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

#### January 9, 2020

#### **MINUTES**

The Board of Directors (Board) of the Hawaii Housing Finance and Development Corporation (HHFDC) met for their regular meeting at their office, located at 677 Queen Street, Suite 300, Honolulu, Hawaii, on Thursday, January 9, 2020.

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

Those present and excused were as follows:

Present:

Director Leilani Pulmano, Chair Director Donn Mende, Vice Chair Director Rona Fukumoto, Secretary

Director George Atta

Director Mike McCartney (arrived 9:13 a.m.)

Director Sara Lin Director Craig Hirai

Interim Executive Director Denise Iseri-Matsubara

Excused:

Director Gary Mackler Director Melvin Kahele

Staff Present:

Sandra Ching, Deputy Attorney General Matthew Dvonch, Deputy Attorney General Darren Ueki, Housing Finance Manager Holly Osumi, Chief Financial Officer

Deepak Neupane, Development Branch Chief Dean Minakami, Development Section Chief Dean Sakata, Housing Finance Specialist Melissa Loy, HHFDC Corporate Controller Lorraine Egusa, Project Resource Specialist

Kazuko Honda, Accountant Gayle Nishimoto, Accountant

Kent Miyasaki, Housing Information Officer

Esa Pablo, Secretary to the Board

Guests:

Donn Nakamura, Accuity LLP Bob Hatanaka, Accuity LLP

Adam Dornbush, Front Street Affordable Housing Partners

Christian O'Connor, Coastal Rim Properties

Kenna Stormogipson

Vice Chair Mende moved, seconded by Director Atta

That the regular meeting minutes of December 12, 2019 be approved.

The motion was carried unanimously.

Approval of the executive session meeting minutes of December 12, 2019 was deferred to later in the meeting.

I.
CALL TO
ORDER/
ROLL CALL

II.A.
APPROVAL
OF MINUTES
Regular
Meeting
12/12/19

II.B.
APPROVAL
OF MINUTES
Executive
Session
12/12/19

A PowerPoint presentation handout was distributed to the Board at the meeting.

Hardcopies (originally sent electronically to the Board) of the Corporation Financial and Compliance Audit, Corporation Single Family Mortgage Purchase Revenue Bond Fund, and Required Communication Letters to the Board of Directors of Corporation were noted to be available for the Board's review.

Chief Financial Officer Holly Osumi provided a PowerPoint presentation, summarizing the Reports of Independent Auditors and the Financial Statements – Governmental and Proprietary Funds (see Attachment A).

Accuity LLP Auditors Donn Nakamura and Robert Hatanaka were introduced to the Board.

Staff's recommendation for the Board's consideration, was stated as follows:

That the HHFDC Board of Directors accept the audited financial statements of the Corporation for the fiscal year ending June 30, 2019.

Vice Chair Mende moved, seconded by Director Atta

That staff's recommendation be approved.

Osumi stated that the HHFDC's total net position increased to \$1.2 billion at June 30, 2019. The increase was a result primarily from the net effect of activities in the following funds:

- The General Obligation Bond fund's balance increased to \$31 million primarily due to the State allotment of \$25 million that was not received during fiscal year 2019.
- The Rental Housing Revolving Fund's total net position increased to \$783 million primarily due to \$38 million of conveyance tax collections, a loan interest income of \$3 million, and investment interest income of \$8 million.
- The Dwelling Unit Revolving Fund's (DURF) net position increased to \$327 million primarily due to transfers-in of \$72 million from the Hawaii Rental Housing System Revenue Bond (HRHSRB) fund.
- The Rental Assistance Revolving Fund's (RARF) net position increased to \$33 million primarily due to transfers-in of \$20 million from the HRHSRB fund.
- The HRHSRB fund's net position decreased to \$0 primarily due to the conveyance of the leasehold interest in five of the six housing projects and the in-substance defeasance of the outstanding bonds. The fund recognized operating income of \$2 million, gain on sale of capital assets of \$85 million, and transferred \$72 million and \$20 million to the DURF and RARF, respectively. Remaining assets, liabilities and fund balance were transferred to the DURF.

Osumi stated that although the HHFDC has established policies and procedures to ensure compliance with the Housing Trust Fund Program, in accordance with the Title 24 U.S. Code of Federal Regulations (24 CFR) §93.404, these policies and procedures were not in a written form. Therefore, Accuity LLP recommended that the HHFDC commence the process of establishing written policies and procedures, including assessment of risk of activities and projects, to ensure subgrantees comply with the requirements of 24 CFR.

Establishment of written policies and procedures have commenced and is anticipated to be completed before June 30, 2020, as noted in HHFDC's Corrective Action Plan.

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,
2019

(Director McCartney arrived at this time – 9:13 a.m.)

Chair Pulmano inquired about steps taken within the HHFDC's Corrective Action Plan. Osumi stated that staff is currently working on the written form of its policies and procedures that have already been in place. During next year's audit review, auditors will then check that the Corrective Action Plan has been implemented accordingly.

