

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

January 10, 2019

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, January 10, 2019, at 9:00 a.m.

With a quorum present, Chair Milo Spindt called the meeting to order at 9:02 a.m.

Those present and excused were as follows:

Present: Director Milo Spindt, Chair
 Director Leilani Pulmano, Vice Chair
 Director George Atta
 Director Donn Mende
 Director Sara Lin (arrived at 9:14 a.m.)
 Director Melvin Kahele
 Director Mary Alice Evans
 Designee Scott Kami

Executive Director Craig Hirai

Excused: Director Rona Fukumoto, Secretary

Staff Present: Sandra Ching, Deputy Attorney General
 Matthew Dvorch, Deputy Attorney General (arrived at 10:14 a.m.)
 Janice Takahashi, Chief Planner
 Darren Ueki, Housing Finance Manager
 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
 Dean Sakata, Housing Finance Specialist
 Ken Takahashi, Housing Development Specialist
 Stan Fujimoto, Housing Development Specialist
 Kent Miyasaki, Housing Information Specialist
 Krystal-Lee Tabangcura, Contract Officer
 Lorraine Egusa, Project Resource Specialist
 Kazuko Honda, Accountant
 Gayle Nishimoto, Accountant
 Esa Pablo, Secretary to the Board

Guests: Jeremy McComber, Hawaii Island Community Development Corp.
 Paul Marx, AHED Foundation
 Paul Silen, Hawaiian Dredging Construction Company, Inc.
 Ken Masden, DOE
 Donn Nakamura, Accuity LLP
 Jessica Takahashi, Accuity LLP
 Tom McDonald, ASI/Kahumana
 Patricia York, ASI/Kahumana
 Randy Hiu, Ikaika Ohana
 Doug Bigley, Urban Housing Communities
 Dennis Silva, Jr., Hawaii Planning LLC
 Dean Uchida, SSFM
 Keith Kato, HICDC

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

Christian O'Connor, Coastal Rim Properties
Linda Schatz, Schatz Collaborative LLC
Andrew Gomes, Star Advertiser
Adam Dornbush, Front Street Apartments
Terrence Lee, Sullivan Meheula Lee

Vice Chair Pulmano moved, seconded by Director Kahele

That the minutes of the Regular Meeting held on December 13, 2018 be approved as circulated.

The motion was carried unanimously.

The minutes of the Executive Session held on December 13, 2018 was approved as circulated, in executive session.

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 for the fiscal year ending June 30, 2018.

Vice Chair Pulmano moved, seconded by Director Kahele

That staff's recommendation be approved.

Osumi stated that the HHFDC Financial and Compliance Audit for the Fiscal Year ended June 30, 2018, is complete. The Auditor, Accuity LLP, rendered an unmodified opinion on the Audited Financial Statements and did not identify any findings or deficiencies in internal control that are considered material weakness.

Osumi stated that the materials of the audited financial statements and compliance report were provided to the board electronically, including two fund reports – the Hawaii Rental Housing System and the Single Family Mortgage Purchase Revenue Bond Funds.

Additional handouts representing excerpts of the Financial Statements in comparison to the prior year were distributed to the Board at the meeting.

Osumi provided an overview of the changes in net position of the Corporation's governmental and business-type activities, explaining that increases or decreases in net position serves as an indicator of whether the Corporation's financial position is improving or deteriorating.

From June 30, 2013 to June 30, 2018, the net position of the Corporation has consistently increased by \$510,387,859 to over \$1 billion, primarily from the net effect of activities within its Government Funds: General Obligation Bond Fund (GO) and General Fund; and Proprietary Funds: Rental Housing Revolving Fund (RHRF) and Dwelling Unit Revolving Fund (DURF).

(Director Lin arrived at this time – 9:14 a.m.)

Osumi stated that implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB) during fiscal year 2018 decreased the net position by \$4.7 million as of July 1, 2017, reflecting a retrospective effect of adoption. The OPEB liability as of June 30, 2018, amounted to \$10 million.

II. A.
APPROVAL
OF MINUTES
Regular
Meeting
12/13/18

II. B.
APPROVAL
OF MINUTES
Executive
Session
12/13/18

III. A.
DISCUSSION
AND/OR
DECISION
MAKING
Accept the Audited
Financial Statements
of the Hawaii Housing
Finance and
Development
Corporation for the
Fiscal Year Ended
June 30, 2018

Further financial highlights were noted to be available in the Management's Discussion and Analysis section of the Audited Financial Statements on pages 4 - 13.

