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, FEBRUARY 14, 2008 IN THE CITY AND COUNTY OF HONOLULU, STATE OF HAWAII

The Board of Directors (Board) of the Hawaii Housing Finance and Development Corporation (HHFDC) met for their Regular Meeting at 677 Queen Street, Suite 300, Honolulu, Hawaii, on Thursday, February 14, 2008, at 9:00 a.m.

CALL TO ORDER/ ROLL CALL

Chairman Charles King called the meeting to order at 9:00 a.m.

Present:
Chairman Charles King
Director David A. Lawrence, Vice Chairman
Director Georgina Kawamura
Director Linda Smith
Director Charles Wathen
Director Richard Toledo
Director Allan Los Banos

Executive Director Orlando (Dan) Davidson

Excused:
Director Betty Lou Larson, Secretary
Director Theodore E. Liu

Staff Present:
Sandra Ching, Deputy Attorney General
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Karen Seddon, Development Branch Chief
Edward Sunada, Fiscal Manager
Rick Manayan, Asset Manager

Lisa Wond, Housing Sales Coordinator
Chris Sadayasu, Housing Development Specialist
Ryan Morita, Housing Development Specialist
Cynthia Okubo, Property Management Coordinator
Kent Miyasaki, Housing Information Specialist
Marsha Umamoto, Secretary to the Executive Director
Esa Pablo, Secretary to the Board

Guests:
Stanford Carr, Stanford Carr Development, LLC
Jessie Wu, Stanford Carr Development, LLC
Carol Galante, BRIDGE Housing Corporation
Kevin Carney, EAH Housing, Inc.
Claudia Shay, Self-Help Housing Corporation of Hawaii
John Quinn, KMH, LLP

QUORUM

Chairman King noted that there was a quorum present.

Chairman King requested that the Board take up Agenda Item III. E. before Item III. D., on behalf of the guest speaker from BRIDGE Housing Corporation (BRIDGE).

II.A. APPROVAL OF MINUTES 1/10/08 Regular Meeting

Chairman King called for a motion of approval.

Director Lawrence moved, seconded by Director Smith, to approve the Meeting Minutes of January 10, 2008.

The motion was unanimously approved.

Chairman King called for a motion of approval.

Director Lawrence moved, seconded by Director Smith to approve Staff's recommendation as follows:

III.A. DISCUSSION AND/OR DECISION MAKING
Adopt Resolution No. 010 Authorizing, Among Other Things, the Issuance of Hula Mae Multi-Family Tax-Exempt Revenue Bonds for the Kahului Town Terrace Project, TMK No. (2) 3-7-012:080

A. Adopt Resolution No. 010, attached as Exhibit A, which provides for official intent with respect to the issuance of revenue bonds up to $9,000,000 for the Kahului Town Terrace project;

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

Chairman King recused himself from voting on the For Action, indicating that a quorum was still present for approval.

Finance Manager Darren Ueki, gave a brief summary on the For Action, noting the following information:

1) On April 12, 2007, the Board adopted Resolution No. 002, providing official intent with respect to the issuance of Hula Mae Multi-Family (HMMF) Bonds for the Kahului Town Project;

2) The project was originally financed through the HHFDC's Low-Income Housing Tax Credit (LIHTC) Program in 1989, which had an affordability period that expired in 2006; and

3) The Tax Equity and Fiscal Responsibility Act (TEFRA) Hearing was conducted on January 31, 2008.

Mr. Ueki opened for questioning, introducing Mr. Kevin Carney, with EAH Housing, Inc.

Discussion ensued on the Project's financial breakdown posed by Director Wathen. In response, Mr. Ueki referred Director Wathen to Exhibit C, Applicant Summary.

In response to Director Smith, Mr. Ueki clarified that the total project cost is roughly $16.8 million, of which $13.6 million is for the acquisition of the land and building from the current owner.