Osumi thanked the Auditors as well as HHFDC staff for their work and assistance with the audit.

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

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

That the HHFDC Board of Directors approve the following:

- A. Extend the deadline to issue Hula Mae Multi-Family (HMMF) Bonds for the Kokua Project (Project) to July 31, 2020 (the extension lines up with the Project's Rental Housing Revolving Fund (RHRF) Letter of Intent (LOI) expiration date); and
- B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of the For Action.

Vice Chair Mende moved, seconded by Director Atta

That staff's recommendation be approved.

Ueki stated that the proposed Project consists of 223 units targeted for the elderly, located in Honolulu, Oahu. Improvements shall consist of one 16-story residential building, of which 12 floors will be of apartments and 4 floors of parking.

The Project anticipates receiving its building permits in November 2020, construction to commence in December 2020, with project completion anticipated in June 2022.

Based on progress made on site control, zoning approvals, and financing commitments, staff is requesting a 6-month extension to July 31, 2020.

If the Project is deemed feasible, a subsequent For Action for the approval of the issuance, sale and delivery of the bonds will be presented to the Board for consideration, subject to the availability of funds as well as approval by the Department of Budget and Finance, and the Governor.

Ueki opened for questions along with Mr. Christian O'Connor, on behalf of the Project.

O'Connor informed the Board that they will be meeting with the City Council on January 23, 2020, seeking approval on their final budget through the 201H process.

Director Lin inquired about the extension timeline typical being the waiting period for City zoning. Ueki clarified that the timeline was primarily due to the Project's restructuring of its financing from a privately placed bond issuance to a public offering and 201H exemptions determined to be later needed.

Director Atta asked what type of exemptions are being requested. O'Connor stated that due to inconsistent interpretations and nature of the project site,

III.B. **DISCUSSION** AND/OR **DECISION MAKING** Approve an Extension to Resolution No. 125, Which Provides for Official Intent with Respect to the Issuance of Hula Mae Multi-Family Tax-Exempt Revenue Bonds for the Kokua Project Located in Honolulu, Oahu, TMK No.:

(1) 2-1-010: 050

density and zoning exemptions were sought.

Director Lin asked whether restructuring of a project's financing was found to be common. Ueki stated that it is not common and is typically set at the time an application is received by HHFDC.

Director Lin asked whether any changes were anticipated to the project's RHRF or HMMF Bond requests. Ueki stated that there have been no indications of change to the Project's requested amounts at this point.

O'Connor stated that he believes the Project is in a good position where additional funding would not be necessary.

Chair Pulmano stated that a policy was established last year regarding HHFDC's extensions in hopes to incentivize and accelerate project progress and production. Therefore, she asked that upon the project's return in July, significant focus and progress be made. O'Connor concurred.

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

Chair Pulmano asked for a motion to 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 negotiated 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 the matter.

Vice Chair Mende moved, seconded by Director Fukumoto

To convene in executive session at 9:48 a.m.

The motion was carried unanimously.

The Board reconvened in regular session at 10:28 a.m. and proceeded to the Report of the Executive Director. (The executive session meeting minutes of December 12, 2019 was approved in executive session.)

Interim Executive Director Iseri-Matsubara stated that HHFDC has two legislative bill requests regarding: (1) an increase in bond authority; and (2) extending the exemption to the definition of public lands to include lands set aside or leased to HHFDC to allow for longer term leases (e.g., 99 years).

Interim Executive Director Iseri-Matsubara further stated that more discussions and evaluation is needed to ensure that the development and financing tools of HHFDC are in alignment with the demand and purchase preferences outlined in the recent housing studies. Outmigration of Hawaii's workforce and the degree of position vacancies were concerns.

Discussion ensued on past and possible future financing tools to assist with current and upcoming housing issues, questioning the areas of which the HHFDC should focus its efforts and resources on.

Chair Pulmano asked that staff provide a presentation on how bond cap affects the programs of HHFDC at its next Board Meeting.

Director Fukumoto inquired on available data on outmigration preferences. Interim Executive Director Iseri-Matsubara stated that in addition to the DBEDT housing report, HHFDC contracted SMS to conduct a study on housing supply and demand, which provides greater detail in terms of income breakdowns and purchase preferences. The SMS report is scheduled to be released in January 2020.

IV. EXECUTIVE SESSION 9:48 a.m.

**RECONVENED** 10:28 a.m.

V.
REPORT
OF THE
EXECUTIVE
DIRECTOR

Chair Pulmano asked that a subcommittee be established to review and assess the efficiency of HHFDC's financing programs, as well as its Qualified Allocation Plan.

Although not present, the Board suggested that Director Gary Mackler be a member of the subcommittee given his background in finance and development.

The following Directors were declared members of the Housing Finance Programs Subcommittee:

- Sara Lin
- Leilani Pulmano
- Donn Mende
- Gary Mackler

Chair Pulmano suggested that the subcommittee's findings and recommendations be completed by the end of her term in June 2020.