Osumi introduced Accuity LLP representatives: Mr. Donn Nakamura and Ms. Jessica Takahashi; and HHFDC staff: Ms. Melissa Loy, Corporate Controller; Kazuko Honda, Accountant for the DURF and RHRF; and Ms. Gayle Nishimoto, Accountant for the Single Family, Rental Housing System, and other various programs.

Director Evans asked if the acceptance of the audit findings allow HHFDC to provide this to the Department of Account and General Services in satisfaction of the CAFR. Osumi stated that the Audited Financial Statements were provided for the CAFR that was issued in December 2018.

Chair Spindt asked what the change in the OPEB accounting method was. Nakamura explained that GASB Statement No. 75 implemented an accounting methodology for OPEB that was already in place; however, it further provides transparency of the two different types of liabilities (pension and OPEB), recording them within the financial statements, as opposed to just the footnotes.

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

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

That the HHFDC Board of Directors approve the following:

- A. Resolution No. 124, attached as Exhibit D (within For Action), which authorizes a tax-exempt issuance of up to \$24,500,000 from the Hula Mae Multi-Family (HMMF) Bond Program, subject to the provisions and conditions recommended in Exhibit C (within the For Action).
- B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purpose of the For Action.

Director Mende moved, seconded by Director Kahele

That staff's recommendation be approved.

Ueki stated that the Mohouli Heights Senior Neighborhood Phase 3 project consists of 93 family units (includes one manager's unit), improving three two-story residential buildings and one community building. Construction is anticipated to start in February 2019, with project completion anticipated in August 2020.

The HMMF bonds will be a private placement with Wells Fargo and Bank of Hawaii, anticipated to fund over 50% of the project's anticipated basis for acquisition, land, and construction costs; therefore, qualifying the project for 4% Low Income Housing Tax Credits (LIHTC).

A Tax Equity and Fiscal Responsibility Act (TEFRA) hearing was conducted in June 2017.

Resolution No. 124 satisfy the requirements to accomplish the HMMF Bond sale anticipated at the end of the month.

Ueki opened for questions, along with Mr. Keith Kato, on behalf of the project.

Director Evans asked what the County of Hawaii's leasehold charge and leasehold agreement term is. Kato stated that the County is charging \$10 a year for 75 years.

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

III. B. DISCUSSION AND/OR DECISION MAKING

Approve Resolution No. 124, Authorizing the Issuance of Hula Mae Multi-Family Tax-Exempt Revenue Bonds for the Mohouli Heights Senior Neighborhood Phase 3 Project Located in Hilo, Hawaii, TMK No.: (3) 2-4-001: 184

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

That the HHFDC Board of Director approve the following:

- A. Resolution No. 125 attached as Exhibit F (within the For Action), which provides for official intent with respect to the issuance of revenue bonds up to \$45,928,783 for the Kokua project, subject to the provisions and conditions recommended in Exhibits C and E (within the For Action).
- B. Reserve up to \$2,424,698 in annual Federal Low Income Housing Tax Credits (LIHTC) over a 10-year period and \$2,424,698 in annual State LIHTC over a 5-year period from the non-volume cap pool (4% LIHTC) for the Kokua project, subject to the provisions and conditions recommended in Exhibits D and E (within the For Action).

Vice Chair Pulmano moved, seconded by Director Kahele

That staff's recommendation be approved.

Ueki stated that the Kokua project consists of 223 elderly units (includes one manager's unit) in Downtown Honolulu, improving one 16-story residential building (12 residential floors and 4 parking floors). Building permits are anticipated to be received in January 2020, with construction anticipated to start in March 2020, and project completion in July of 2021.

Ueki stated that the approval of Resolution No. 125 only facilitates further discussions and negotiations between involved parties, with a goal to return at a later date to seek the Board's final approval for the issuance, sale, and delivery of the Bonds.

Ueki opened for questions, along with Mr. Paul Marx and the project's development team.

