HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
BOARD OF DIRECTORS
REGULAR MEETING

February 11, 2021

MINUTES

I. CALL TO ORDER/ ROLL CALL

The Board of Directors (Board) of the Hawaii Housing Finance and Development Corporation (HHFDC) met virtually for their regular meeting at their office, located at 677 Queen Street, Suite 300, Honolulu, Hawaii, on Thursday, February 11, 2021, at 9:00 a.m.

With a quorum present, Chair Donn Mende called the meeting to order.

Those present and excused were as follows:

Present:
Director Donn Mende, Chair
Director Gary Mackler, Vice Chair
Director Rona Fukumoto, Secretary
Director Carol Reimann
Director Melvin Kahele
Director George Atta
Designee Roderick Becker for Director Craig Hirai
Director Mike McCartney (9:41 a.m.)
Director Kymberly Sparlin

Executive Director Denise Iseri-Matsubara

Staff Present:
Sandra Ching, Deputy Attorney General
Francis Keeno, Executive Assistant
Janice Takahashi, Chief Planner
Darren Ueki, Housing Finance Manager
Dean Minakami, Development Branch Chief
Holly Osumi, Chief Financial Officer
Kent Miyasaki, Housing Information Officer
Christopher Woodard, Real Estate Portfolio Manager
Jocelyn Iwamasa, Housing Finance Specialist
Mark Ogata, Housing Finance Specialist
Melissa Loy, HHFDC Corporate Controller
Gayle Nishimoto, Interim Budget Analyst
Stan Fujimoto, Housing Development Specialist
Albert Palmer, Housing Development Specialist
Cheryl Kajitani, Housing Development Specialist
Theresa Dean, Housing Development Specialist
Mavis Masaki, Planner
Esa Pablo, Secretary to the Board

Guests:
Gavin Thornton, Hawaii Appleseed
Arjuna Heim, Hawaii Appleseed
Jessica Sato, Hawaii Appleseed
Abbey Seitz, Hawaii Appleseed
Kenna Stormogipson, Hawaii Budget and Policy Center
Jacob Heberle, Hawaii Budget and Policy Center
Steven Miao, Hawaii Budget and Policy Center
Charles Long, Charles A Long Properties LLC
David Freudenberger, Goodwin Consulting Group
Perry Arrasmith, Hawaii State Senate
Williamson Chang, University of Hawaii at Manoa
Karen Seddon, The Michaels Organization
Questor Lau, The Michaels Organization
Benjamin Edger, The Michaels Organization

Natalie Mesa, Settle Meyer Law

Director Kahele moved, seconded by Director Atta

That the regular meeting minutes of January 14, 2021 be approved.

The motion was carried unanimously.

II.A. APPROVAL OF MINUTES Regular Meeting 1/14/2021

Chair Mende asked for a motion to go into executive session.

Director Kahele moved, seconded by Director Atta

That the Board convenes in executive session pursuant to Section 92-5(a)(4), Hawaii Revised Statues, 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.

III.A. DISCUSSION AND/OR DECISION MAKING Discussion on Impact of New Federal Legislation Establishing Minimum 4% Floor On Low Income Housing Tax Credit Awards as Required by the Consolidated Appropriations Act, 2021

The Board convened in executive session at 9:03 a.m.

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The Board reconvened in regular session at 9:17 a.m.

EXECUTIVE SESSION 9:03 a.m. **RECONVENED** 9:17 a.m.

Housing Finance Specialist Jocelyn Iwamasa 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 Halewai'olu Senior Residences Project to February 28, 2022; and

B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of the For Action.

Director Kahele moved, seconded by Director Atta

That staff's recommendation be approved.

Based on progress made on site control, zoning approvals, and security financing commitments, Iwamasa stated that as a precautionary measure, staff is requesting a 12-month extension (6-months longer than the Awardee's request) to issue the bonds for the Halewai'olu Senior Residences, a newly constructed 156-unit rental project for family households at or below 30, 60, and 80 percent of the area median gross income (AMGI).

Iwamasa opened for questions, along with Ms. Karen Seddon, Mr. Questor Lau, Mr. Ben Edger, and Ms. Natalie Mesa, on behalf of the project.

The motion was carried unanimously.

III.B. DISCUSSION AND/OR DECISION MAKING Approve an Extension to Resolution No. 127, Which Provides for Official Intent with Respect to the Issuance of Hula Mae Multi-Family Tax-Exempt Revenue Bonds for the Halewai'olu Senior Residences Project Located in Honolulu, Oahu, TMK No.: (1) 1-7-006: 012

Iwamasa 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 Rental Housing Revolving Fund (RHRF) Letter of Intent (LOI) dated February 14, 2019 for the Halewai'olu Senior Residences project to February 28, 2022, subject to the requirements as set forth in the For Action dated February 14, 2019; and

B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of the For Action.

Director Kahele moved, seconded by Vice Chair Mackler

That staff's recommendation be approved.

Iwamasa stated that as a precautionary measure, staff is requesting a 12-month extension (6-months longer than the Awardee's request) for the RHRF LOI for the Halewai'olu Senior Residences project.

Iwamasa opened for questions, along with Ms. Karen Seddon, Mr. Questor Lau, Mr. Ben Edger, and Ms. Natalie Mesa, on behalf of the project.

Chair Mende ask for an update on the project's progress. In addition to Iwamasa's summary of the project's progress, Lau stated that that project received their 201H approval in January 2021, civil drawing, and building permit approvals.

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

III.C. DISCUSSION AND/OR DECISION MAKING
Approve an Extension to the Rental Housing Revolving Fund Project Letter of Intent for the Halewai'olu Senior Residences Project Located in Honolulu, Oahu, TMK No.: (1) 1-7-006: 012

Chief Planner Janice Takahashi provided an overview of the the Housing Finance Programs Subcommittee report, summarizing the subcommittee's findings and recommendations (Attachment A).

(Director McCartney arrived at this time – 9:41 a.m.)

Director Kahele inquired about the impacts for current developers who may have to come up with more funding upfront. Takahashi stated that developers are able to use LIHTC equity to cover such costs.

Vice Chair Mackler inquired about potential impacts on timing of when the developer can come in to apply for 4% LIHTC financed projects with the proposed changes. Iwamasa stated that if approved, developers would have a down time from the time the QAP is approved until the new application becomes available.

