

HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

**MINUTES OF THE REGULAR MEETING
OF THE HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
HELD AT THEIR OFFICE AT 677 QUEEN STREET, SUITE 300,
ON THURSDAY, AUGUST 10, 2006
IN THE CITY AND COUNTY OF HONOLULU, STATE OF HAWAII**

The Board of Directors of the Hawaii Housing Finance and Development Corporation met for their Regular Meeting at 677 Queen Street, Suite 300, Honolulu, Hawaii, on Thursday, August 10, 2006, at 9:00 a.m.

Chairman Charles King called the meeting to order at 9:02 a.m.

**CALL TO
ORDER/
ROLL CALL**

PRESENT: Director Charles King
Director David A. Lawrence
Director Betty Lou Larson
Director Theodore E. Liu
Director Charles P. Wathen
Director Georgina Kawamura
Director Linda Smith
Designee Rick Manayan
Designee Scott Kami

Executive Director Orlando (Dan) Davidson

Staff Present: Sandra Ching, Deputy Attorney General
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Thomas Otake, Acting Development Section Chief
Gene Dumarán, Personnel Management Specialist
Stanley Fujimoto, Development Specialist
Chris Sadayasu, Development Specialist
Leo Domingo, Development Specialist
Gary Umeda, Housing Inspection Technician
Marilyn Chock, Mortgage & Rental Financing Section Chief
Dean Sakata, Finance Specialist
Jeanne Hamilton, Planner

Others: Marvin Awaya, Pacific Housing Assistance Corporation
Karen Kuioka, Program Budget Analyst, Department of Budget
and Finance
Lynette Fukunaga, Program Budget Analyst, Department of Budget
and Finance
Bill T. Barton, Independent Court Reporter

Chairman King declared a quorum present.

QUORUM

Chairman King asked for a motion to approve.

Director Lawrence moved, and there was no second to the motion.
Director Kawamura asked for the following clarification.

**II.A.
APPROVAL
OF MINUTES
7/3/06 Special
Meeting**

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Page 5, Paragraph 1. Director Kawamura asked for clarification regarding the delegation that gives the Executive Director the authority to approve contracts and change orders over \$100,000. She asked whether the reporting process is to ask for the Board's approval of contracts over \$100,000. Staff replied that the HHFDC Executive Director is authorized to approve all contracts and change orders, regardless of dollar amounts, and that all contracts and change orders over \$25,000 will be reported to the Board.

Page 1, Roll Call. Add Director Theodore Liu, who was present at the July 3, 2006 Special Meeting.

The minutes of the Special Meeting held on July 3, 2006, were approved as amended.

The Chair indicated that the Executive Session Meeting Minutes for July 3, 2006, would be approved during the Executive Session.

II.B.
7/3/06 Executive
Session

Director Lawrence moved, seconded by Director Liu,

That the Board enter into Executive Session at 9:12 a.m. to discuss personnel matters pursuant to §92-5(a)(2), Hawaii Revised Statutes, as it relates to the following matter: Selection of the HHFDC Executive Director.

III.
**EXECUTIVE
SESSION**
Selection of
the Executive
Director

The motion was unanimously carried.

The Executive Session concluded at 11:38 a.m.

The Chair reconvened the Regular Meeting at 11:38 a.m.

RECONVENED

Chairman King reported that the Board met in Executive Session and interviewed candidates for the HHFDC Executive Director's position.

Director Smith moved, seconded by Director Kawamura,

That Mr. Dan Davidson be offered the position of HHFDC Executive Director.

The motion was unanimously carried.

The Board congratulated Mr. Davidson. Mr. Davidson accepted the position.

Director Liu acknowledged the Board's appreciation to Ms. Janice Takahashi, HHFDC Chief Planner, who was the Acting Executive Director of the Corporation for the period prior to Mr. Davidson's appointment.

At 11:40 a.m., Director Smith indicated that she had to leave the meeting because of a scheduled trip.

Chairman King asked for a motion to approve.

Director Lawrence moved, seconded by Director Liu,

Mr. Darren Ueki, Finance Manager, presented the For Action. Mr. Ueki reported that staff is seeking the Board's approval to conduct a public hearing relating to the Low-Income Housing Tax Credit Program's Qualified Allocation Plan.

