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, March 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  
Executive Director Denise Iseri-Matsubara

Excused:  
Director Kymberly Sparlin

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  
Christopher Woodard, Real Estate Portfolio Manager  
Carianne Abara, Development Support Section Chief  
Lorna Kometani, Sales & Counseling Section Chief  
Jocelyn Iwamasa, Housing Finance Specialist  
Christopher Oakes, Housing Finance Specialist  
Jamie Aqui, Housing Finance Specialist  
Stan Fujimoto, Housing Development Specialist  
Albert Palmer, Housing Development Specialist  
Theresa Dean, Housing Development Specialist  
Melissa Loy, HHFDC Corporate Controller  
Gayle Nishimoto, Interim Budget Analyst  
Kent Miyasaki, Housing Information Officer  
Esa Pablo, Secretary to the Board

Guests:  
Keith Kato, Hawaii Island Community Development Corporation  
Jeremy McComber, Hawaii Island Community Development Corporation  
Makani Maeva, Ahe Group  
Joelle Chiu, Ahe Group  
Sarah Devries, Ahe Group  
Douglas Bigley, Ikaika Ohana  
Mig Saenz, Ikaika Ohana  
Grant Bigley, Urban Housing Communities  
Karen Seddon, The Michaels Organization  
Benjamin Edger, The Michaels Organization
Questor Lau, Michaels Development Company
Sean Sasaki, Na Ali'i

Director Kahele moved, seconded by Director Atta

That the regular meeting minutes of February 11, 2021 be approved.

The motion was carried unanimously.

Director Kahele moved, seconded by Director Atta

That the executive session meeting minutes of February 11, 2021 be approved.

The motion was carried unanimously.

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 Kaloko Heights Affordable Housing Project (Project) to March 31, 2022; and

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

Director Atta moved, seconded by Director Kahele

That staff’s recommendation be approved.

Executive Director Iseri-Matsubara introduced HHFDC’s newly hired Housing Finance Specialists: Mr. Chris Oakes, previously Stanford Carr Development’s vice president of acquisition and development; and Ms. Jamie Aqui, previously First Hawaiian Bank’s assistant vice president of loans/mortgages.

Iwamasa stated that this is the 4th extension for the newly constructed Project, consisting of 100 family units at or below 30, 50, and 60 Area Median Gross Income (AMGI). Improvements will consist of 6 two-story garden-style buildings and a community center.

The request for the 12-month extension was evaluated based on the Project’s progress made in site control, zoning approvals, and securing financing commitments. An updated archeological inventory survey requested by the State Historic Preservation Division exposed a possibility of burial grounds, which is anticipated to take about 6 to 9 months for the review and approval process.

Iwamasa opened for questions, along with Mr. Keith Kato and Jeremy McComber of the Project’s development team.

Regarding financing commitments, Vice Chair Mackler ask whether the delay would put the HOME and National Trust Fund monies for the Project at risk. Kato stated because they are well within the 5-year commitment timeframe he does not believe the monies are at risk.

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

Iwamasa presented the For Action, stating staff’s recommendation for the Board’s consideration:

That the HHFDC Board of Directors approve the following:

HHFDC Regular Meeting – March 11, 2021
A. Extend the Rental Housing Revolving Fund (RHRF) Letter of Intent (LOI) dated September 19, 2017, for the Kaloko Heights Neighborhood Housing Project (Project) RHRF Loan to March 31, 2022, subject to the requirements as set forth in the For Action dated September 14, 2017 and December 12, 2019; and

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

Director Kahele moved, seconded by Director Atta

That staff’s recommendation be approved.

Iwamasa stated that this is the 4th extension of the RHRF LOI with Project facts remaining the same as the previous For Action.

Iwamasa opened for questions, along with Mr. Keith Katō and Mr. Jeremy McComber of the Project’s development team.

There being no questions, the motion was carried unanimously.

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 the HMMF Bonds for the DE Thompson Village Project (Project) to March 31, 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 Reimann

That staff’s recommendation be approved.