Vice Chair Mackler asked on the estimated time of which the applications would be available. Executive Director Iseri-Matsubara stated that an estimated timeline is to be determined and reported to the Board once current capacity limitations are fulfilled.

This being an ongoing process, Chair Mende thanked the staff, subcommittee members, and developers for a job well done.

IV. REPORT OF THE HOUSING FINANCE PROGRAMS SUBCOMMITTEE - FINDINGS AND RECOMMENDA-TIONS

Takahashi introduced Hawaii Appleseed's executive director Gavin Thorton and policy and data analyst Kenna Stormogipson, who introduced the following consultant team members:

- Ms. Abbey Seitz, Community Planner;
- Mr. Steven Miao, Research Assistant;
- Mr. Williamson Chang, Legal Analyst;
- Ms. Arjuna Heim, Fall Intern;
- Mr. Dave Freudenberger, Public Finance Consultant;

V. OVERVIEW OF FINDINGS AND RECOMMENDA-TIONS FROM THE ALOHA HOMES STUDY

- Mr. Charles Long, Developer;
- Mr. Dennis Silva, Planner;
- Ms. Jessica Sato, Freelance Designer; and
- Mr. Jacob Heberle, Summer Intern

Stormogipson and Thornton provided a PowerPoint presentation of the ALOHA Homes study (Attachment B). The study shows that the Singapore model, after which ALOHA Homes is modeled, was not found to be feasible in Hawaii. To minimize development costs to create affordable housing units, the following recommendations were made: (1) State land contribution; (2) off-site infrastructure (part of a larger area plan); (3) streamlined entitlement (through programmatic EIS prepared by the state); and (4) financing access (through taxable mortgage revenue bonds or partnerships with local banks).

Director Sparling inquired about the number of participants and demographic makeup. Out of the 18 participants, 14 were income qualified, and the remaining 4 were interested but did not qualify. Income ranges were between 80% - 120% AMI, with the ages of the participants ranging from 27 years – 61 years of age.

In comparison to the Halewai'olu Senior Residence project, with a current development cost budget of approximately $548,000 per unit and other projects that have its own unique requirements and costs, Vice Chair Mackler questioned whether the proposed ALOHA Homes legislation was realistically pricing the development cost per unit, which posed a concern for him in terms of restricting the sales price through legislation that would require a very large subsidy to be applied to a project by other means to reach the affordable sales price.

Chair Mende inquired about the numbers used for the pro forma analysis done. Freudenberger stated that contingencies were built in using the average middle numbers.

Director Kahele inquired about the inclusion of future tenant involvement within the study. Stormogipson stated that incorporating the wants of residents adds value and occasionally saves on costs, minimizing unnecessary costs regarding amenities and parking.

Takahashi thanked the consultant team under the leadership of Appleseed for working with HHFDC in preparing this study, concluding that the ALOHA Homes model is not feasible in its entirety, but does have components that could work and will be further explored.

Chair Mende thanked Takahashi and the Hawaii Appleseed consultant team, proceeding to the Overview of the Executive Director.

VI. OVERVIEW OF THE EXECUTIVE DIRECTOR

In reference to the ALOHA Homes Study discussion, Executive Director Iseri-Matsubara stated that the DTA TOD Financial Analysis study reports on the infrastructure costs surrounding Transit Oriented Developments (TOD's) and the need for a significant amount of government subsidies for the City and the State, as well as possible financing mechanisms.

Executive Director Iseri-Matsubara, along with Planner Mavis Masaki provided an overview of the following key administrative bills, stating that about 208 bills affecting housing issues are currently being monitored:

- HB757/SB1322: replaces one of HHFDC's public board member seat with the Department of Hawaiian Home Lands (DHHL) Chair. HHFDC opposes and encourages the Board's support in submitting testimony. A hearing is scheduled for next week.

- HB902: broadens and expands the current exemption from the definition of public lands to lands set aside to the corporation. This would help streamline and shorten the development process by approximately 6 to 9 months.

- HB907/SB1061: repeals the HHFDC's Downpayment Loan Assistance Program and Homebyer's Club Program, which are unfunded dormant programs better served by the private sector. A hearing was scheduled for this afternoon.

- HB908: extends the sunset date of amendments to the State LIHTC by an additional five years.

- HB1311/SB 607: removes the construction completion deadline for the Leali'i affordable housing project and Keawe Street Apartments.

- HB77/SB1057: exempts the sale of the leased fee interest in certain affordable leasehold developments by the HHFDC from legislative approval.

- HB80: clarifies when and how members or partners of a taxpayer may claim the LIHTC. Includes a 6-year extension.

- SB659: allows the LIHTC to be allocated among the partners or members of the taxpayer earning the credit in any manner by the parties. Includes a 6-year extension.

- SB867: extends the LIHTC program for 6 years.

Director Kahele inquired about HB757/SB1322. Executive Director Iseri-Matsubara reiterated HHFDC's position on the measure, citing potential voting conflicts related to funding for DHHL projects.

VII. ADJOURNMENT
11:03 a.m.

There being no further business on the agenda, Director Kahele moved, seconded by Director Atta, to adjourn the meeting at 11:03 a.m.

Rona Fukumoto

RONA FUKUMOTO
Secretary

REPORT OF THE HOUSING FINANCE PROGRAM SUBCOMMITTEE
FINDINGS AND RECOMMENDATIONS
February 11, 2021

BACKGROUND AND PURPOSE

The intent of the Low-Income Housing Tax Credit (LIHTC) Program, created by the Tax Reform Act of 1986, is to encourage the construction or rehabilitation of low-income rental housing units. The regulations which govern this Program are contained in Section 42 of the Internal Revenue Code (IRC). The Program provides federal LIHTC to qualified project owners who agree to maintain all or a portion of the units in a project for low-income households (i.e., households earning 60% and below of the area median income (AMI) established by the U.S. Department of Housing and Urban Development (HUD)). The State of Hawaii created a State LIHTC which is equal to 50 percent of the federal LIHTC allocated to a project. The Hawaii Housing Finance and Development Corporation (HHFDC) is the agency responsible for the administration of the federal and state LIHTC.

The Qualified Allocation Plan (QAP) sets forth the criteria to evaluate and allocate LIHTC to projects which best meet the housing needs of the State and preferences required by Section 42 of the IRC.