Vice Chair Pulmano inquired about the high project costs. Based on the guidance from the Board and existing policies in place, Ueki stated that the price on a per unit basis, within the urban core, falls within the average range for a vertical development with parking on a small sized lot. Marx referenced Exhibit A (within the For Action), which provides the costs in detail. In addition, Mr. Paul Silen, with Hawaiian Dredging, attributed the higher costs to the anticipated logistic issues of the small lot, mid-grade finishes, and transfer decks needed between the units and parking levels. However, conceptual project costs will continue to be analyze and adjusted.

Vice Chair Pulmano commented that she is in support of a project that does a significant amount of units needed within the urban core and understands the nature of the cost on a small site.

Director Kahele asked for clarification on the purpose of the inducement resolution. In addition to allowing further discussions with participating parties, Ueki clarified that the initial inducement resolution also recognizes eligible expenditures made by the developer that can be paid using bond proceeds. If the project is found feasible, staff will return for the Board's consideration for the issuance, sale, and delivery of the bonds.

Designee Kami asked on the number of parking stalls. Mr. Dennis Silva, Jr., Hawaii Planning LLC, stated that there will be 34 parking stalls, with the rational being that the project site is near a Transit-Oriented Development rail station.

Vice Chair Pulmano asked whether a request to eliminate the parking requirement in its entirety could be made with the City and County of Honolulu. Silva stated that a request could be made.

III. C. DISCUSSION AND/OR DECISION MAKING

Approve: (1) Resolution No. 125, 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 Kokua Project Located in Honolulu, Oahu, TMK No.: (1) 2-1-010: 050

Director Lin ask on a breakdown of cost per parking space. Silva stated that parking costs are yet to be determined; however, restated that conceptual project costs will continue to be analyze and adjusted through the planning process.

Designee Kami suggested that common spaces/amenities be looked into. Marx stated that the project plans to have an open area space on the 4th floor, as well as meeting/examination rooms. Mr. Christian O'Connor, Coastal Rim Properties, added that health care services are also being planned to be provided on site.

Director Evans inquired on parking comparisons with the Pohulani Elderly Project. Real Estate Portfolio Manager Chris Woodard stated that there is a total of 262 units, with about 60 parking stalls available for residents, with a 2 to 3-year waitlist. Executive Director Hirai suggested that visitor parking for family members also be considered. O'Conner stated that there is also a lot of public parking that surrounds the project site.

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

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

That the HHFDC Board of Director approve the following:

- A. A Rental Housing Revolving Fund (RHRF) Project Award Loan of \$35,852,811 to Alakea Senior LP for the benefit of the Kokua project, with the terms and conditions as shown in Section III (G) of this For Action, and the Letter of Intent (LOI) subject to the following:
1. Authorization and approval by the governor of the proposed project and the release of RHRF program funds as mandated under Chapter 15-311, Hawaii Administrative Rules (HAR).
 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 and Program requirements, including, but not limited to, Chapters 343, 103D, §103-50 and §104, Hawaii Revised Statutes (HRS), as they may relate to the use of State funds.
 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 \$4,785,976.
 6. Availability of RHRF program funds.
- B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of the For Action.

Director Kahele moved, seconded by Director Mende

That staff's recommendation be approved.

Ueki stated that this is a companion For Action to the previous approved, requesting the approval for a \$35,852,811 RHRF loan. Comparisons of the Applicant's

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

Approve a Rental
Housing Revolving
Fund Project Award
For the Kokua Project
Located in Honolulu,
Oahu, TMK No.:
(1) 2-1-010: 050

requested loan terms and staff's recommended loan terms were noted.

Chair Spindt asked whether there were other resources being sought (i.e., HOME funds). Ueki stated that the developer may seek other sources; however, the project is currently financially feasible.

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

Housing Development Specialist Stan Fujimoto presented the For Action, stating staff's recommendation:

That the HHFDC Board of Directors approve the following for the proposed 200-unit Keawe Street Apartments at the Villages of Leiali'i affordable family rental project in Lahaina, Maui, Hawaii, TMK No.: (2) 4-5-021: 003 (por.), substantially as described in this For Action:

- A. Proposal submitted by Ikaika Oahana for the Leasehold development, ownership and operation of the Project;
- B. Ikaika Ohana, or other successor entity approved by the Executive Director as an Eligible Developer pursuant to Section 15-307-24, HAR;
- C. Negotiation and execution of a Development Agreement (DA) with the Developer for the leasehold development, ownership and operation of the Project;
- D. Subdivision of the Project site and public access road as approved by the Executive Director;
- E. Conveyance of the Project site by Ground Lease and an access easement over the public access road to the Developer;
- F. Dedication of the public access road to the County of Maui; and
- G. Authorize the Executive Director to take all actions necessary to effectuate the purposes of this For Action;