Iwamasa stated that this is the first extension for the existing Project, consisting of 84 elderly units at or below 60 percent AMGI. The Project will assume the USDA 515 loan and will execute a new USDA 521 subsidy agreement to so that the existing tenants will continue to receive rental subsidy.

Improvements consists of 9 one-story buildings and 1 two-story building for a total of 10 residential buildings and one community structure.

The request for the 12-month extension was evaluated based on the Project’s progress made in site control, zoning approvals, and securing financing commitments. The Project is working with the City and County of Honolulu on finalizing the assignment and the extension of the ground lease and continues to work with First Hawaiian Bank on the sale of the tax exempt bonds and CREA, LLC on the syndication of the Federal and State Low Income Housing Tax Credits (LIHTC).

Closing of the bonds is anticipated in April 2021.

Iwamasa opened for questions, along with Ms. Makani Maeva, Ms. Sarah Devries, and Ms. Joelle Chiu.

There being no questions, the motion was carried unanimously.

Iwamasa presented the For Action, stating staff’s recommendation for the Board’s consideration:

That the HHFDC Board of Directors approve the following:
A. Increase the award of annual Federal Low Income Housing Tax Credit (LIHTC) over a 10-year period to $1,817,244 from $1,395,945 and the award of annual State 4% LIHTC over a 5-year period to $1,817,244 from $1,395,945 from the non-volume cap pool (4% LIHTC) based on the minimum 4% housing credit rate established by the Consolidated Appropriations Act of 2021; 

1. Subject to the provisions and conditions in Exhibit D (of the For Action); and 

2. All other terms and conditions of the Federal and State LIHTC reservation approved by the HHFDC Board of Directors on January 12, 2017 and May 14, 2020, remain the same. 

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

Director Kahele moved, seconded by Director Atta 

That staff’s recommendation be approved.

Iwamasa stated that the subject For Action requests an increase to the pre-existing LIHTC reservation for the Kaiaulu O Waikoloa project (Project), a 60-unit, newly constructed rental facility for family households at or below 30, 40, and 60 percent AMGI. Project Based Section 8 rental subsidy will be provided for 15 of the total units.

The Project is eligible for the new minimum 4% housing credit rate established by the Consolidated Appropriations Act of 2021, which allows the project to qualify for additional credits based on their existing projected eligible basis. The budget has not increased from the prior For Action approved by the Board in May 2020.

Based on the new minimum 4% housing credit rate the project qualifies for an additional $421,299 in annual Federal and State LIHTC. The $3.8 million in additional equity allows the project to reduce other permanent sources, such as the RHRF (i.e., $600,000 in RHRF) and helps with the financial stability.

Iwamasa opened for questions, along with Mr. Doug Bigley, Mr. Grant Bigley, Mr. Mig Saenz, and Mr. Randy Hui, of the development team.

The motion was carried unanimously.

Housing Finance Specialist Christopher Oakes presented the For Action, stating staff’s recommendation for the Board’s consideration:

That the HHFDC Board of Directors approve the following:

A. Increase the award of annual Federal LIHTC over a 10-year period to up to $4,027,021 from $3,047,495 from the non-volume cap pool (4% LIHTC), based on the increased budget/eligible basis and the new minimum 4% housing credit rate. 

1. Subject to the provisions and conditions of Exhibit D; and 

2. All other terms and conditions of the Federal and State LIHTC reservation approved by the HHFDC Board of Directors on February 14, 2019 and August 13, 2020 remain the same. 

B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.
Director Kahele moved, seconded by Director Atta

That staff’s recommendation be approved.

Oakes stated that the subject For Action requests an increase to the pre-existing LIHTC reservation for the Halewai'olu Senior Residences project (Project), a 156-unit, newly constructed rental facility for elderly households at or below 30, 60, and up to 80 percent AMGI.

Based on the new minimum 4% housing credit rate established by the Consolidated Appropriations Act of 2021, the project qualifies for an additional $979,526 in annual Federal and State LIHTC. The additional equity of approximately $10.4 million allows the project to reduce other permanent sources, such as the RHRF (i.e., $8.8 million in RHRF) and helps with the financial stability.