The Housing Financing Program Subcommittee was established on June 18, 2020, to review and assess the efficiency of HHFDC's financing programs, with a focus on the QAP.

FINDINGS

Statewide, approximately 50,156 housing units are estimated to be needed during the 2020-2025 period, of which approximately 36,305 units will be needed by Hawaii's workforce and lower income households (i.e., those earning 140% and below the AMI.[1]

- Of the total units, approximately 26,239 units (52%) are estimated to be needed for households earning 80% and below the AMI. These are typically rental housing units.

- Another 10,066 units (20%) are estimated to be needed for households earning from 80-140% AMI. These are typically for-sale units primarily for first-time homebuyers.

Given the large need for affordable rental housing, subcommittee members, Chair Donn Mende, Carol Reimann, Kymberly Sparlin, and Gary Mackler, focused on ways to speed up the delivery of such housing and more efficiently use HHFDC's resources. They held a series of meetings with program staff, reviewing characteristics of rental housing projects that were awarded LIHTC and other HHFDC sources of permanent financing (including location, construction type, number of units, length and level of affordability, and costs) and discussing the impacts of previous amendments to the QAP.

1. For 9% (volume cap) LIHTC, developers must place rental housing projects in service within approximately 2-1/2 years following the award of the credits. If developers cannot meet this deadline, the IRS requires HHFDC to take back the LIHTC or the State will lose the credits. Because of this requirement, nearly all of the developers awarded 9% LIHTCs have met the placed-in-service milestone.

2. Most developers that have been awarded Hula Mae Multifamily Bonds and 4% LIHTC, have requested an extension to the 12-month closing deadline provided for in

[1] Source: Hawaii Housing Planning Study, 2019, prepared for HHFDC and a consortium of state and county housing agencies by SMS Research. Estimates of housing need are calculated by taking the Department of Business, Economic Development & Tourism's housing demand projections and adding units estimated to be needed to reduce pent-up demand caused by years of supply shortages (using demand survey data) and units needed to accommodate homeless households entering the housing market.

their Inducement Resolution.[2] As these projects usually receive gap equity loans from the Rental Housing Revolving Fund (RHRF), these funds are tied up for the duration of the extension period.

3. The State Legislature has approved sizeable appropriations for the RHRF. Given the need for affordable rental housing, legislators have been critical of the drawn-out period between the award of RHRF and project completion.

4. As of 12/31/20, the cash balance in the RHRF was approximately $382 million. Approximately $43.6 million (11%) was not available for LIHTC projects, $18 million (5%) was in loans closed and funding, $261.6 million was committed for 13 projects (including $37 million set-aside for the Kaiaulu O Kuku'ia project pursuant to Act 150, SLH 2018, as amended by Act 98, SLH 2019), leaving approximately $58.8 million available for future awards.

5. HHFDC approved nine- to twelve-month closing extensions for all of the 12 projects that received an award (excludes Kaiaulu O Kuku'ia). Of the 12 that received an award, 6 projects received multiple extensions and 4 more are estimated to require additional extensions.

6. Along with the closing extensions, developers have also requested increases in their development budgets. This raises a concern on how realistic the budgets are at the time of application.

7. Over the last two to three years, HHFDC has generally taken about 60 days from approval of an Inducement Resolution to name bond counsel and obtain the Governor's preliminary approval to issue bonds. Developers often work concurrently to prepare environmental assessments and obtain approvals for zoning/201H, subdivision, DCAB review, or building permits. In most cases, the timing for obtaining discretionary and ministerial approvals extends far beyond the 60 days. Staff notes that once the zoning/201H approvals are received, the project moves forward relatively quickly.

8. When projects go through the zoning/201H and subdivision approval processes subsequent to obtaining a financing award, developers often request an increase in

[2] Background on Inducement Resolutions: The HMMF bond program is a federally-authorized program that allows HHFDC to issue tax-exempt revenue bonds to finance the acquisition and rehabilitation or development of privately owned affordable rental projects. Under the HMMF Program, the HHFDC can issue tax-exempt revenue bonds to provide below-market financing to private developers or owners of affordable rental units. HHFDC acts as the conduit for the financing by issuing bonds, however, all repayment obligations are the responsibility of the developer or owner requesting such financing.

The Inducement Resolution is a non-binding resolution, which states that it is HHFDC's intent to possibly issue tax-exempt revenue bonds for a project. Finance staff conducts a review of the preliminary information submitted by a developer and makes a preliminary determination that a project meets the requirements for tax-exempt bond financing. Upon submittal of all other requested and required information, staff makes a final recommendation to the Board at a later date, with respect to a commitment for tax-exempt bond financing.

One of the reasons for requesting the approval of the Inducement Resolution deals with recognizing the expenditures made by the developer. Pursuant to the federal guidelines that govern tax-exempt bond financing, bond proceeds can reimburse eligible expenditures made 60 days prior to Inducement Resolution approval. Thus, a developer requests the approval of the Inducement Resolution in order to be eligible for reimbursements on current expenditures for the Project.

The approval of the Inducement Resolution by the Board may be viewed as "Official Action" being undertaken by the issuer (HHFDC), one of the requirements of the multi-family housing bond program. The approval of an Inducement Resolution does not authorize the sale of tax-exempt bonds for a project. Section 147(f) of the Internal Revenue Code requires that the "applicable elected representative of the affected governmental units" approve all private activity bond obligations after a public hearing.

their project budgets. Some projects have required design changes as a condition for zoning/201H which have resulted in substantial budget increases of approximately 30-40 percent.

9. Previously, Neighbor Island (NI) projects were perceived to be at a disadvantage compared to Honolulu because the AMI was lower, costs were higher, and developments were at a lower density. The QAP was amended in 2016 to add a County Income Adjuster, based on lower county income, in an attempt to level the playing field.

   A review of the For Actions from previous years show that NI costs per square foot are not higher than Honolulu. In 2018, two Honolulu projects out of a total of six applications received 9% LIHTC awards. In 2019 and 2020, no Honolulu projects received 9% LIHTC awards. (Note: The NI counties have contributed resources (such as federal HOME, Housing Trust Fund, and project-based vouchers) to projects which help them to score higher. Honolulu, on the other hand, has not.)

10. In this steep economic downturn, HHFDC does not anticipate receiving the same level of legislative appropriations for the RHRF as in the past.