Subject to the following:

- H. Execution of the DA by May 31, 2019, unless otherwise extended at the sole discretion of the Executive Director;
- I. Except for the \$5 million Dwelling Unit Revolving Fund (DURF) pre-development and interim loan previously approved by the HHFDC Board of Directors and the \$30 million in RHRF funds approved by Act 150, Session Laws of Hawaii 2018, approval of the Proposal does not obligate HHFDC to make any award for any of its financing programs, such as HMMF Bonds, LIHTC, RHRF, and DURF;
- J. Dedication of the public access road to the County of Maui shall be subject to Legislative approval pursuant to Section 171-64.7, HRS;
- K. Commencement of construction by December 31, 2020, unless otherwise extended at the sole discretion of the Executive Director;
- L. Completion of construction by December 31, 2021, unless otherwise extended at the sole discretion of the Executive Director;
- M. Approval as to form of the DA, Ground Lease, access easement and other applicable documents by the Department of the Attorney

III. E. DISCUSSION AND/OR DECISION MAKING

Approve: (1) Proposal Submitted by Ikaika Ohana in Response to the Request For Proposals DEV-RFP-18-001; (2) Ikaika Ohana or Other Successor Entity Approved by the Executive Director as an Eligible Developer Pursuant to Section 15-307-24, Hawaii Administrative Rules; (3) Negotiation and Execution of a Development Agreement; (4) Subdivision of the Project Site and Public Access Road; (5) Conveyance of the Project Site by Ground Lease and an Access Easement Over the Public Access Road to the Developer; and (6) Dedication of the Public Access Road to the County of Maui for the Leasehold Development, Ownership and Operation of the Proposed 200-Unit Keawe Street Apartments at the Villages of Leiali'i Affordable Family Rental Housing Project in Lahaina, Maui, TMK No.: (2) 4-5-021: 003 (por.)

General and execution by the Executive Director;

- N. HHFDC reserves the right without liability to disqualify and/or cease negotiations with the Developer if HHFDC determines, at its sole discretion, it to be in the best interest of the State. The Developer assumes the sole risk and responsibility connected with the negotiation process; and
- O. Compliance with all laws and rules, and such other terms and conditions as may be required by the Executive Director.

Vice Chair Pulmano moved, seconded by Director Kahele

That staff's recommendation be approved.

Fujimoto stated that on June 14, 2018, the HHFDC Board approved a \$5 million DURF pre-development and interim loan appropriated by Act 39 Session Laws of Hawaii 2018 and an RFP for a proposed 200-unit affordable family rental project at 60% or below the area median income, to be named the Keawe Street Apartments at the Villages of Leiali'i. Major requirements of the RFP were noted.

HHFDC issued the RFP on August 29, 2018 and on October 31, 2018, receiving a total of three proposals. The total project budget of the recommended proposal submitted by Ikaika Ohana is estimated to be \$112.8 million (\$564,000 per unit), which the developer proposes to finance through 4% LIHTC, HMMF Bonds, \$37 million in RHRF, and deferred park fees.

Primary reasons for the higher project cost were stated to be attributed to a private sewage treatment plant and poor site and land conditions. If everything proceeds perfectly, there's a chance that the project could be completed by December 31, 2021. However, to be realistic, the developer proposes that the project be built in 2 phases—the first phase would be sized to use the \$30 million in RHRF financing approved by Act 150 Session Laws of Hawaii 2018 and completed by the December 31, 2021 deadline, and the second phase completed a little later with the additional RHRF financing required.

A handout was distributed to the Board and presented by Mr. Doug Bigley, covering Ikaika Ohana and UHC Community's concept, development team and roles, project design, population served, and challenges and mitigation of the project.

(Deputy Attorney General Matthew Dvonch arrived at this time – 10:14 a.m.)

Chair Spindt inquired about the sewer treatment plant. Bigley stated that there is a temporary 5-year hook up available. Construction of a new sewer treatment plant and operating costs are anticipated to be costly. However, meetings are being scheduled and other options are being looked into.

