staff’s recommendation:

That the HHFDC Board of Directors approves Resolution No. 123, which expresses appreciation to Richard “Rick” K. Prahler.

Director Evans moved, seconded by Director Fukumoto

That staff’s recommendation be approved.

Chair Spindt thanked Prahler for his 10 years of service to HHFDC and work in the community, reading Resolution No. 123.

Prahler thanked the Board for their broad spectrum in looking at the larger issues and supporting HHFDC’s mission.

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

Woodard presented the For Discussion, stating that in accordance with §201H-122, HRS, required to make the Rental Housing System transaction feasible, staff is recommending that the HHFDC Board of Directors amend Part 7 of the Procedure Handbook, section entitled “Adjustments to Rental Schedule,” to include the following language:

“Notwithstanding the foregoing or any other provisions in this Handbook to the contrary, in cases where the Qualified Owner has entered into a lease or sublease with the Corporation that sets forth contractual tenant rent-increase restrictions, the Qualified Owner shall obtain the Corporation’s approval that the Rental Schedule and the Contract Rents set forth therein do not exceed the maximum corresponding rents permitted under the lease or sublease.

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 or sublease from the Corporation which is subject to contractual tenant rent-increase restrictions, the Handbook in effect as of the effective date of such lease or sublease will apply to the Qualified Owner’s Rental Assistance Contract and Regulatory Agreement.”

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

Approve Resolution
No. 123, Expressing
Appreciation to
Rick K. Prahler

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

Discussion on
Proposed
Amendments to the
Rental Assistance
Program Procedural
Handbook

Woodard stated that because the Buyer of the Portfolio has underwritten the rent increases structured within the RFP and into its pricing proposal, the requested amendment would add another layer of assurance.

Vice Chair Pulmano moved, seconded by Director Mende

That staff’s recommendation be approved, as stated above.

The motion was carried unanimously.

Executive Director Hirai stated that HHFDC’s 2019 Legislative proposals and Audited Financial Statements will be presented at the January 10, 2019 Board of Directors meeting.

Director Evans was excused at 12:11 p.m.

Vice Chair Pulmano moved, seconded by Designee Kami

That the Board convene in executive session pursuant to Section 92-5(a)(5), Hawaii Revised Statutes, to consult with the board’s attorney on questions or issues pertaining to the board’s powers, duties, privileges, immunities, and liabilities as it relates to the approval of the meeting minutes of the executive sessions held on October 11, 2018 and November 8, 2018.

The motion was carried unanimously.

The Board reconvened in regular session at 12:19 p.m., in which Chair Spindt announced that the meeting minutes of the executive sessions held on October 11, 2018 and November 8, 2018, were approved as circulated.

There being no further business on the agenda, Vice Chair Pulmano moved, seconded by Designee Kami

That the meeting be adjourned at 12:20 p.m.

The motion was carried unanimously.



RONA FUKUMOTO
Secretary

**IV.
REPORT
OF THE
EXECUTIVE
DIRECTOR**

**EXECUTIVE
SESSION
12:12 p.m.**

**RECONVENED
12:19 p.m.**

**V.
ADJOURNMENT
12:20 p.m.**