Director McCartney suggested that the Subcommittee acquire experts to provide independent assessments that may offer a new perspective or outlook, along with DBEDT's Office of Planning Director Mary Alice Evans, as an attending guest.

Chair Pulmano asked that another subcommittee be established to review the alignment of HHFDC's staff positions and compensation, authorizing the hiring of a compensation consultant, if necessary, that has public/private sector experience. The hiring of a possible consultant would require the Board's approval.

The following Directors were declared members of the Staffing Subcommittee:

- George Atta
- Rona Fukumoto
- Mike McCartney
- Sara Lin

Director McCartney suggested that DBEDT's Departmental Human Resource Officer Steven Sung and a compensation specialist from the Department of Human Resources Development be attending guests.

Chair Pulmano asked that Interim Executive Director Iseri-Matsubara determine appropriate HHFDC staff to participate in these subcommittees.

With no further discussion, it was moved by Vice Chair Mende, seconded by Director Fukumoto to adjourn the meeting at 10:59 a.m.

The motion was carried unanimously.

V. ADJOURNMENT 10:59 a.m.

RONA FUKUMOTO

Secretary

State of Hawaii
Hawaii Housing Finance and Development Corporation
Financial and Compliance Audit

For the Fiscal Year Ended June 30, 2019

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#### State of Hawaii

Hawaii Housing Finance and Development Corporation

#### Presentation to the Board of Directors

January 9, 2020 Financial and Compliance Audit

for the Fiscal Year Ended June 30, 2019

prepared for the board of directors and does not purport to be complete. Refer to the Hawaii Housing Finance and Development Corporation Financial and Compliance Audit for the Fiscal Year Ended June 30, 2019

Accuity LLP, independent auditor, issued the following reports dated December 13, 2019 on the Hawaii Housing Finance and Development Corporation ("Corporation") for the fiscal year ended June 30, 2019:

Report of Independent Auditors
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
Report of Independent Auditors on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

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## Report of Independent Auditors

Accuity LLP rendered an **unmodified** opinion on the audited financial statements. The financial statements present fairly, in all material respects, the Corporation's financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with generally accepted accounting principles.

Report of Independent
Auditors on Internal
Control Over Financial
Reporting and on
Compliance and Other
Matters Based on an
Audit of Financial
Statements Performed in
Accordance with
Government Auditing
Standards

#### **Internal Control Over Financial Reporting**

In planning and performing the audit of the financial statements, Accuity LLP considered the Corporation's internal control over financial reporting to determine the audit procedures that are appropriate for the purpose of expressing an opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

Accuity LLP **did not identify** any deficiencies in internal control that are considered material weaknesses in respect to the limited purpose.

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Report of Independent
Auditors on Internal
Control Over Financial
Reporting and on
Compliance and Other
Matters Based on an
Audit of Financial
Statements Performed in
Accordance with
Government Auditing
Standards (continued)

#### Compliance and Other Matters

Accuity LLP performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements of which noncompliance could have a direct and material effect on the determination of financial statement amounts. The results of their tests disclosed **no instances of noncompliance** or other matters that are required to be reported.

Report of Independent Auditors on Compliance for Each Major Federal Program an on Internal Control Over Compliance Required by the Uniform Guidance

#### Opinion on Each Major Federal Program

Accuity LLP identified Housing Trust Fund Program (CFDA 14.275) as a major federal program.

Accuity LLP opined that the Corporation complied, in all material respects, with the types of compliance required as described in the OMB Compliance Supplement that could have a direct and material effect on the Corporation's major federal program for the year ended June 30, 2019.

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Report of Independent Auditors on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance (continued)

#### Other Matter

Accuity LLP reported an instance of noncompliance as required under the Uniform Guidance.

Finding: Accuity LLP reported that the Corporation established policies and procedures to ensure compliance with the Housing Trust Fund Program requirements, however, these policies and procedures were not in written form as required in accordance with Title 24 of the U.S. Code of Federal Regulations ("24 CFR") § 93.404.

Report of Independent Auditors on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance (continued)

#### Other Matter (continued)

Recommendation: Accuity LLP recommended that the Corporation's management commence the preparation of a set of written policies and procedures, including assessment of risk of activities and projects, to ensure subgrantees comply with the requirements of 24 CFR § 93.404.

Corrective Action Plan: The Corporation's staff has commenced the process of establishing written policies and procedures and anticipates completion well before the reported anticipated completion date of June 30, 2020.

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# Financial Statements



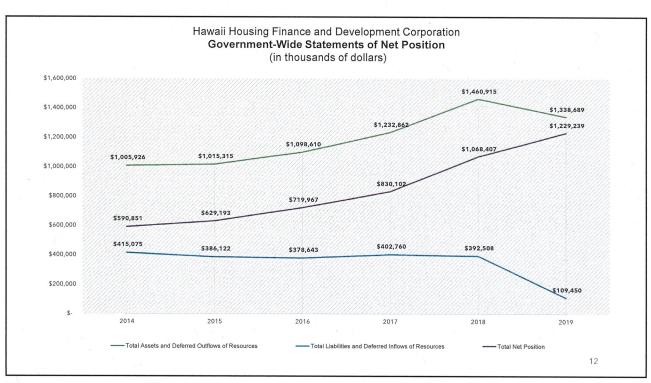
## Statement of Net Position (or Balance Sheet)

The statement of net position (or balance sheet) is a snapshot of the financial position of the Corporation as of June 30, 2019. The statement lists all of the Corporation's resources (or assets) and deferred outflows of resources and all that the Corporation owes (or liabilities) and deferred inflows of resources. The difference between the two equals the Corporation's net position.



