

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

April 11, 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, April 11, 2019, at 9:00 a.m.

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

With a quorum present, Chair Milo Spindt called the meeting to order at 9:07 a.m.

Those present and excused were as follows:

Present: Director Milo Spindt, Chair
Director Rona Fukumoto, Secretary
Director Donn Mende
Director Melvin Kahele
Director Sara Lin
Director Mike McCartney (arrived at 9:09 a.m.)
Designee Robert Yu for Director Roderick Becker
~~Director George Atta~~
Executive Director Craig Hirai

Excused: Director Leilani Pulmano, Vice Chair
~~Director George Atta~~

Staff Present: Sandra Ching, Deputy Attorney General
Matthew Dvorch, Deputy Attorney General
Janice Takahashi, Chief Planner
Darren Ueki, Housing Finance Manager
Deepak Neupane, Development Branch Chief
Dean Minakami, Development Section Chief
Carianne Abara, Development Support Section Chief
Holly Osumi, Chief Financial Officer
Melissa Loy, Corporate Controller
Christopher Woodard, Real Estate Portfolio Manager
Patrick Inouye, Housing Finance Specialist
Jocelyn Iwamasa, Housing Finance Specialist
Lorraine Egusa, Project Resource Specialist
Kent Miyasaki, Housing Information Officer
Esa Pablo, Secretary to the Board

Guests: Kathy Inouye, Kobayashi Group
Elton Wong, Kobayashi Group
Kyna Vea, Cloudbreak Hawaii, LLC
Tim Cantwell, Cantwell-Anderson, Inc.
Alexzis Fuke, Raymond James
Carl Cunningham, Mark Development
Stanford Carr, Stanford Carr Development
Chris Oakes, Stanford Carr Development
Makani Maeva, Ahe Group

Director Fukumoto moved, seconded by Director Mende

That the minutes of the regular meeting held on March 14, 2019 be approved as circulated.

The motion was carried unanimously.

**II. A.
APPROVAL
OF MINUTES**
Regular
Meeting
3/14/19

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

That the HHFDC Board of Directors approve the following:

- A. A Rental Housing Revolving Fund (RHRF) Award Loan of \$3,378,100 to Cloudbreak Hawaii II, LLC for the benefit of the Hale Uhiwai Nalu – Phase II project, with the terms and conditions as shown in Section III(G) of this For Action, and the Letter of Intent 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.
 - 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, 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 \$547,000.
 - 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 Fukumoto moved, seconded by Director Mende

That staff’s recommendation be approved.

Director McCartney arrived at this time – 9:09 a.m.

Ueki stated staff’s recommended changes to the RHRF loan terms in comparison to the Cloudbreak Hawaii II, LLC’s (Applicant’s) request, as follows:

- Interest Rate: Years 1 through 2 – 0.00%
After Year 3 – 2.50%
- Term/Maturity: 32 Years
- Repayment: Years 1 through 2 – No Payments
After Year 2 – 75% of Available Cash Flow after payment of expenses, senior debt service, and other recognized expenses.

Ueki opened for questions, along with Mr. Tim Cantwell and Ms. Kyna Vea, on behalf of the project.

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

Approve a Rental Housing Revolving Fund Project Award for the Hale Uhiwai Nalu – Phase II Project Located in Kapolei, Oahu, TMK No.: (1) 9-1-013: 052 (por.)

In reference to the Project Information table, on page 1 of the For Action, Chair Spindt asked whether the total amount of studio units was correct. Ueki stated that the Studio Units should be corrected to reflect 3; not 2, as stated within the For Action.

Chair Spindt asked for a brief presentation by the Applicant.

Cantwell provided Cantwell-Anderson Inc.'s history in its development of affordable housing in collaboration with Cloudbreak Hawaii, LLC and presented a site master plan board of previous buildings developed. He noted that this is the third building project that is being worked on with HHFDC.

Chair Spindt thanked the Applicant on their work done.

Director Kahele asked for clarification on the project site's location and asked whether this project development would displace the Youth Challenge Academy program. Cantwell clarified its location and stated that this development would not displace the Youth Challenge Academy program.

With no manger's unit, Director Yu asked how tenants would obtain needed assistance. Cantwell clarified that there are staff offices in each building. Ueki noted that a manager's unit on site is not a requirement and is at the discretion of the developer.

Director Yu asked what is the difference between contingency and project reserves. Ueki explained that contingency is typically used during construction (e.g., change orders) for cost overruns, while project reserves are used for operating costs of the project.