Staff also informed the subcommittee of the following sections in the QAP that are problematic and require attention:

1. Applicants may apply for 9% LIHTC to develop, construct, rehabilitate, or preserve a qualified low-income building. The QAP limits the allocation of 9% LIHTC to one project involving the acquisition and rehabilitation of an existing housing project. There is no limitation on projects involving new construction or the acquisition/rehabilitation of an existing building not used for housing (i.e., adaptive reuse). To qualify for the adaptive reuse category, existing buildings cannot have been used for housing at least 10 years from the date of acquisition by the taxpayer. Staff suggested amending the qualification to 10 <u>consecutive</u> years for clarification purposes.

2. The applicant is the ultimate, direct project owner/taxpayer of the qualified low-income building requesting LIHTC. The applicant is required to register to do business in the State of Hawaii and provide such evidence at the time of application. There are no penalties for not complying with this requirement. Because non-compliance leads to delays in the processing of applications, staff suggested a rejection of the application and imposing a penalty period for re-applying.

3. The QAP reflects HHFDC’s policies and priorities. When the QAP is amended, staff revises the Consolidated Application; however, it takes some time to make the revisions. As 4% LIHTC only applications may be submitted at any time, a few developers have submitted the previous version of the Consolidated Application (sometimes just a few days before the revised version is posted). There are no rules that require use of a version of the Consolidated Application that relates to the most current QAP. Nor are there penalties for use of an outdated Consolidated Application. Staff suggested a rejection of the application and imposing a penalty period for re-applying.

4. The Consolidated Application includes a locked Excel spreadsheet which contains formulas that show if a project will pass or fail threshold. Staff had discovered that an applicant had altered the spreadsheet so it would appear that the project passed threshold. Because there are no penalties for egregiously altering the Consolidated Application, staff suggested a rejection of the application and imposing a penalty period for re-applying.

Staff also received comments on specific provision of the QAP which were provided to the subcommittee, but not fully discussed.

DISCUSSION AND RECOMMENDATIONS

On January 25, 2021, the subcommittee discussed proposed amendments to the QAP with LIHTC developers. Highlights of the discussion and resultant recommendations are provided below.

A. Efficient use of HHFDC resources

1. Proposal: Add a threshold requirement to submit a certified cost estimate. To gain better control of construction costs (and, consequently, HHFDC's allocation of financing resources), the subcommittee considered adding a threshold requirement for submission of a certified cost estimate (i.e., plan and cost review) for sitework and vertical construction based on preliminary design.

   Discussion: The general contractor gives the developer a cost estimate that is projected one or two years out and is available at the time of application. This may yield limited benefit to HHFDC. Generating a set of plans that is close to, if not fully complete, is expensive and this level of completion is not typically obtained by the time applications for financing are submitted. A private lender does its own cost estimate; however, the bank's cost review is typically provided 60 days out from issuance of building permits (when working drawing are 90% complete) and is not available at the time of application. Without the complete plans, a cost review is quite speculative and may have a very wide acceptable range of results.

   What is the threshold for "substantial cost increases"? Some unanticipated increases, such as tariffs imposed on construction materials imported from overseas, may be justified or allowed. If the intent is to reel in cost increases, HHFDC could prohibit developers from requesting substantial cost increases of, say 30-40%. Costs of this magnitude were not represented when an allocation of funds was approved by the board. That developer should withdraw and start over. HHFDC should consider changes that make the project substantially different (such as adding or subtracting units, amenities, or buildings) as a major change and then address how such changes are dealt with in the QAP (e.g., must be pre-approved, if they result in a cost differential of x% then the applicant must resubmit, etc.).

   Recommendation: Developers should come in with more firm cost estimates. When designing their projects, developers should be consulting with the community and meeting with county line agencies to get a preliminary indication of conditions that may be imposed. It is not the intent to require developers to have a plan and cost review based on complete plans. Rather, a plan and cost review prepared by a qualified general contractor based on preliminary plans should facilitate the review of applications. Therefore, **amend the QAP to add a new threshold to require the submission of a certified cost estimate (plan and cost review prepared by a qualified construction estimator, with a minimum of 5 years of experience), for sitework and vertical construction based on preliminary design. The certified cost estimate may be prepared by a third-party cost estimator or general contractor that meets the experience requirement.**

2. Proposal: Include all HHFDC permanent financing resources when evaluating the use and leveraging of LIHTC. HHFDC anticipates lower conveyance tax and legislative funding levels for its programs. To boost overall resource efficiency, the subcommittee considered the efficient use and leveraging of all permanent resources, not just LIHTC.

Discussion: A developer felt the efficiency of utilizing all state resources is an appropriate direction, keeping in mind that the production of affordable housing is the priority. Also, state resources are state resources; it doesn't matter what state agency they come from.

A concern was raised that different counties do not have the same resources available to them. For example, Honolulu, recently has not made federal CDBG and HOME funds available to LIHTC applicants. To compete on leverage, projects must raise private funds from foundations and other private resources. This may disadvantage non-profits that cannot compete with for profit investors using private capital as leverage.

Recommendation: **Revise QAP Criterion 1 to evaluate the efficient use and leverage of requested HHFDC resources (LIHTC, RHRF, DURF, or any other permanent financing provided by or through HHFDC).**

B. Speed Up Delivery of Rental Housing Units

1. Proposal: To expedite development, applicants for 4% (non-volume cap) LIHTC should have zoning/201H, subdivision, and CPR approval(s) at the time of application.

   Discussion: A few developers felt that the zoning/201H threshold was reasonable. For 4% LIHTC projects, there are substantial delays in closing primarily due to developers waiting to obtain zoning/201H approvals and permitting. Once zoning/201H approvals are received, the project proceeds relatively quickly. Developers agreed a zoning/201H threshold would speed up the construction of housing from the time of funding award. They acknowledged that the threshold balances the efficient use of funds with facilitating development.

   As Maui uses County Ordinance, Ch. 2.97 in lieu of Chapter 201H for 100% workforce housing projects, a developer suggested referencing the ordinance. https://library.municode.com/hi/county_of_maui/codes/code_of_ordinances?nodeId=TIT2ADPE_CH2.97REWOHOPOINEX

   Developers, however, did not agree with including subdivision and CPR as threshold requirements since these approvals require more work and substantial costs. Developers will likely have difficulty in obtaining the level of funding needed for subdivision approval, which can run up to $2 million.