Over time, the changes in net position may serve as a useful indicator of the Corporation's financial statements.

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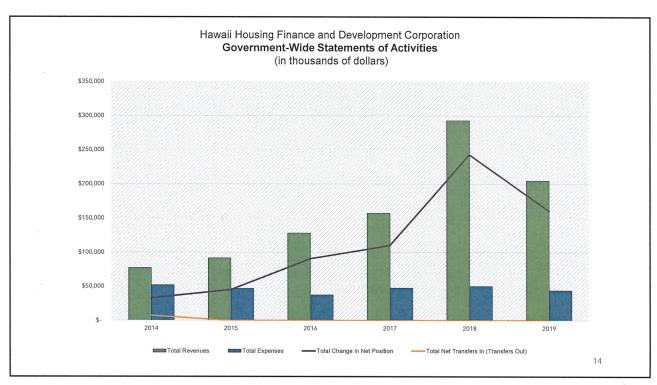


Statement of Revenues, Expenses and Change in Net Position (or Statement of Activities)

The Statement of Revenues, Expenses and Changes in Net Position (or Statement of Activities) presents how the Corporation's net position changed during the fiscal year.



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#### **Governmental Funds**

Comprised of funds that are primarily financed with public funds.

Two Types of Funds of the Corporation

#### **Proprietary Funds**

Comprised of enterprise funds which are used to account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing services to customers.

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# **Governmental Funds Financial Statements**

#### **Governmental Funds**



GENERAL FUND



GENERAL OBLIGATION BOND FUND



HOME INVESTMENT PARTNERSHIP PROGRAM



HOUSING TRUST FUND PROGRAM



TAX CREDIT ASSISTANCE PROGRAM

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#### **General Fund**

Accounts for the State's general fund revenues appropriated by the State Legislature to the Corporation and transfer for subsequent use by the Corporation's other funds.

#### **General Obligation Bond Fund**

Accounts for the State's issuance and transfer of general obligation bonds proceeds to the Corporation's other funds.

### HOME Investment Partnership Program

Accounts for the federallyfunded program for the purpose of enhancing the State and local government's ability to provide affordable housing for low- and very lowincome families through funding strategies designed to increase the supply of decent affordable housing by offering financial and technical assistance to participating jurisdictions. The Corporation makes payments to the subgrantees on a reimbursement basis.

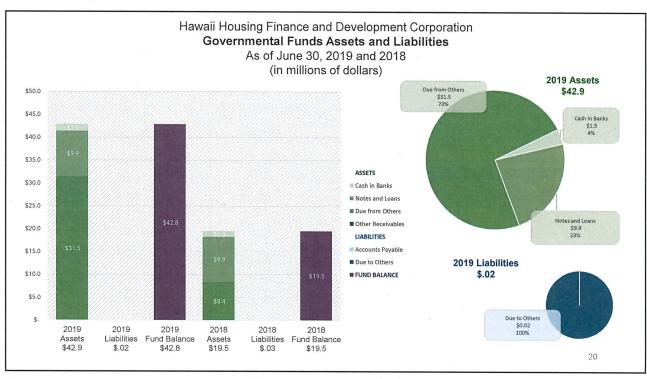
#### **Housing Trust Fund Program**

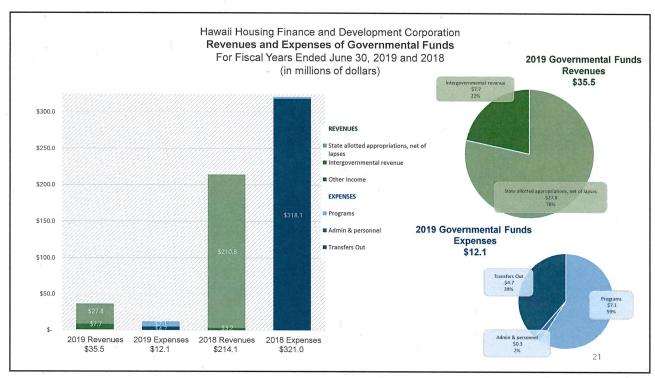
Accounts for the federallyfunded program for the purpose of enhancing the State and local government's ability to provide affordable housing for extremely lowincome families through funding strategies designed to increase the supply of decent affordable housing by offering financial and technical assistance to participating jurisdictions. The Corporation makes payments to the subgrantees on a reimbursement basis.