IV.A.
**DISCUSSION
AND/OR
DECISION
MAKING**
Authorization
to Conduct a
Public Hearing
on the
LIHTC
Program's

Under Section 42 of the Internal Revenue Code (IRC), each state that allocates low-income tax credits is required to create a qualified allocation plan as it relates to the IRC. Section 42 of the Code states that certain selection criteria must be used and set forth in a qualified allocation plan. In accordance with Section 42 of the IRC, any changes to the plan must go through a public hearing process.

Staff is seeking the Board's authorization to conduct the public hearing to accept public comments for the plan as stated in the For Action.

The plan contains criteria by which projects are reviewed and/or awarded points. There are 18 criteria used to score the projects competitively, which include those required by Section 42, as well as the priorities required by the State and the HHFDC Board. There are 3 minimum threshold criteria which must be satisfied for an applicant to be considered for an award of Low Income tax credits.

Mr. Ueki briefly reviewed the changes to the scoring criteria as stated in the For Action.

1. Scoring criteria Number 3. The scoring range for the Low Income Tax credits per unit requested is increased to reflect higher construction costs that were seen within the industry.
2. Scoring criteria Number 4. Total points possible are increased from two to four points for projects that conform to the land use designation and zoning restrictions to reward projects that are ready to proceed with construction.
3. Scoring criteria Number 13. Staff would like to recognize the low market land leases, specifically land leases from the HHFDC as a form of financing that contributes to the feasibility of the project and is recognized as a local market support.
4. Relating to compliance monitoring. The Internal Revenue Service does impose upon the corporation a fifteen year compliance period and a fifteen year extended use period. Staff is, therefore, discussing how they will address compliance issues.

Mr. Ueki reported that staff will review suggestions and comments received at the public hearing and submit its recommendation to the Board on any imposed amendments to the plan. After incorporating the Board-approved amendments of the plan, staff will utilize the amended plan to review projects applying for Low Income Housing Tax Credits in calendar years 2007 and 2008.

Mr. Ueki pointed out that the timeline of events is indicated on page 3, Item III.J., of the For Action. The public hearing will be held on September 22, 2006.

Should the Board approve staff's recommendation, staff would like applications for the tax credit program available by October 20, 2006; returned to HHFDC by January 19, 2007; and final recommendations submitted to the Board within May or June of fiscal year 2007.

Mr. Ueki indicated that he was available for questions by the Board.

In response to a question posed by Director Kawamura, Mr. Ueki confirmed that the plan is for allocation of tax credits for calendar Years 2007 and 2008. However, the HHFDC refers to the program as a Fiscal Year 2007 program because that is when applications are made available and accepted.

Director Liu raised the following questions:

1. What is the magnitude of credits that are available for the next fiscal year? Mr. Ueki replied \$1.90 per capita, or approximately \$2.45 million in competitive 9 per cent credits, based on a population base.

2. With reference to Item III.B.1. of the For Action, how have the priorities of the State been derived, in regards to the 18 criteria used to score projects competitively? Mr. Ueki stated that the priorities of the State were derived through recommendations from the staff, working up through the Executive Director, and through the annual For Actions brought before the Board.
3. Of the 18 criteria, how many are attributable to the IRS and how many are attributable to the State? Mr. Ueki replied that Criteria 4 and Criteria 6 are examples of criteria that are set forth by the State. He added that the majority of the scoring criteria are based on State need.

Director Liu asked Executive Director Dan Davidson if it is time for a review of the criteria in the Qualified Allocation Plan (QAP). Mr. Davidson replied that it is a good time to review criteria in the QAP that is not an IRS requirement, with input from stakeholders. Executive Director Davidson also added that there is a balance being sought between establishing the QAP so that the application round to award credits next year can be established in a timely manner and the evaluation of the QAP to meet the direction of the State.

Mr. Ueki added that the recommended changes to the criteria were based on comments and discussions with program users. Staff regularly communicates with the program users regarding the program. More changes may be recommended through the public hearing.