In response to Director Wathen, Mr. Ueki stated that the length of the deed restriction would be for 55 years.

Director Smith suggested that the "Construction" heading of the proposed financing sources table, be changed. She explained that she often interprets "construction" as meaning to "rebuild" rather than "operating."

In response to Director Wathen on the rehabilitation plan, Mr. Carney reported that they are in the process of prioritizing what needs to be done.

In response to Director Lawrence's inquiry, Mr. Carney stated that there will be no need for residents to be moved while the units are being worked on, which will be done unit by unit.

With no further questions, the motion was approved.

Director Wathen moved, seconded by Director Toledo, to approve Staff's recommendation as follows:

III.B. DISCUSSION AND/OR DECISION MAKING
Approve Self-Help Housing Corporation

That the HHFDC Board of Directors approve SHHCH's request for a twelve (12) month extension of its interim DURF loan and an increase

of its loan cap by $250,000.00 to $2,350,000.00 to continue financing SHHCH's development of the Maili lands and authorize the Executive Director to execute all of the required documents to process the loan subject to:

A. Availability of DURF.

B. Approval and release of funds by the Governor.

C. Execution of an Amended Interim Loan Agreement including, but not limited to, the terms and conditions listed in this For Action.

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

of Hawaii's Request For Extension of Dwelling Unit Revolving Fund Interim Loan and Increase In Loan Amount for The Maili III Self-Housing Project, Maili, Waianae, Oahu, TMK Nos.: (1) 8-7-2:01, 07, 15&16

Chairman King noted that Ms. Janice Takahashi, Chief Planner, was filling in for Executive Director Dan Davidson until his return from the State Capitol.

Prior to going into the details of the For Action, Mr. Chris Sadayasu, Project Manager, introduced Ms. Claudia Shay, Executive Director of the Self-Help Housing Corporation of Hawaii (SHHCH).

Mr. Sadayasu stated that SHHCH has requested an extension of its interim Dwelling Unit Revolving Fund (DURF) loan, previously approved by the Board in January 2007. SHHCH used the DURF money to purchase four vacant parcels in Maili and is developing a 77 unit affordable self-help housing project. SHHCH originally requested $2,100,000 interim loan with a 15 month loan term. However, due to circumstances detailed in SHHCH's letter (Exhibit A), SHHCH is requesting a loan extension to allow them time to complete the project.

Staff has met with Ms. Shay and Bank of Hawaii representatives regarding project progress and based on the information presented, Staff recommends approval of this 12 month loan extension and an additional $250,000 in loan cap to account for any interest that may accrue on the loan principal.

In response to Director Toledo as to why the projected timeframe of the project is taking longer than expected, Ms. Shay responded that the City & County of Honolulu required a Chapter 343, Hawaii Revised Statutes, Environmental Assessment, rather than the Phase I Environmental Assessment originally thought would comply.

In response to Director Kawamura's inquiry regarding to the new extension date, Mr. Sadayasu stated that the new loan extension would expire in May 2009, instead of the original loan term, which expires in May 2008.

Chairman King inquired on having enough families to acquire the project. Ms. Shay stated that SHHCH is currently working with about 300 families seeking homes, so she believed the demand vastly exceeded the number of units SHHCH will provide on this project.

Chairman King stated for the record, that Director Smith was not present during the vote of this For Action.

The motion was unanimously approved.

III.E. DISCUSSION AND/OR DECISION MAKING
BRIDGE Housing Corporation

Ms. Carol Galante, President and CEO of BRIDGE Housing Corporation (BRIDGE), a private nonprofit housing corporation in California, made a presentation to the Board. Ms. Galante noted that BRIDGE has been in operation for 25 years and has developed over 13,000 affordable homes for working families and seniors.

Presentation on Affordable Housing Developments.

The founding board of directors was very concerned that the high housing costs in the Bay Area were undermining the workforce and economy and, instead of doing more studies, created BRIDGE as a vehicle to build quality affordable housing at scale.