   Other states have a zoning threshold. However, the zoning/201H process takes longer in Hawaii than in other states. In California, for example, developers can get zoning approvals in 90 days. Maui County has also prioritized the review of working drawings. Maui can approve building permits within 6-8 months from when plans are received for 100% affordable projects. The point to be made is other agencies must make affordable housing a priority in order to shorten the overall development timeline.

   The quicker delivery of rental housing projects could be accomplished in the following ways:

   1. Require zoning/201H approval prior to application,

   2. Establish a post award deadline to obtain zoning/201H approval(s) where the funding allocation is rescinded if the milestone is not met. Once the zoning/201H approval milestone is reached and developers can demonstrate that they are moving to obtaining building permits, they should not be at risk of losing the funding allocation. At this stage of working drawings and subdivision approval, developers are expending significant funds and cannot risk losing the allocation, or

3. Add discretionary approvals as part of the point scoring system, as well as a criterion on how many extensions will be allowed before financing is rescinded. (Note: Currently, only 9% (volume cap) LIHTC applications are scored. 4% (non-volume cap) applications are only required to pass threshold.)

Developers note that the zoning/201H threshold would extend the overall development process by making developers do things sequentially. Presently, once funding is awarded, the financial closing, entitlement, and permitting processes are often processed on parallel tracks. The zoning/201H threshold means developers must start work months ahead of time. The threshold also transfers risk to the developers as there is no certainty that approvals will be obtained by the application submission date. Moreover, projects that need more entitlements utilize 4% credits. The end result is the threshold may reduce the number of 4% applications.

Recommendation: Due to the considerable added cost, the subcommittee acknowledged that it would be unreasonable to require subdivision and CPR approvals at the time of application. They deliberated at length on a zoning/201H threshold vs. post-award requirement as a means to accelerate housing delivery. Should HHFDC continue to share in project risks and hold on to resources while projects seek zoning/201H approvals? A threshold would have an added benefit of containing costs as project budgets often increase with conditions placed on projects at zoning/201H. The down side is that developers will incur more up-front costs and will not be able to get reimbursed by bond proceeds for the costs incurred before the Inducement Resolution. Developers, however, can use other sources such as LIHTC equity.

Therefore, **for 4% (non-volume cap) LIHTC applications, add a new threshold requirement to provide supporting evidence and documentation that the proposed project has obtained necessary zoning/201H approvals.**

2. Proposal: To assist in speeding up the processing of applications, amend Policy 2 of the QAP by adding that the inability to show that the applicant is registered to do business in the State of Hawaii will result in the rejection of the application and a 6-month resubmission penalty.

   Discussion: The business registration requirement, which applies to the applicant and constituent entities, means registering to do business in Hawaii with the State Department of Commerce and Consumer Affairs at https://cca.hawaii.gov/breg/. It is different from the Certificate of Vendor Compliance which is requested as Exhibit 6 of the Consolidated Application. Currently, application reviews are drawn out because there is no penalty for non-compliance. The 6-month penalty is intended to serve as a deterrent to a 4% applicant from submitting a new application the next day.

   Recommendation: **Amend Policy 2, by adding language that an application that does not comply with the Hawaii business registration requirement will be rejected and that applicant is subject to a 6-month penalty period for resubmitting a new application.**

C. Statewide delivery of units

1. Proposal: Reduce the County Income Adjuster from 4 to 2 to facilitate the development of rental housing in Honolulu.

   Discussion: Some developers expressed concern that the HUD income limits on the neighbor islands are lower while project costs are higher. If 4 points is too much, is 2 points too little?

Neighbor island projects may score well because the neighbor island counties provide more financial support for projects than Honolulu; i.e., they strategically commit county resources (e.g., HOME, HTF, PBV) even though they are subject to rotational HOME and HTF funding. Honolulu receives a HOME and HTF allocation every year, which potentially increases the scoring for projects in Honolulu. Additionally, Honolulu has a broader economic and tax base, improved infrastructure and transit systems, and other factors which prioritize scoring toward Honolulu. A developer suggested that if HHFDC wants to encourage the City to commit resources, this does not accomplish that.

Recommendation: The commitment of county resources allows neighbor island projects to score better on Criterion 1 (efficient use and leveraging of HHFDC resources). It appears that a 2-point reduction may be too drastic. Therefore, **reduce the County Income Adjuster from 4 to 3 points to facilitate development statewide.**

D. Other QAP Policy Recommendations

1. Proposal and Recommendation: For Acquisition/Rehab of an Existing Building not used for housing (i.e., adaptive re-use), the existing building must not have been used for housing for 10 consecutive years prior to acquisition for LIHTC project.

2. Proposal: To ensure alignment with HHFDC policies and priorities, require 4% (non-volume cap) LIHTC applicants to use the revised Consolidated Application which corresponds with the revised QAP. Non-compliance will result in the rejection of the application and a 12-month resubmission penalty.

   Discussion: There was considerable opposition to the proposed 12-month penalty, as well as the time gap between when the board approves changes to the QAP and when an amended Consolidated Application is posted on HHFDC's website. The proposed change would add a blackout period when no Consolidated Applications would be accepted by HHFDC. In the current QAP revision cycle, the board is anticipated to approve the revised QAP in June 2021 and the revised Consolidated Application is estimated to be available in December 2021. This would mean that 4% LIHTC only projects would not be able to apply for bonds/4% LIHTC for 6 months.

   Developers suggested various alternatives including the following:
   - Reducing the penalty to 6 months (as 12 months is too punitive).
   - Moving to an on-line application (to reduce the time gap between the board adopting a revised QAP and availability of the revised Consolidated Application).
   - Given the long lead time to structure a project, lag implementation of a new QAP by one or two years. A lag in the implementation of a new QAP will allow developers who have invested a lot of time to structure a project to continue to move forward and not have to suddenly make changes to the project to address changes to the QAP that may render a project non-competitive or not meet the threshold.
   - Reject the application in the current round (if a 9% LIHTC or a 4% LIHTC with RHRF applications) and accept a new submission at the next round where 9% LIHTC applications are requested, regardless of the timing. This would protect applicants from inadvertently being disqualified for two rounds of applications since the application dates change each year.
   - 4% applications with no HHFDC resource requests that are submitted on the incorrect application could still be processed up until the new Consolidated Application is out. Alternatively, reject the application, but allow the applicant to resubmit at the next month or when the new Consolidated Application is available, whichever is later.