Director Larson asked for clarification that points are given for the length of the affordability commitment. One issue the Board should consider is how to develop projects that would maintain its affordability in perpetuity. Mr. Ueki replied that the scoring for the number of years has not changed. The minimum number of years the project will be affordable is required by the IRS. The scoring itself is not an IRS requirement. The criteria rewards projects committing to a longer affordability period. The criteria were established with consideration to the needs of the developer. Some projects have committed to 61 years or more of affordable housing. Director Liu stated that there is a balance between ensuring the development of affordable housing and the conditions imposed. Imposing onerous conditions may be a disincentive for developers to create new affordable housing, thereby, creating a lack of supply. Chairman King indicated that the range in the scoring criteria considers this balance. Having an all or nothing criteria would lead to years where no new units would be created. Director Wathen indicated that there is a balance between what a developer does and what he can finance. If the conditions are too onerous, the project cannot be financed. The length of time is not a bad criterion, however, other administrative restrictions must be considered. Director Wathen recommended that staff readdress the criteria with consideration with the other administrative rules associated with the requirement.

Chairman King asked if the Board had any additional comments.

Director Larson asked if the change in the scoring in Criteria 4 has some impact on the program since applicants were not ready to proceed with development. Mr. Ueki replied that the increase from two to four points will encourage projects that are more able to move forward with development to apply. The change emphasizes the importance in priority to award LIHTC to projects that are ready to proceed.

The Chair asked for a vote on the motion.

The motion was unanimously carried.

Chairman King asked for a motion to approve.

Director Larsen moved, seconded by Director Wathen,

Mr. Stanley Fujimoto, Development Specialist, presented the For Action.

Mr. Fujimoto reported that the Senior Residence at Iwilei Project is a 160-unit affordable senior rental project on State land on Iwilei Road behind the OR&L Building on North King Street, Honolulu. The land is owned by the Department of Land and Natural Resources and has been transferred to the HHFDC by executive order. In year 2000, a developer was selected, and in year 2002, the developer obtained DURF financing.

IV.B.
Extension of
Condition to
DURF
Financing
for the
Senior
Residence at
Iwilei Project,
Oahu, Hawaii

The previous Board of Directors ratified the DURF Funding, but imposed two conditions with deadlines:

1. To obtain the 201G zoning exemption; and
2. To obtain Board approval over a revised financing plan.

The developer did meet condition 1 in 2004; however, the deadline for reviewing the financing plan is August 31, 2006.

The developer has applied for 4% tax credits and tax-exempt bond financing. The HHFDC has approved an inducement resolution indicating an intent to issue the bonds. The revised financing plan is to use the 4% tax credits and the bond financing to bring down the DURF funds.

The developer has been working on his construction costs and recently obtained a detailed construction estimate from a construction estimator and is not ready to submit his revised financing plan. He is still working on his construction costs. Based on his estimates, the developer needs to work on bringing the costs down.

One reason for the delay in the past was that the developer had to redesign the project because the City and County of Honolulu proposed expanding the Chinatown Special Design District to include the site, which would have reduced the height limit from 200 feet to 80 feet. As it turned out, the proposal to expand the Special Design District was not passed by the City. This delayed the project by two years.

The project was eventually approved under 201G in 2004; however, the Attorney General gave an opinion in 2004 that DURF funds could not be used for permanent financing. The project stopped, and the developer as well as HHFDC staff had to work with the Legislature to revise the DURF statute in order to permit DURF funds to be used for permanent financing.

Another issue in the history of this project is the approval of an adjacent easement on the DAGS portions of the site, Easement U. Easement U permits access to connect Kaahi Street to Iwilei Road and would enable the HHFDC to remove a 40 foot access easement, which currently traverses the site. The DLNR approved Easement U at the end of April 2006.

The developer submitted his project plans for foundation in May 2006 and expects to get his permit by the end of 2006.

Staff is requesting approval of an extension of one year to August 31, 2007 for the developer, Marvin Awaya, to obtain Board approval of a revised financing plan for this project.

Mr. Fujimoto indicated that he was available for questions from the Board, since Mr. Awaya had to leave the meeting.

Director Kawamura raised the following questions.

1. What is the developer's current financing plan? Mr. Fujimoto indicated that the developer's plans are stated in Item II.C., on Page 1, of the For Action.
2. Is the developer anticipating seeking HHFDC approval of a revised financing plan in September 2006? Mr. Fujimoto replied in the affirmative.
3. Is the foundation permit expected in late 2006? Mr. Fujimoto also replied in the affirmative.