#### Tax Credit Assistance Program

Accounts for the federallyfunded program for the purpose of providing funds directly to designated state housing credit agencies for award to affordable rental housing developments that have been allocated lowincome housing tax credits and are in need of additional gap equity funding.

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# **Proprietary Fund Financial Statements**

# **Proprietary Funds**

Rental Housing Revolving Fund

Dwelling Unit Revolving Fund

Single Family Mortgage Purchase Revenue Bond Fund

Multifamily Housing Revenue Bond Fund

Housing Finance Revolving Fund

Grants in Aid Fund

Disbursing Fund

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#### 23

#### Rental Housing Revolving Fund

Accounts for State funds, repayment of financing, and interest earnings from the financing and investment of such funds to provide developers of qualified rental housing projects with loans and/or grants for the development, predevelopment, construction, acquisition, preservation and rehabilitation of rental housing units.

#### **Dwelling Unit Revolving Fund**

Accounts for State funds used for acquiring, developing, selling, leasing and renting residential, commercial and industrial properties and providing mortgage and interim financing, rental income, sales proceeds, and interest earnings from the financing and investment of such funds.

#### Hawaii Rental Housing System Revenue Bond Fund

Accounted for special funds for housing projects or systems of housing projects financed from proceeds of bonds secured under the same trust indenture. The fund accounted for six affordable multifamily rental housing projects located throughout the State prior to the conveyance of five of the six affordable multifamily rental housing projects and the wind-up of the fund during fiscal year 2019. Balances were transferred to Dwelling Unit Revolving Fund.

#### Single Family Mortgage Purchase Revenue Bond Fund

Accounts for the proceeds from the issuance of bonds used to make below-market interest rate mortgage loans and the repayment, interest and earning from such loans and investments of such funds.

#### Multifamily Housing Revenue Bond Fund

Accounts for the income from fees and administrative expenditures for the operation of the fund with the adoption of GASB Statement No. 91 effective for the fiscal year 2019 which derecognized all conduit bond activity. Prior to the adoption of GASB Statement No. 91, the fund also accounted for the proceeds from the issuance of conduit bonds to provide interim and/or permanent financing at below market interest rates to facilitate the construction or rehabilitation of affordable housing projects.

#### Rental Assistance Revolving Fund

Accounts for the rental assistance subsidies provided to qualified owners to assist eligible tenants who live in rental housing developments and to provide for interim construction financing for rental housing projects.

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#### Housing Finance Revolving Fund

Accounts for long-term and other special financings of the Corporation.

#### Grants in Aid Fund

Accounts for the State funds used toward grants relating to housing as approved by the State Legislature and administered by the Corporation. The Corporation makes payments to the grantees on a reimbursement basis.

#### **Disbursing Fund**

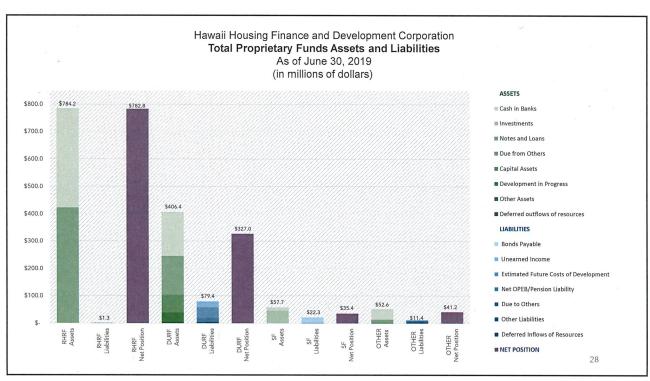
Accounts for disbursements which are allocated amongst other proprietary funds.

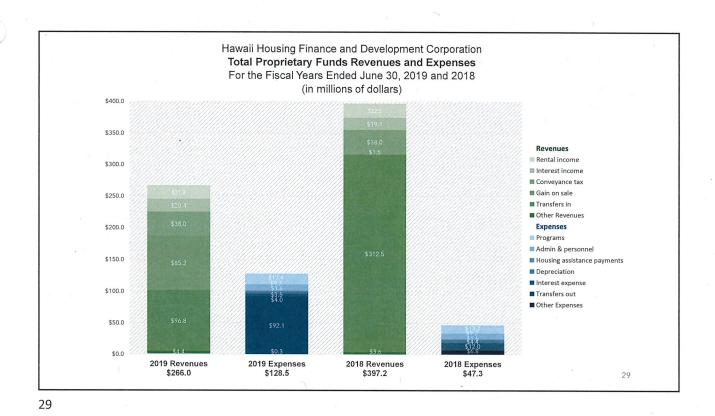
Fiscal Year Ended June 30, 2019 Significant Transactions and Activities in Proprietary Funds Completed the conveyance of leasehold interests of five of the six properties under the HRHSRBF (Honokowai Kauhale, Kauhale Kakaako, Kekuilani Courts, Lailani, and Pohulani Elderly)