Oakes opened for questions, along with Ms. Karen Seddon, Mr. Benjamin Edgar, and Mr. Questor Lau, of the development team.

There being no questions, the motion was carried unanimously.

Housing Development Specialist Albert Palmer presented the For Action, stating staff’s recommendation for the Board’s consideration:

That the HHFDC Board of Directors approve the following actions relating to the Lanakila Housing Lot Project (Project) located in Honolulu, Oahu, TMK No.: (1) 1-7-041: 002, substantially as described herein:

A. Honolulu Habitat for Humanity (Habitat), or other successor entity approved by the Executive Director, as an Eligible Developer pursuant to Section 15-307-24, Hawaii Administrative Rules (HAR);
B. Negotiation and execution of a Development Agreement (DA), a Ground Lease, and an interim Declaration of Land Use Restrictive Covenants (DLURC), with Habitat for the leasehold development of the project;
C. Negotiation and execution of Ground Leases to qualified residents selected by Habitat;
D. Request for approvals from the Board of Land and Natural Resources (BLNR) related to the planning, development, construction, mortgage, creation of a Condominium Property Regime (CPR), recording of an interim DLURC, and leasing for the Project; and
E. Authorize the Executive Director to undertake all actions necessary to effectuate the purposes of this For Action.

Subject to the following:

F. Approval of the Project by the BLNR, without substantial modifications;
G. Set-aside of the property to HHFDC for affordable housing purposes;
H. Execution of affordability restrictions for the Project;
I. HHFDC’s Shared Appreciation Equity (SAE) and Buyback program restrictions;
J. State Historic Preservation Division (SHPD) clearance to the extent required;

II.F. DISCUSSION AND/OR DECISION MAKING
Approve: (1) Honolulu Habitat for Humanity, or Other Successor Entity Approved by the Executive Director, as an Eligible Developer Pursuant to Section 15-307-24, Hawaii Administrative Rules; (2) Negotiation and Execution of a Development Agreement, a Ground Lease, and an Interim Declaration of Land Use Restrictive Covenants with the Eligible Developer; (3) Negotiation and Execution of Ground Leases to Selected Qualified Residents Pursuant to Section 201H-32, Hawaii Revised Statutes; and (4) Request for Approvals from the Board of Land and Natural Resources Related to the Planning, Development, Construction, Mortgage, Creation Of A Condominium Property Regime, Recording of an Interim Declaration
K. HHFDC approval of building and site plans;

L. The Developer obtaining a title report for the Property acceptable to HHFDC; and

M. Compliance with all laws, rules, and regulations and such other terms and conditions as may be required by the Executive Director.

Director Kahele moved, seconded by Director Mackler
That staff's recommendation be approved.

Palmer stated that with the Board's authorization to seek control of the parcel located at 1741 Lanakila Avenue (Parcel) and due to the size of the Parcel, Habitat is proposing to develop two 3-bedroom/2-bath single family houses under its self-help program (Project), for households between 30 and 60 percent of the Area Median Income (AMI).

Habitat will fund the Project using HOME funds obtained from the City and County of Honolulu and its own equity, seeking HHFDC's assistance in securing the land from the Department of Land and Natural Resources (DLNR). Habitat anticipates keeping costs down primarily through volunteer labor and donated materials.

Palmer opened for questions, along with Mr. Jim Murphy, on behalf of Habitat.

Director Atta asked whether the Parcel would be subdivided. Palmer stated that due to the narrow accesses, subdividing the land is not possible. Therefore, a condominium property regime will be done.

Vice Chair Mackler asked whether the permanent financing would be transferred to the Habitat families of the project. Murphy stated that through the HOME grant received from the City's HOME program, construction costs will be kept to a minimal, with the remainder financed from Habitat's reserves. Once a house is completed, Habitat will hold and service the mortgage on the house for the life of the loan.