Director Yu asked how is the contingency amount determined. Housing Finance Specialist Patrick Inouye stated that the contingency amount is typically determined by the developer (i.e., around 5% of the hard construction cost and industry standards). He further added that regular construction disbursements are tracked per line item and reduced accordingly through its contingency first and then through the developer fee.

Director Mende asked whether the recommended loan terms are acceptable by the Applicant. Cantwell concurred.

Director Atta asked whether U.S. Green Building Council's practices would be incorporated within the project. Ueki stated that there are no requirements obligating a project to do so. Cantwell stated that with the intent to provide a long-term sustainable operation, any reasonable measures will be considered.

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

Housing Development Specialist Ken Takahashi presented the For Action and stated staff's recommendation:

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

- A. Request for approvals from the Board of Land and Natural Resources (BLNR) for the following actions:
 - 1. A Management Right-of-Entry (ROE) to HHFDC;
 - 2. A ROE to Developer and MK Alder Street Partners, LLLP, an affiliate of KG, that will design, develop, construct, own and operate the Residential Unit (as defined below);

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

Approve: (1) Request for Approvals from the Board of Land and Natural Resources for Activities Related to Planning, Development, Construction, Leasehold Ownership and Management of the Mixed-Use Affordable Rental

Housing and
Juvenile Services
Center/Shelter
Facility Located at
902 Alder Street,
Honolulu, Hawaii,
TMK No.:
(1) 2-3-012: 019 and
(2) Final
Commitment of
Up to \$15 Million
from the Dwelling
Unit Revolving
Fund for
Development of
the Judiciary
Component of the
Mixed-Use Project

3. Creation of a Condominium Property Regime (CPR) for separate leasehold ownership of (1) the Rental Housing Component, together with its appurtenant undivided interest in the common areas of the Project (Residential Unit), including the execution of the Declaration, Bylaws and other documents required in connection with the creation of the CPR, and any amendments to the CPR documents that may be required from time to time for the development and operation of the Project;
 4. Lease of the undivided interest in the Property that is appurtenant to the Residential Unit to Developer at \$1/year for 75 years, and conveyance of the Residential Unit to MK Alder Street Partners, LLLP, an affiliate of KG, who will design, develop, construct, own and operate the Residential Unit only;
 5. Lease of the Judiciary Unit to the Judiciary at \$1/year for 75 years;
 6. Mortgage of the leasehold interest in the Residential Unit as security for a loan(s) and tax credit financing for the construction and development of the Residential Unit;
 7. Issuance of estoppel certificates;
 8. Subdivision and dedication of portions of the Property in fee simple pursuant to section 171-64.7, Hawaii Revised Statutes (HRS) (or withdrawal and set aside) to the City and County of Honolulu for roadway purposes;
 9. Non-exclusive easements and encroachment agreements in favor of any public utility or governmental authority for lines and other transmission facilities and appurtenances for electricity, gas, communication, water sewer, drainage and similar public services and utilities serving the Project; and
- B. Final commitment of up to \$15 million from the Dwelling Unit Revolving Fund (DURF) for the development of the Judiciary Component; and
- C. Authorize the Executive Director to take actions necessary to effectuate the purposes of this For Action;

Subject to:

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

Director Fukumoto moved, seconded by Director Mende

That staff's recommendation be approved.

Takahashi opened for questions, along with Mr. Elton Wong and Ms. Kathy Inouye, on behalf of the project.

Chair Spindt stated that given the time of when this was introduced, he is glad to see it moving forward. Director McCartney concurred.

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

Housing Development Specialist Stan Fujimoto presented the For Action and stated staff's recommendation:

That the HHFDC Board of Directors approve an increase in the Dwelling Unit Revolving Fund (DURF) budget for the Emergency/Maintenance Fund by \$500,000.00 for the routine and emergency security and maintenance expenses at the various properties owned by HHFDC throughout the State without budgets for maintenance, 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 the following:

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

Director Fukumoto moved, seconded by Director Mende

That staff's recommendation be approved.

Fujimoto stated that HHFDC has an Emergency/Maintenance Fund used for security and maintenance of its remnant parcels and properties without maintenance budgets. Based on average expenses from the past three years, this for action seeks approval to increase the DURF budget for the Emergency/Maintenance Fund for the next 10 years by \$500,000.