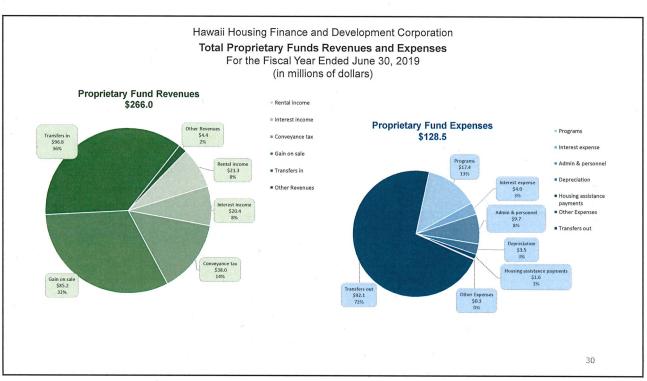
Redemption of all outstanding bonds and windup of the Hawaii Rental Housing System Revenue Bond Fund

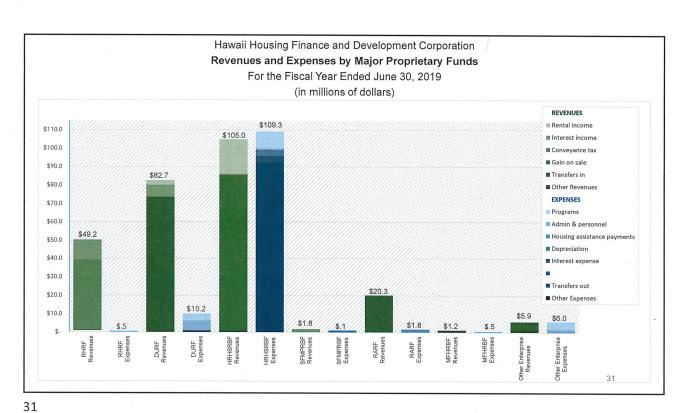
Adoption of GASB Statement No. 91, Conduit Debt Obligations, for the bonds issued under the Multifamily Housing Revenue Bond Fund

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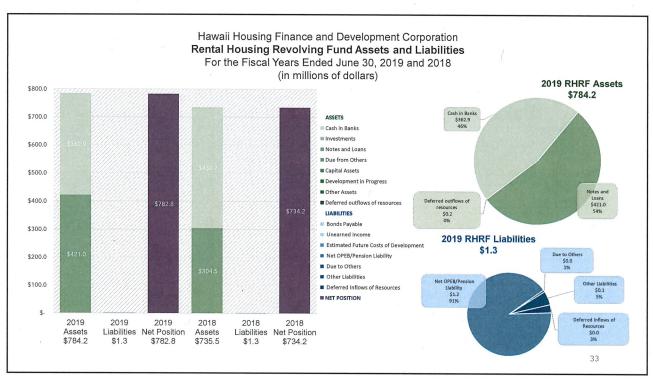