Director Lawrence asked Mr. Fujimoto if the plan of the City and County of Honolulu to go ahead with a fixed rail system would be suitable for this project, and Mr. Fujimoto replied in the affirmative. The fixed rail system has two alignments near this project. One alignment is through Easement U, and the other alignment is through North King Street.

Director Wathen made a point that the Board has to recognize that there is a lesson to be learned from the history of this project and its lengthy processing. Mr. Fujimoto indicated that one lesson staff has learned is that the 201G zoning exemption process entails several obstacles, and perhaps staff should assist in expediting the 201G process. The DURF funds were approved with the understanding that permanent financing could be used.

Director Liu queried whether or not there are other issues lurking that the Board should be anticipating in order to minimize surprises going forward. Director Liu also asked if the Rental Housing Trust Fund was replaced with the DURF Fund, and Mr. Fujimoto replied in the affirmative.

Chairman King asked for a vote on the motion.

The motion was unanimously carried.

Executive Director Dan Davidson provided an overview of HHFDC's working mission statement, legislative history, and tools to facilitate the development of affordable and workforce housing.

IV.C.
HHFDC
Orientation
Workshop

Discussion ensued on the effectiveness of the Chapter 201H development approval process. While the legislative body has 45 days from receipt of a completed application to approve or disapprove a housing project, there are no time constraints placed on the executive branch. Director Wathen wondered if additional legislative amendments were needed to strengthen 201H. Executive Director Davidson felt legislation may not be the only solution. Staff will continue to work with developers and the counties to fully utilize our 201H powers to accelerate project approvals.

Director Liu asked about the uses of the Dwelling Unit Revolving Fund. DURF can be used for making interim construction and permanent take-out loans, as well as to acquire property and for administrative costs. There is a cash balance of approximately \$80.8 million in DURF. However, with project commitments and outstanding loans, the uncommitted DURF balance is approximately \$20 million.

When reviewing rental projects that are under construction and in pre-development, Director Larson asked how the HHFDC could notify provider agencies, such as Catholic Charities, when projects are available for rent. Besides agencies checking HHFDC's website and the initial promotional blitz, staff could work on ways to notify agencies. (Adrienne Gardner will follow up with a possible link to HHFDC's website.)

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Chair King asked about the status of filling personnel vacancies. Staff has been drafting position descriptions and working on a blanket approval to hire. As the paperwork is with DBEDT, Director Liu offered to expedite it.

Director Liu asked about the Kamaaina Hale rental project in Kona. The underlying ground lease for the 128 unit project is held by Kamehameha Schools and we are nearing the end of the initial fixed lease rent period. Darren Ueki is presently renegotiating the lease rent. There is an opportunity for Kamehameha Schools to infuse money for capital improvements as a means to satisfy an affordable housing condition. Staff (Mr. Darren Ueki) will get back to the Board in response to Director Lawrence’s question on what HHFDC’s obligation is under the lease.

Chair King asked about the status of the computer system. Faye Morinaga-Pang described the need for a new accounting system. Ms. Janice Takahashi added that the Legislature appropriated \$708,000 for a new computer system and equipment and that the request for release of funds was submitted to B&F.

Director Kawamura noted the importance of having monthly financial statements that are linked to the budget. She added that the budget should have clear and measurable objectives. Director Kawamura suggested that the HHFDC find another funding source for operations, specifically the State General Fund. Executive Director Davidson will request a follow-up meeting with the Director.

Director Larson noted the need to extend the 50% share of conveyance tax for the Rental Housing Trust Fund beyond 2007. Staff will draft legislation.

The Board approved Item IV.D., 2006 Meeting Schedule of the Hawaii Housing Finance and Development Corporation.

IV.D.
Approve
Board
Meeting
Schedule
For 2006

There being no further discussion, Chairman King asked for a motion to adjourn the meeting.

V.
ADJOURNMENT

Director Liu moved, seconded by Director Lawrence,

That the meeting be adjourned at 1:12 p.m.

The motion was unanimously carried.

BETTY LOU LARSON.
Secretary