Chair Spindt inquired about possible development of such remnant lots that need to be maintained and procuring them out through the Request for Proposal (RFP) process. Real Estate Portfolio Manager Chris Woodard stated that staff is looking at Lot 417, in Waianae, for leasehold disposition and its Poalima Street Lots, in Waimanalo, for possible transitional housing. Fujimoto stated that they were looking to sell Hokulele Parcel 019 and that consent from the Department of Land and Natural Resources (DLNR) for the Kahului is anticipated in May/June 2019, to allow HHFDC to issue a right of entry to Group 70 and the Department of Education (DOE).

Director Lin asked whether it would be more efficient to get rid of the trees, as opposed to paying for continuous tree trimming services to maintain. Fujimoto stated that due to the excessive and uncontrollable tree growth in such areas, HHFDC cuts back the trees to its property line. The adjacent landowner, Windward Community College (WCC), has indicated that it does not want HHFDC to cut back the trees on WCC property.

Director Kahele inquired about the company selection process for maintenance. Fujimoto explained that landscaping contractors are procured through a competitive bidding process on a parcel-by-parcel basis.

In regard to the Kahului Civic Center property, Director Yu questioned HHFDC's obligation to maintain the property when the DOE is occupying the space. Executive Director Hirai stated that in accordance with a MOU between HHFDC, DAGS, and the County, the property is in transition and will depend on how long the project takes to commence construction.

Director McCartney thanked and commended HHFDC for doing a good job on the remnant parcels in Hokulele regarding the maintenance of trees and fence repair.

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

III. C. DISCUSSION AND/OR DECISION MAKING

Approve an Increase in the Dwelling Unit Revolving Fund Budget for the Emergency/Maintenance Fund for Maintenance of the Hawaii Housing Finance and Development Corporation's Properties with No Budgets for Maintenance, Including Hokulele Subdivision, Kaneohe, Oahu, TMK Nos.: (1) 4-5-023: 019 and (1) 4-6-037: 126; Ulu Wehi Lot 417 Located in Waianae, Oahu, TMK No.: (1) 8-5-027: 072; Poalima Street Lots, Waimanalo, Oahu, TMK Nos.: (1) 4-1-008: 086, 087, 088, 089; TMK No.: (1) 4-1-009: 048; and the Kahului Civic Center Property Located in Kahului, Maui, TMK No.: (2) 3-7-004: 003

Real Estate Portfolio Manager Chris Woodard presented the For Action and stated staff's recommendation:

That the HHFDC Board of Directors:

- A. Approve an Amendment to the Rental Assistance Program (RAP) Procedural Handbook as described herein; and
- B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Director Yu moved, seconded by Director Kahele

That staff's recommendation be approved.

Woodard stated that in accordance with various statutes and administrative rules, HHFDC operates the RAP to assist owners in maintaining rentals at levels affordable to low- and moderate-income families and individuals by providing owners with rental assistance payments which, together with rental payments received from low- and moderate-income tenants, will provide owners with limited but acceptable rates of return on their investments in rental housing accommodations. Operations of the RAP are conducted pursuant to a Procedural Handbook dated August 1989 that was most recently amended effective December 2018.

Part 10 of the Procedural Handbook mandates the establishment and maintenance of a Reserve Fund for Replacements (Reserve Account) by allocating an annual amount equal to at least 0.6% of the project's replacement cost to such account.

Replacement costs for typical affordable rental housing projects that receive financial assistance from HHFDC range from \$300,000 to \$400,000 per unit. Pursuant to the Procedural Handbook, the required minimum annual reserve fund account funding for such a project is therefore \$1,800 to \$2,100 per unit.

The leasehold buyer of the Hawaii Rental Housing System Revenue Bond Fund (RHS) portfolio has requested that the RAP regulatory agreements require only \$250 per unit annual deposit, as required by its lender Fannie Mae.

In the establishment of the annual replacement reserve allocation, HHFDC typically follows the lead of the senior lender or the Qualified Action Plan for the Low Income Housing Tax Credit program, which is currently no less than \$300 per unit per year. Therefore, staff believes that the Procedural Handbook, Reserve Fund for Replacements, first sentence, should be amended accordingly:

"After the completion of construction, the Qualified Owner must establish and maintain a Reserve Fund for Replacements by the allocation to such reserve account of an annual amount equal to at least ~~[six tenths of one percent (0.6%), or any higher rate as required by the Corporation, of the replacement cost of the Eligible Project]~~ \$300 per unit unless a different amount is approved in writing by the Corporation."

Chair Spindt questioned whether the \$300 per unit amount is considered adequate. Woodard stated that lenders generally require a range of \$250 - \$350 per unit for underwriting purposes. Ueki added that the \$300 per unit amount is felt to be a fair amount based on substantiated deals that the HHFDC are involved in.