Vice Chair Mackler asked whether sweat equity was included within the $357,419.87 per unit cost breakdown. Murphy explained that the sweat equity allows them to reduce total project costs and cannot be assume in-kind donations. Therefore, a lot of work is put in to lowering costs as much as possible.

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

The agenda was taken out of order and Chair Mende proceeded to the recommendations of the Housing Finance Programs Subcommittee.

As presented at the February 11, 2021 Board of Directors Meeting, Chief Planner Janice Takahashi recapped the recommendations of the Housing Finance Programs Subcommittee for the full Board's approval (Attachment A). Policy areas addressed were as follows:

1. Speed up the delivery of rental housing given the great need for affordable rental housing and the protracted approval time; and

2. More efficiently use HHFDC's resources given the large amount of money that have been committed to projects and extensions for those projects.

Takahashi stated that the Subcommittee wants to allow staff to propose additional revisions to the Qualified Allocation Plan if aligned with the overall policies mentioned above.
The question was called, and the motion was carried unanimously.

Real Estate Portfolio Manager Christopher Woodard presented the For Information and Discussion, stating HHFDC’s historical practices in dealing with its ground lease terms for both multifamily residential and commercial projects.

The most current form of project ground lease terms is based on the Kamana Elderly Amended and Restated Ground Lease, incorporating the following new lease terms:

1. The authority of HHFDC to approve net proceeds to the owner resulting from any sale or refinancing of the project; and
2. The requirement to increase the annual lease rent of one dollar to a proportional market rent should any units lose their affordability restrictions through foreclosure or other legal action.

With requests on lease extensions, staff would like to explore its options going forward in conjunction with its mission to increase and preserve the supply of workforce and affordable housing statewide.

(Director McCartney was excused at 9:45 a.m.)

Director Kahele moved, seconded by Director Atta

That the Board convene in executive session pursuant to Section 92-5(a)(3), Hawaii Revised Statutes (HRS), to deliberate concerning the authority of persons designated by the board to negotiate the acquisition of public property, or during the conduct of such negotiations; and Section 92-5(a)(4), HRS, to consult with the board attorney on questions or issues regarding the board’s powers, duties, privileges, immunities, and liabilities as it relates to this matter.

The motion was carried unanimously.

The Board reconvened in regular session at 10:33 a.m.

(Director Carol Reimann was excused in executive session at 9:58 a.m.)

Chair Mende stated that staff will work on recommendations and return to the Board for consideration.

Director Kahele moved, seconded by Vice Chair Mackler

That the board convene in executive session pursuant to Section 92-5(a)(4), HRS, to consult with the board attorney on questions or issues regarding the board’s powers, duties, privileges, immunities, and liabilities as it relates to this matter.

The motion was carried unanimously.

The Board convened in executive session at 10:35 a.m. and returned in regular session at 10:59 a.m.

Executive Director Iseri-Matsubara reported on the following:

As a result of the severe storm and flooding in Waiahole Valley, the water system pumps and control room sustained significant damage. The reservoir had an estimated 4 to 5-day supply of potable water. The Board of Water Supply agreed to provide a hose to hook up to a metered fire hydrant should an alternative be necessary. HHFDC continues to work on the design for repairing the current water system for Waiahole Valley. She thanked Development Branch Chief Dean Minakami and Development Support Section Chief Carianne Abara in working with
Chair Mende announced that there was no oral testimony received for this meeting.

Director Kahele inquired about the Waimanalo Villages complaint letter he received dated March 8, 2021. Chair Mende stated that because it was not placed on the agenda, discussion on the matter would be held off until next month’s meeting. Woodard, who is schedule to attend one of its community meetings, was asked to follow up on the issue and to report his findings back to the Board.

There being no further business on the agenda, Director Mackler moved, seconded by Director Kahele, to adjourn the meeting at 11:05 a.m.

V. ADJOURNMENT
11:05 a.m.

RONA FUKUMOTO
Secretary
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.

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.
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 their Inducement Resolution. 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.

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