Director Evans asked whether the project would need to pay any impact fees. Fujimoto stated that impact fees required for the Villages of Leiali'i master plan were identified; however, because of the \$30 million of RHRF funds appropriated by Act 150, HHFDC would like to proceed with the processing of an actual affordable rental project to see if the project can receive approvals without triggering the Villages of Leiali'i impact fees. Director Lin commented that the Department of Education's (DOE's) impact fee could be negotiated for deferral until the project's certificate of occupancy.

Director Lin asked when the project's interim financing is estimated to close and start construction. Bigley stated in July 2020.

Chair Spindt asked whether compensation to the Office of Hawaiian Affairs was required for the use of the ceded lands. Executive Director Hirai stated that

affordable housing projects are exempt.

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

Chair Spindt called for a recess at 10:38 a.m.; meeting reconvened at 10:53 a.m.

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

That the HHFDC Board of Directors approve the Maui County Council’s approved modifications to HHFDC’s previously approved Project proposal and 201H, HRS, exemptions impacting commencement and completion deadlines for construction of the Project, traffic assessment and mitigation reports, street improvements, and other miscellaneous changes for the proposed Wailuku Apartment Rental Housing Project, in Wailuku, Maui, Hawaii, TMK: (2) 3-5-001:064, substantially as discussed in the For Action, subject to the following:

- A. Execution of a DA required for such exemptions as approved by the Executive Director;
- B. Authorize the Executive Director to take all actions necessary to effectuate the purpose of this For Action; and
- C. Compliance with all rules and regulations and such other terms and conditions as may be required by the Executive Director.

Director Lin moved, seconded by Director Kahele

That staff’s recommendation be approved.

Vice Chair Pulmano recused herself from the vote.

Takahashi stated that the For Action seeks the Board’s approval to ratify the modifications that the Maui County Council made in Resolution 18-187 and allow HHFDC to enter into a DA with the developer, encompassing the requirements of Resolution 18-187. The project’s affordability requirements will be set forth in the Declaration of Land Use Restrictive Covenants.

Takahashi noted a correction within the table on page 2, under the two-bedroom unit type, which is to read: 54 two-bedroom/two-bath units and 81 two-bedroom/one-bath units (totaling 135 two-bedroom units).

The motion was carried, with Vice Chair Pulmano recusing herself from the vote.

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

That the HHFDC Board of Directors approve the following:

- A. The Memorandum of Understanding (MOU) between the HHFDC and the DOE.
- B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of the For Action.

Vice Chair Pulmano moved, seconded by Director Kahele

That staff’s recommendation be approved.

Takahashi introduced Mr. Ken Masden, with the DOE and their consultant Mr. Dean Uchida, with SSFM.

RECESS

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

Approve the Maui County Council’s Approved Modifications to HHFDC’s Previously Approved Project Proposal and 201H, HRS, Exemptions Impacting Commencement and Completion Deadlines for Construction of the Project, Traffic Assessment and Mitigation Reports, Street Improvements, and Other Miscellaneous Changes for the Proposed Wailuku Apartment Rental Housing Project, Located in Wailuku, Maui, TMK No.: (2) 3-5-001: 064

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

Approve a Memorandum of Understanding with the Department of Education for the Redevelopment of Property Located at 475 22nd Avenue, Honolulu, Hawaii, TMK No.: (1) 3-1-042: 035

Takahashi stated that pursuant to Act 155, Session Laws of Hawaii 2013 and Act 210, Session Laws of Hawaii 2018, the DOE is authorized to establish a pilot program to generate revenue from the redevelopment of underutilized assets to increase the educational benefits to students statewide, as well as acquire and hold title to real properties for public educational purposes. As such, DOE is requesting HHFDC's assistance in the redevelopment of property located at 475 22nd Avenue, through a MOU, which sets forth the responsibilities of the HHFDC and the DOE.

In reference to the potential use for commercial purposes, Director Atta asked whether the property would have to be rezoned. Takahashi stated that HHFDC may be able to address the zoning through its 201H process.

Director Evans asked whether the DOE anticipates using HHFDC's resources for the housing for sale. Takahashi stated that she did not believe so.

Designee Kami suggested that the reimbursement language be broadened to say: "cost related to the development of this property," ensuring that HHFDC's resources and time are addressed.