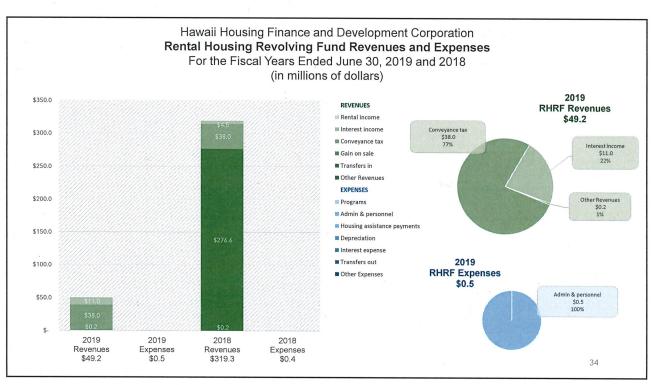


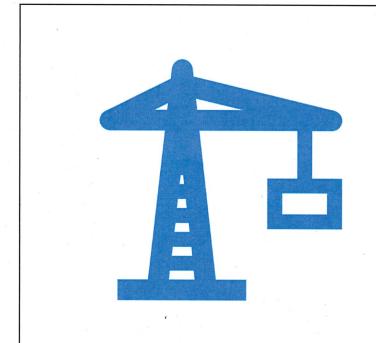


# Rental Housing Revolving Fund



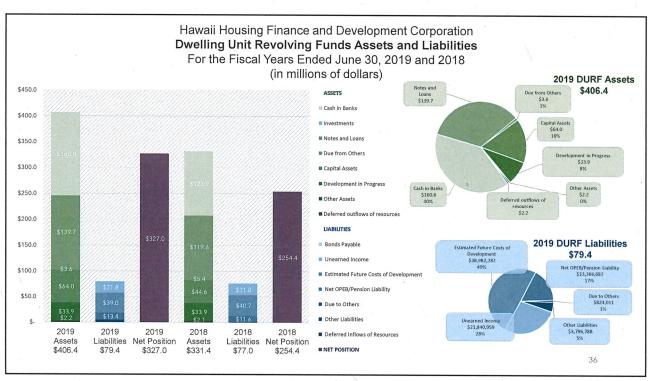


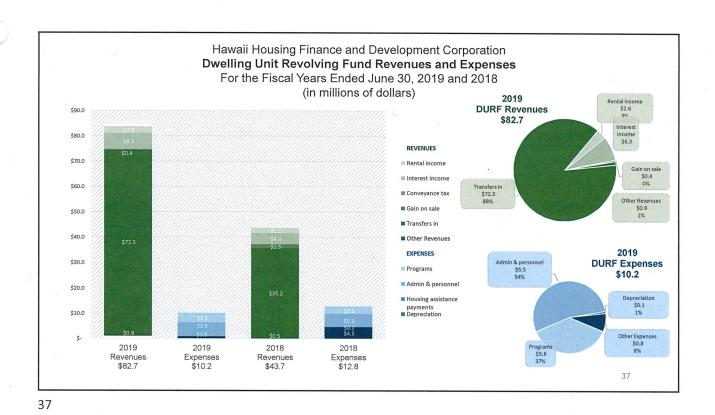


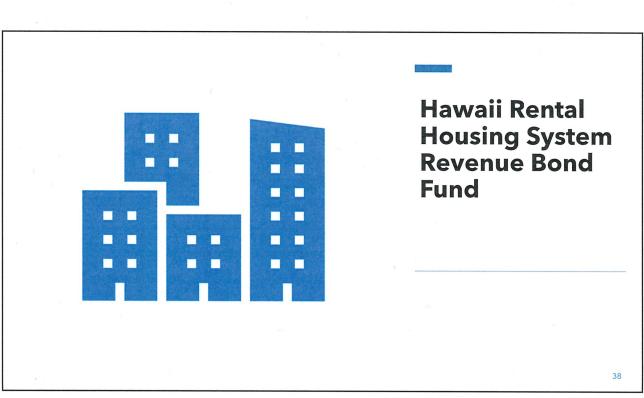


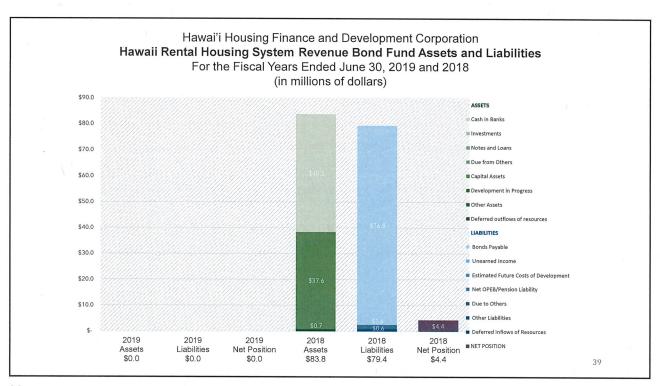
## Dwelling Unit Revolving Fund

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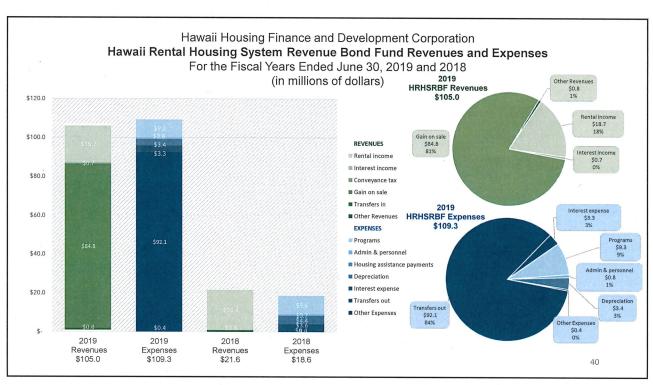