   Recommendation: The subcommittee recognizes that developers work on their projects for months prior to applying for financing assistance. A 12-month penalty appears to be too punitive. The issue is the practical alignment of projects with HHFDC policies and priorities. Staff believes that, if the QAP revision process goes smoothly, the revised

Consolidated Application will be completed earlier than December 2021. Therefore, **amend Policy 3 of the QAP to require 4% (non-volume cap) LIHTC applicants to use the revised Consolidated Application which corresponds with the revised QAP. Non-compliance will result in the rejection of the application and a 6-month resubmission penalty.**

3. Proposal: To prevent the deliberate manipulation of the Consolidated Application, prohibit the submission of an unauthorized form of the application. Non-compliance will result in the rejection of the application and a 12-month resubmission penalty.

   Discussion: One developer felt penalties should be consistent and suggested reducing the penalty to 6 months. Another developer thought that manipulating the application form is more deliberate and, therefore, a 12-month penalty is appropriate.

   Developer suggestions include the following:
   - HHFDC prohibits the submission of an altered, or unauthorized version of its current Consolidated Application. Failure to comply with this requirement results in immediate rejection of the application in the corresponding round of funding and the subsequent round of funding. HHFDC prohibits any project located on a parcel, or a portion of a parcel, of a project that fails compliance with this requirement from applying for any HHFDC resource in the next available HHFDC financing round following the current round and rejection date or 12 months from the rejection date whichever is longer.
   - HHFDC should track both deliberate and accidental changes to the application, i.e., “Compare” feature in Excel can be used to easily detect changes.
   - Provide an online form that cannot be altered by applicants.

   Recommendation: **Amend the QAP by adding a new Policy to prohibit the submission of an altered, unauthorized Consolidated Application. Non-compliance will result in the rejection of the application and a 6-month resubmission penalty.**

CONCLUDING REMARKS

The subcommittee appreciates the knowledge, professionalism, and commitment of the Housing Finance staff, as well as the participation and candid engagement of developer stakeholders in this undertaking.

The preliminary recommendations are purposefully broad to give staff the latitude to make any necessary amendments that are technical in nature and facilitate implementation. As staff received and continues to receive comments on specific provisions of the QAP, it is the intent of the subcommittee for staff to propose additional revisions to the QAP which are aligned with the overall policies to speed up the delivery of affordable rental housing statewide and more efficiently use HHFDC financing resources.

ATTACHMENT A

Affordable **L**ocally **O**wned **H**omes for **A**ll

ALOHA Homes Study

Presentation to the Hawaiʻi Housing Finance and Development Corporation (HHFDC) Board

FEBRUARY 11TH, 2021

PHOTO CREDIT: BIRDSEYE PIX VIA CREATIVE COMMONS

ATTACHMENT B

Project Team

SPEAKING TODAY:

- Abbey Seitz (Community Planner)
- Kenna Stormogipson (Policy and Data Analyst, Hawai‘i Budget and Policy Center)
- Steven Miao, (Research Assistant, Hawai‘i Budget and Policy Center)
- Williamson Chang, JD (Legal Analyst, UHM William S. Richardson School of Law)
- Arjuna Heim (Fall Intern, Hawai‘i Appleseed)

AVAILABLE FOR QUESTIONS:

- Dave Freudenberger (Public Finance Consultant, Goodwin Consulting Group)
- Charles Long (Developer and author of “Finance for Real Estate Development)
- Dennis Silva (Planner, Hawai‘i Planning LLC)
- Jessica Sato (Freelance Designer)
- Jacob Heberle (Summer Intern, Hawai‘i Appleseed)

Presentation Agenda

1. Study Methodology *and* Singapore's Model
2. Financial Feasibility *and* Maintaining Affordability
3. Evaluating Other Program Elements
4. Benefits, Next Steps, and Conclusions

ATTACHMENT B

Study Methodology

- Review Existing Research
- **2** Case Studies
- **40** Interviews
  - Developers
  - Housing agencies
  - Community organizations
- **4** Focus Groups