Discussion ensued on development costs. Masden stated that since the DOE does not have in-house capabilities on affordable housing, the idea is to partner with HHFDC and its expertise. However, it is anticipated that DOE will cover all costs related to the development of the property which are incurred by HHFDC. Exact work mechanisms are to be determined. Executive Director Hirai stated that staff's time could be tracked.

Chair Spindt commented on partnerships between agencies, which he believes provide more opportunities to utilizing various expertise and increases production statewide.

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

Contract Officer Krystal-Lee Tabangcura presented the For Action, stating staff's recommendation:

That the HHFDC Board of Directors approve the use of DURF funds pursuant to the Memorandum of Agreement (MOA) executed between HHFDC and the County of Maui on November 23, 2018.

Subject to the following:

- A. Availability of DURF Fund;
- B. Approval of release of DURF Fund by the Governor; and
- C. Compliance with all laws and rules, and such other terms and conditions as may be required by the Executive Director.

Vice Chair Pulmano moved, seconded by Director Kahele

That staff's recommendation be approved.

Tabangcura stated that the Front Street Apartments was developed in leasehold by Front Street Affordable Housing Partners (Lessee) on lands owned by 3900 LLC (Lessor), consisting of 142 studio, one-bedroom, and two-bedroom units, reserved for families earning 50 and 60 percent of the area median income.

With the allocation of LIHTC to develop the project, the Front Street Apartments was subject to remain affordable for an extended use period of 50 years (December 31, 2051).

However, in August 2015, the Lessee submitted a qualified contract request pursuant

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

Approve Use of the Dwelling Unit Revolving Fund Pursuant to a Memorandum of Agreement with the County of Maui Related to Front Street Apartments in Lahaina, Maui, Hawaii, TMK No.: (2) 4-5-003: 013

to Section 42 (h)(6) of the internal revenue code, which required HHFDC, as the allocating agency, to find a buyer within one year from the request date to purchase and maintain operation of the project as a LIHTC affordable housing project.

Since HHFDC was unable to find a buyer at the project's minimum qualified contract price of approximately \$15 million, nor purchase the project itself due to the qualified contract price exceeding HHFDC's maximum appraised value of \$8.71 million pursuant to section 201H-33(d) of the HRS, the Lessee retained ownership of the project and intends to convert it to a market rent project effective September 2019.

With the State Legislature passing Act 150 last session, HHFDC was directed to "institute proceedings for the condemnation of the ground lease for Front Street Apartments," and was appropriated out of the General Revenue Fund, an amount of \$250,000 to use for an appraisal and other preparations necessary to institute condemnation proceeds; provided that the County of Maui provides dollar-for-dollar matching funding. Therefore, a MOA between the HHFDC and the County of Maui was executed and HHFDC subsequently submitted to the Governor, a request to allot, release, and expend the \$250,000 appropriation to be deposited into DURF. The request is currently pending approval.

Besides the Front Street Apartments, Vice Chair Pulmano asked whether there were other LIHTC projects that have requested for a qualified contract. Housing Finance Manager Darren Ueki stated that there was none at this point, which is believed to have been lessened, if any, through a waiver option added within its Qualified Allocation Plan in the late 2000s.

Designee Kami asked whether the qualified contract price is based on a set formula. Ueki stated that the qualified contract price is based on a set formula required by the Internal Revenue Services. Calculations and current appraisal provided to HHFDC by the developer is then calculated using the set formula, to find the market value of the project.

The Board expressed concern on the qualified contract price being substantially higher than the appraised value.

Executive Director Hirai noted that Mr. Adam Dornbush, representative of Front Street Apartments was present.

Dornbush stated that the reason for its submittal for the qualified contract was that, going forward, the project would not be solvent, paying \$300,000 - \$400,000 a year in lease rent, with an increase every 10 years. Dornbush expressed that continuation of the project's affordability is desired, with the exception of a subsidy option. Dornbush further stated that the contract price has nothing to do with the market value of the property and is a calculation based on the adjusted investor equity/credit indebtedness.

Executive Director Hirai disclosed that this matter is currently in litigation and advised that any legal questions be addressed in executive session.

Director Evans moved, seconded by Designee Kami

That the Board convene in executive session at 11:34 a.m., pursuant to Section 92-5(a)(4), Hawaii Revised Statutes, to consult with the board attorney on questions or issues regarding the board's powers, duties, privileges, immunities, and liabilities, as it relates to the above matter.