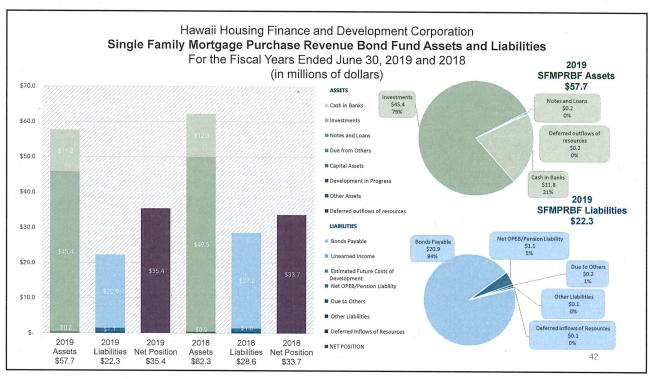


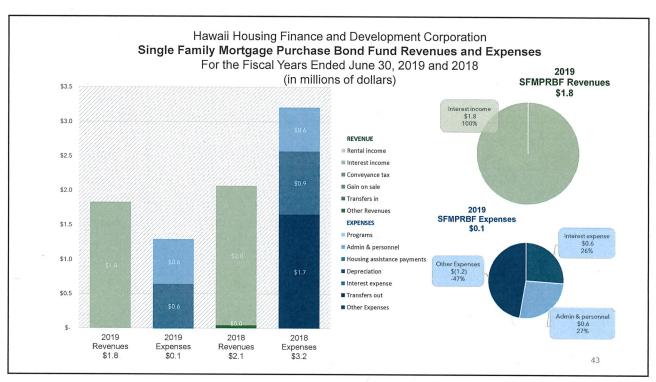


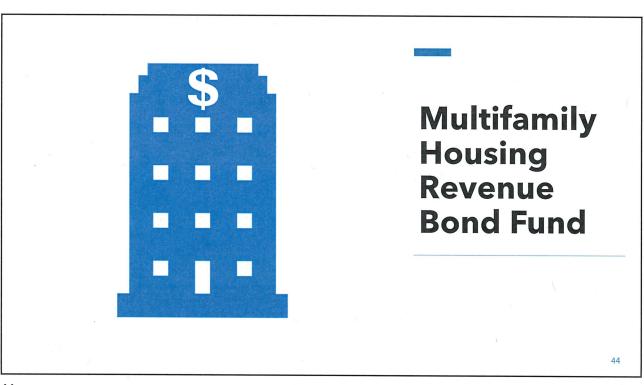


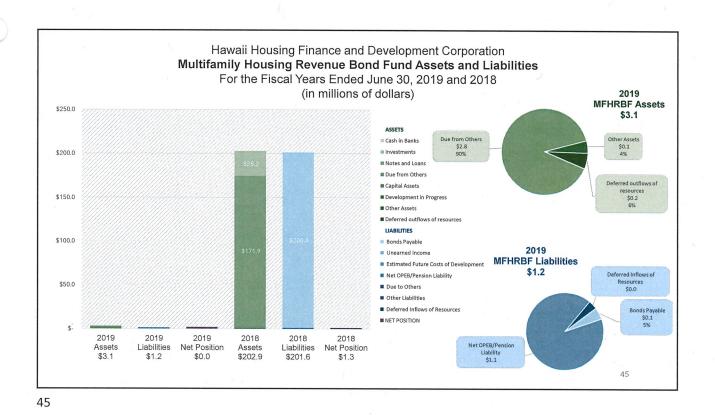
## Single Family Mortgage Purchase Bond Fund

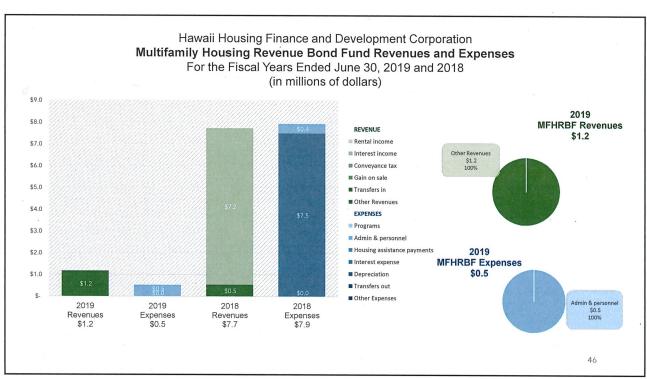
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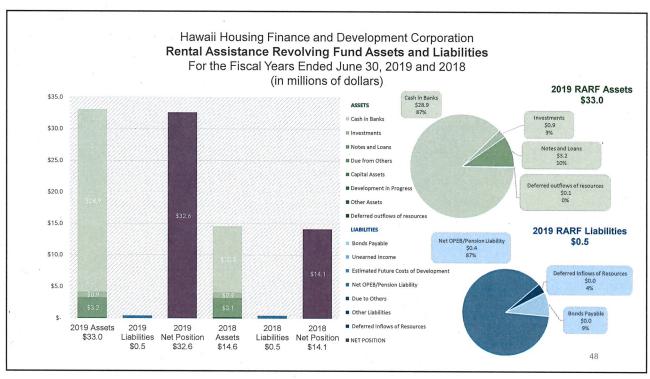


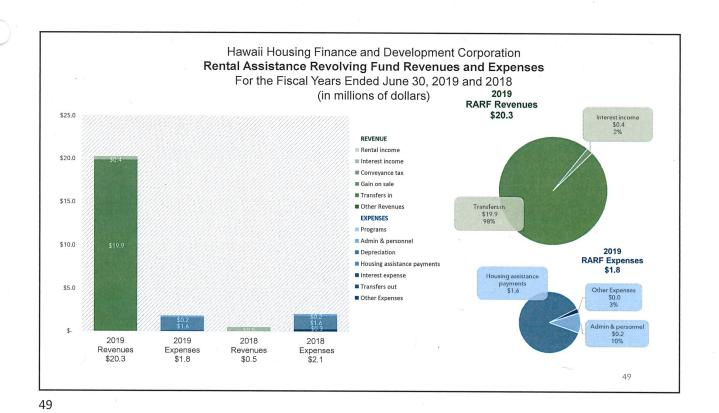


## Rental Assistance Revolving Fund



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Subsequent
Events

Acquired the leased-fee interest of Front Street Apartments in October 2019

Acquired the leased-fee interest of Kamakee Vista in December 2019

# Questions or comments