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Singapore's Housing Model

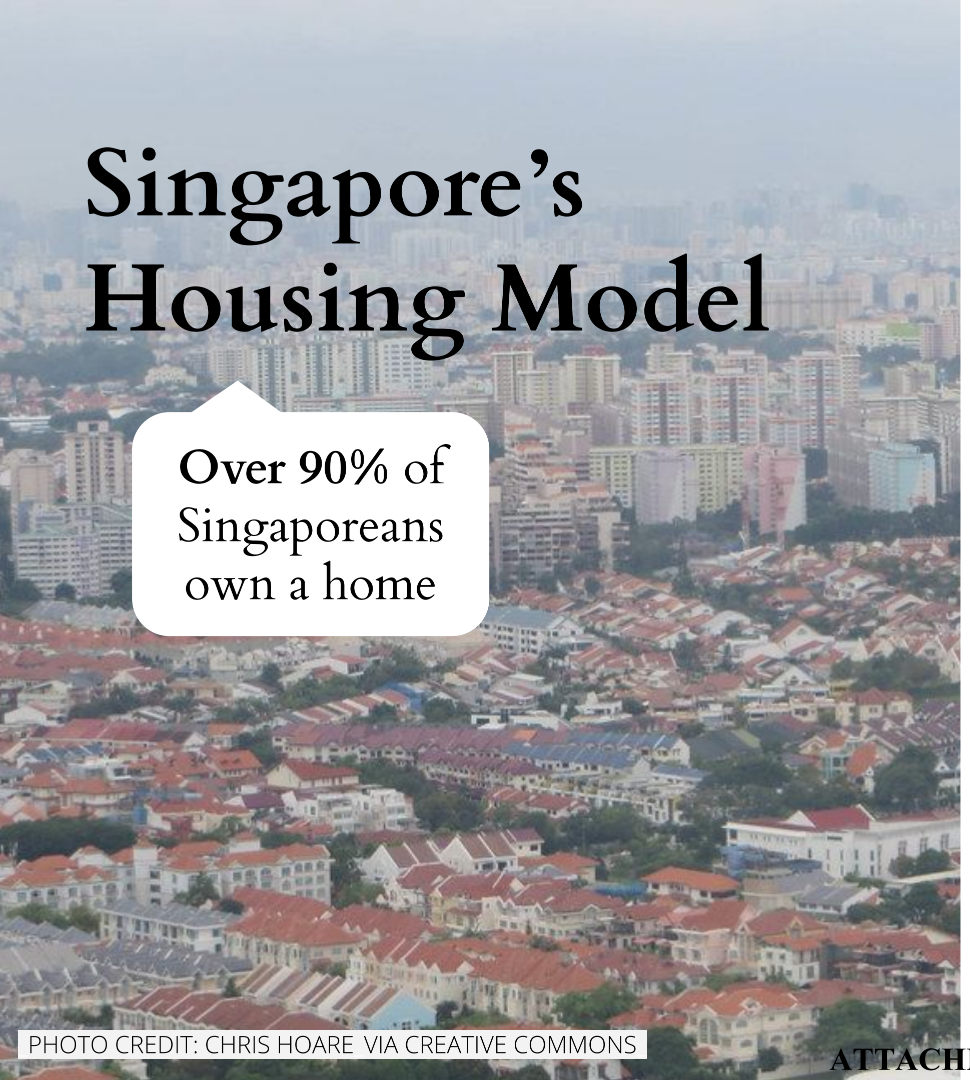

PHOTO CREDIT: CHRIS HOARE VIA CREATIVE COMMONS

- State-financed
- 99-year leases
- New unit restrictions
  - Resident-status
  - Income
  - Strict Ethnic Quotas
- Cheap labor
  → Low construction costs
  $125 to 150 per sq ft
- Strong State government
  → Builds adequate supply

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State Housing Supply and Re-Sale Price

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Singapore Obstacles for Hawai‘i

CONSTRUCTION COST

GOVERNMENT AUTHORITY

versus

CITIZEN PARTICIPATION

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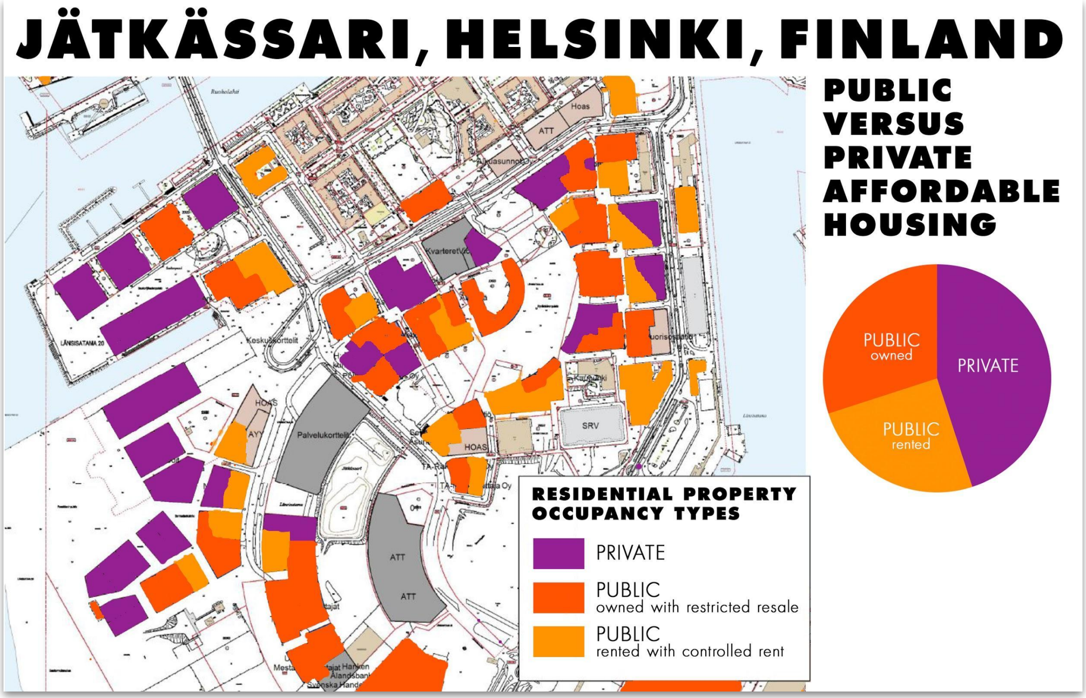
Similarities with Helsinki and Vienna



- Citizen engagement (NIMBY)
- Strong labor unions
- High costs of construction
  - Helsinki $325–$400/sq ft
  - Vienna $250–$300/sq ft

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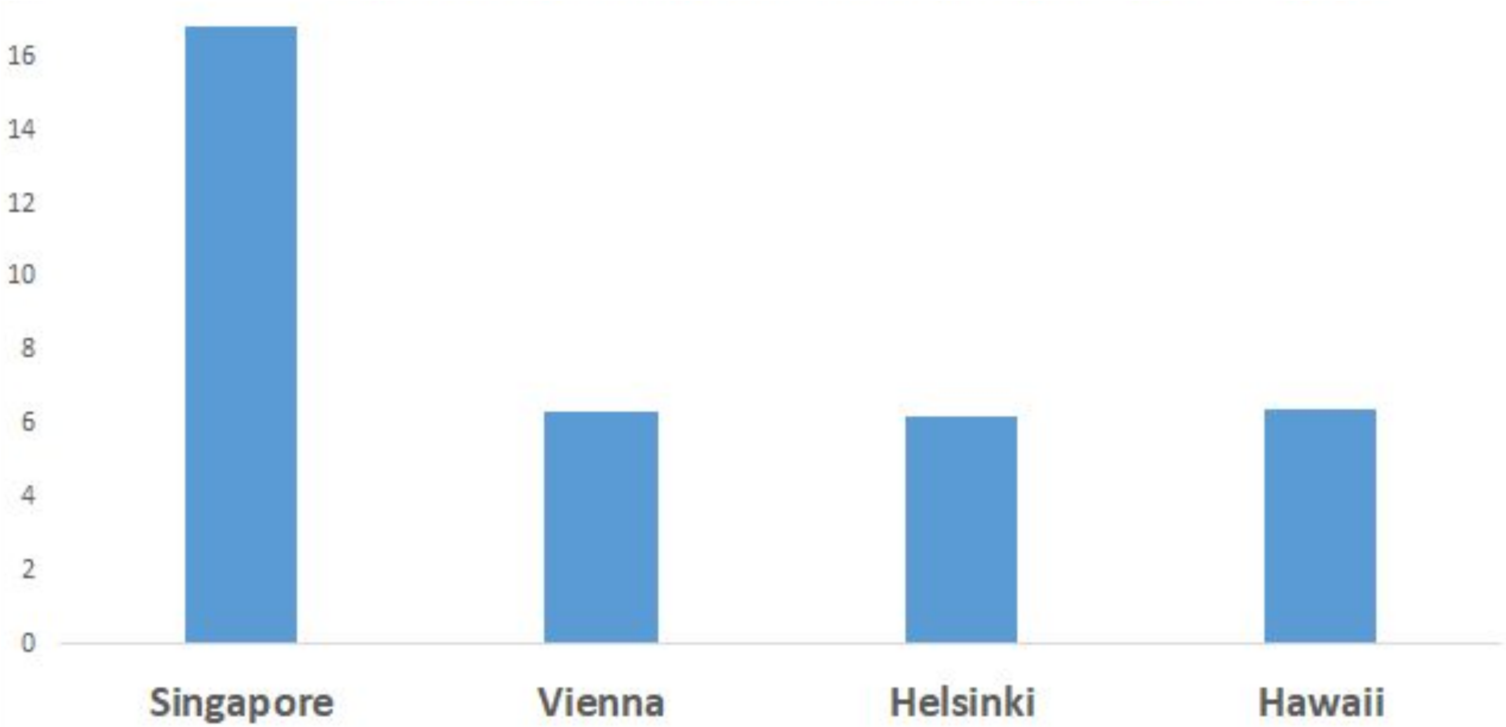
Train Stations per Million People Since 2000