The motion was carried unanimously.

The Board reconvened the meeting in regular session at 11:48 a.m.

(Deputy Attorney General Sandra Ching left the meeting at this time – 11:48

**EXECUTIVE
SESSION**
11:34 a.m.

a.m.)

Chair Spindt called for the vote.

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

Chair Spindt asked that agenda item III. J, be taken next, followed by agenda III. I., regarding the Kulia I Ka Nuu Resource Center.

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

That the HHFDC Board of Directors:

- A. Authorize the Executive Director to issue a Letter of Intent outlining the terms and conditions upon which HHFDC would consider acquiring the leased-fee interest in the Front Street Apartments from 3900, LLC; and
- B. Should 3900, LLC accept the Letter of Intent, authorize the Executive Director to negotiate a Purchase and Sale Agreement to acquire the leased-fee interest in Front Street Apartments, the execution of which shall be subject to final review and prior approval by the HHFDC Board of Directors.

Vice Chair Pulmano moved, seconded by Director Kahele

That staff's recommendation be approved.

Tabangcura stated that to best serve the public interest and achieve the Legislature's goal pursuant to Act 150, Session Laws of Hawaii 2018, HHFDC is considering all options to preserve the Front Street Apartments as an affordable rental housing project, including a purchase of the Lessor's leased-fee interest in the project, which the Lessor has expressed concurrence.

Chair Spindt asked if Mr. Dornbush had any further comments.

Dornbush stated that his goal is to work out a resolution with HHFDC to avoid the State from having to purchase the project and take over operations, which he felt was best suited to be operated by their entity and expressed his willingness to further discuss long-term affordability at the project in exchange for a subsidy from the State.

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

Real Estate Portfolio Manager Chris Woodard presented the For Information on the Kulia I Ka Nuu Resource Center, asking for the Board's feedback on Kahumana's proposal to enter into a long-term ground lease for the Resource Center parcel for a possible 50-year term. If the HHFDC did agree to enter into such a long-term lease, then Kahumana would redirect its efforts from their training kitchen development project on City and County of Honolulu land (for which they received \$500,000 in Grant-in-Aid money from the Legislature and a soft funding commitment from Weinberg) toward the Resource Center.

Woodard further stated that staff suggests that such a lease contain strong enforcement mechanisms to ensure compliance with the character of use clause in the lease, due to HHFDC's historical experience working with certain nonprofit lessees.

Mr. Tom McDonald, Executive Director of Kahumana, and Ms. Patricia York, Kitchen Training Program Manager, were introduced to the Board, providing a brief description of Kahumana's programs.

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

Approve the Issuance
Of a Letter of Intent
to Acquire the
Leased-Fee Interest
in Front Street
Apartments, Lahaina,
Maui, TMK No.:
(2) 4-5-003: 013

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

Information on the
Possible Disposition
Of the Kulia I Ka
Nuu Resource Center,
Waianae, Oahu, TMK
No.: (1) 8-5-027: 073

Director Mende asked whether improvement financing would be needed for the project. Woodard stated that Kahumana’s intent would be to address the required improvements of the roof overlay, paint job, and sewer line work through Grant-in-Aid monies. McDonald stated that a new \$200,000 Grant-in-Aid request would be submitted in 2019 for the mentioned improvements.

Chair Spindt asked whether Kahumana was familiar in dealing with capital improvements of its projects. McDonald responded yes, stating that a reserve for such periodic improvements is maintained for its properties.

Chair Spindt stated that he supported a long-term lease and asked that staff come up with a method that would allow HHFDC to best manage the property to ensure compliance.

Woodard noted that staff plans on returning to the Board to look at a lease premium for its La‘ilani property, with the key differentiator being that the property’s building was paid for with DURF funds, as opposed to the subject project, which was substantially paid for with funds other than the corporation’s.

With no further discussion, Chair Spindt proceeded to the Report of the Executive Director.

Executive Director Hirai stated that HHFDC’s Legislative Administrative Bills are anticipated to be available at the next Board of Directors meeting.

There being no other business on the agenda, Vice Chair Pulmano moved, seconded by Director Mende

That the meeting be adjourned at 1:48 p.m.

The motion was carried unanimously.



RONA FUKUMOTO
Secretary

IV.
REPORT
OF THE
EXECUTIVE
DIRECTOR

V.
ADJOURNMENT