Director McCartney inquired about the types of procedures within the Procedural Handbook. Woodard stated examples of the Handbook procedures, which addresses in detail, how to apply and qualify under the RAP. Ueki added that there have not been any provisions needed since the 1990s until the proposed sale of its RHS Portfolio. Therefore, the Handbook will need to be relooked at and adjusted accordingly.

III. D. DISCUSSION AND/OR DECISION MAKING

Approve an
Amendment to the
Rental Assistance
Program Procedural
Handbook

Ueki further provided a brief history on current RAP contracts, stating that due to the Board’s guidance, no additional contract commitments have been made. However, when the sale of the RHS Portfolio is consummated, the remaining four RAP contracts will have adequate funding anticipated through sale proceeds. Woodard noted that no additional rental assistance would be provided to tenants moving in and, by attrition, the existing RAP subsidies will be phased out.

Chair Spindt asked about the status on the Senate Resolution relating to the reevaluation of the RAP. Executive Director Hirai stated that there is a Legislative hearing scheduled today at 10:30 a.m.

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

Chair Spindt announced that acceptance of his new position with the Kauai Housing Development Corporation poses a conflict of interest, and therefore, the April 15, 2019 Special Board of Directors Meeting is anticipated to be his last with HHFDC.

As a member of the Rental Housing System (RHS) Portfolio Proceeds Subcommittee and the Leasehold Policy Subcommittee with ongoing tasks, he asked that new members be appointed to replace former Designee Scott Kami and himself. The aforementioned Subcommittees were disbanded and reconstituted as follows:

RHS Portfolio Proceeds Subcommittee:	Vice Chair Leilani Pulmano Director Rona Fukumoto Designee Mary Alice Evans
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Leasehold Policy Subcommittee:	Director George Atta Director Sara Lin Director Donn Mende Designee Mary Alice Evans
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Executive Director Hirai was excused at this time – 10:17 a.m.

Chair Spindt stated that a Governor’s Stakeholder Working Group meeting was held on Monday, April 8, 2019, in which discussions were held with for-profit and non-profit developers to deliberate on HHFDC Board concepts being considered in improving the ability to get unit production delivered quicker. Such concepts raised were noted as follows:

- Providing an early inducement resolution for tax exempt bonds to reduce the developer’s financial risk.
- A set aside of RHRF funding for 4% deals to allow for an open application process on a first-come, first-served basis.
- Pre-Development Loan Program through the RHRF to help non-profits to be more competitive in the market.
- Weighted points for project readiness on 9% deals, as opposed to awarding based on points scored within the Qualified Allocation Plan.
- Rescinding funds after a 6-month extension past the original 12-month period.
- Partnering with the County in reducing the permitting process time.

Chair Spindt thanked the developers for their input.

Director Lin reported on its ongoing progress made in reducing the response and approval time with the State Historic Preservation Division (SHPD) and the Disability and Communication Access Board (DCAB).

**IV.
REPORT
OF THE
EXECUTIVE
DIRECTOR**

Chief Planner Janice Takahashi provided the Board with a Legislative update on HHFDC's administrative and priority bills. Takahashi stated that four of the eight Administrative bills are alive in some form or another, along with two concurrent resolutions.

The following priority bills were referenced and discussed:

- House Bill (HB) 2: Appropriates funds for the operating budget of the Executive Branch for fiscal years 2019-2020 and 2020-2021.
- HB 439: Exempts lands set aside by the Governor to the HHFDC for the primary purpose of developing affordable housing from and the definition of "public lands".
- HB 477: Establishes a Homeownership Housing Revolving Fund within HHFDC to provide loans to non-profit housing development organizations and community development financial institutions for the development of affordable homeownership housing project under a self-help housing program.
- HB 543: Directs the HHFDC to initiate negotiations and exercise its power of eminent domain to acquire the Front Street Apartments affordable housing project on Maui.
- HB 820: Establishes the ALOHA homes program to develop low-cost homes on state-owned and county-owned land in urban redevelopment sites to be sold in leasehold by HHFDC to qualified residents.
- HB 1312: Authorizes the issuance of general obligation bonds to be appropriated into and out of the rental housing revolving fund.

There being no further business on the agenda, Designee Yu moved, seconded by Director Atta

That the meeting be adjourned at 10:36 a.m.

The motion was carried unanimously.



RONA FUKUMOTO
Secretary

V.
ADJOURNMENT