ATTACHMENT B

Maintaining Affordability is Key

Restrict Re-Sale Price, Keep Affordable for Next Owner

- **Case Study**: **Kaka'ako**
  7,300 for-sale homes from 2008–2019
  - Initially **26%** were affordable: **1,850** priced below-market
  - Today **9% (637)** are still affordable, by 2025 it will be **3%**
- **Difficult to replace affordable homes**
  Once a home is lost, it is rarely replaced
- **Cost effective**
  Not paying for same thing twice.

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Equity Share: ALOHA homes vs Best Practice

2BR HOME
SALE PRICE 2021: $400,000
MARKET VALUE: $500,000

ALOHA Homes Bill

- Sell for market in 2031: $750,000
- 25% Owner ($87,500)
- 75% HHFDC ($262,500)

Concerns

- Lose affordable home
- $262,500 not enough to replace

Best Practice: Inflation pricing (CPI)

- Owner gets $100,000 (1.5% CPI)
- $500,000 re-sale price

Benefits

- Keeps home affordable
- Owner builds more equity

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Financial **Feasibility**

Affordable Housing Created in Four Ways

- **State Land Contribution**
- **Off-Site Infrastructure**
  Part of larger area plan—GET or CFD
- **Streamlined Entitlement**
  Programmatic EIS/EA waiver
- **Financing Access**
  Taxable mortgage revenue bonds or partnership with local banks

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Finding
State-supported leasehold can be significantly below market prices

HOME TYPE	AVERAGE MARKET PRICE	STATE-SUPPORTED HOUSING COST RANGE	SAVINGS
1bd / 1ba	$395,000	$280,000–325,000	24%
2bd / 2ba	$569,000	$385,000–425,000	30%
3bd / 2ba	$744,000	$460,000–530,000	33%

Serves 80%–140% AMI income group

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Evaluating Other Program Elements

Off-Site Infrastructure Financing

Part of Larger Area Plan

Best Practice

- Off-site infrastructure not included in housing cost: Helsinki, Vienna, Singapore

Public Should Fund

- Community Facilities District (property assessments): Most common and progressive
- GET/Sales Tax: Less common, more regressive

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Owner-Occupancy Enforcement

People Managed Preferred over High-Tech

Focus Group Finding

- High-tech (fingerprint, eye scan) disfavored. Concerns:
    - Privacy
    - Flexibility for guests
    - Maintenance

Recommendation

- Stewardship Specialists
    - Land Trust model
    - More benefits / similar costs ($50 per month, per home)

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Preferences and Set-Asides for Special Groups: elderly etc.

Focus Group Findings

- Greater support for set-asides, rather than preferences

No Income Limits

Almost All Programs Have Income Limits

Recommendation
140% AMI

Best Practices

- All US Cities have income limits ranging from 80–150% AMI
- Even Singapore has limits for newly-constructed affordable homes

Appropriate AMI Level

- Can afford a mortgage
- Include households with public sector workers:

Two teachers ($65,000) = 130% AMI

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Future Tenant Involvement

Focus Group Finding

- Overwhelming **94% support** for sweat equity and planning of the future project

Best Practice

- Helsinki and Vienna

Local Example

- Pu‘uhonua O Wai‘anae: Land, design, building

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Benefits of Leasehold Housing

"I would move from my neighborhood for a program like this!"

Focus Group Finding

- Participants were very interested in this housing model

Main Benefits

- **Stability**
  Predictable payments, no forced move
- **Financial Gain**
  Much better investment than renting
- **Inheritance**
  Ability to pass onto children

State Land may provide Cost Savings

Leases on State lands needs further consultation and community input.

ATTACHMENT B

Benefits, Next Steps,
and
Conclusions

ATTACHMENT B

Who Benefits?

- **Middle-income who can't afford to buy into the private market. (80-140% AMI)**

  Current demand for 5,000 households

- Middle-step between renting and ownership.

- Significant benefits over renting

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Who's Left Out?

Below 80% AMI needs further assistance

- Lower AMI ranges: 80% and below

- Over half of housing need is for 80% AMI and below.

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Next Steps:

1. **Stewardship support**
   Third party management
   e.g. Na Hale O Maui Land Trust
2. **Maintain long-term affordability**
3. **Financing Options - Mortgage Revenue Bonds**
4. **State land use: More consultation**

Conclusions

1. **Focus Groups** demonstrated that there *is* demand for affordable leasehold ownership.

2. Affordability without use of general fund revenue.

3. Elements of proposal have potential to fulfill an **important housing need. 80%-140% AMI**

ATTACHMENT B