About 80% of BRIDGE's work is rental housing development and 20% is in for-sale housing. Also, about 80% is in new construction and 20% in acquisition/rehabilitation. Ms. Galante indicated that BRIDGE is starting to shift a bit more towards acquisition/rehabilitation because the cost of new construction and the timetable for entitlements (3 years) makes it difficult to meet their production goal of 1,000 units per year.

Ms. Galante highlighted BRIDGE's partnership with the California Public Employees' Retirement System (CalPERS). CalPERS selected BRIDGE to manage a $100 million equity fund in 2000, and as a result, BRIDGE Urban Infill Land Development (BUILD) was launched and successfully invested the initial allocation in seven mixed-income developments. Currently, about $175 million of the $2 billion that CalPERS has allocated for real estate investments, is managed by BUILD to invest in mixed-income, mixed-use developments to revitalize communities. There is a minimum 8% return to CalPERS.

Ms. Galante also spoke briefly about the California Housing Finance Agency housing programs, highlighting bridge loans to local governments for site acquisition and soft financing to help get projects started.

In response to a question on perpetuity clauses by Director Lawrence, Ms. Galante noted that in California, there is no perpetuity clause with any of the soft financing or tax credits; however, indicated a 55-year affordability period for tax credits.

For tax credit deals, BRIDGE requires that they have the right of first refusal to buy the rental project from the investors in the limited partnership at beneficial terms. BRIDGE has bought back about 10 projects from its investors and intend to keep them affordable in perpetuity.

Ms. Galante stressed that the tax credit investor community has accepted the right of first refusal, which is very important because there is supposed to be an economic benefit to that investor. If the affordability clause was there in perpetuity, the investors would argue that they cannot demonstrate the economic benefit and that the IRS would call that into question.

Director Wathen asked about the impact on the return on investment for longer periods of affordability, say from 55 years to 75 years. Ms. Galante was not sure. She mentioned that there was no difference in the yield between 30 and 55 years. However, the tax credit market is the major factor. She is currently seeing tax credit investments get lower yields to the investor due to the turmoil in the credit market.

Ms. Galante felt that a tax attorney would have some heartburn over telling the investor that they have an economic interest with the perpetuity clause and thought it would be worth consulting with the tax attorneys. She believed, however, that the yield would not make a difference on leasehold land. Regarding for-sale units, there is a 45-year buyback provision and some sharing of appreciation.

In response to Director Toledo's question about BRIDGE's land inventory, Ms. Galante stated that about half of their work is on land acquired from private individuals and the other half is responding to public agency RFPs. Another way of acquiring land is through inclusionary zoning. BRIDGE works with for-profit developers who have affordable housing requirements and essentially takes on the obligation of doing their affordable housing.

Discussion ensued on the State of California's fair-share allocation plan to

ensure that each county provides for its fair share of housing needs from very low-income to market rate housing.

Director Smith asked about the impact of regulations and entitlements on housing. Ms. Galante opined that the biggest stumbling block is the California Environmental Quality Act, which has been the regulatory framework under which the entitlements get bogged down. The environmental process is time consuming and costly. Ms. Galante noted that smaller housing projects of under 100 units that meet various requirements can get an exemption.

Ms. Galante entertained additional questions on tax increment financing, the importance of coalition building, CalPERS partnership, and community land trusts, preferably state or municipally-owned land trusts.

Chair King thanked Ms. Galante for addressing the Board.

RECESS
10:20 a.m.

The meeting recessed at 10:20 a.m.

RECONVENED
10:25 a.m.

The meeting was reconvened at 10:25 a.m.

Chairman King asked for a motion to approve.

III.C. DISCUSSION AND/OR DECISION MAKING
Accept the Audited Financial Statements of the Hawaii Housing Finance and Development Corporation for the Fiscal Year Ended June 30, 2007

Director Lawrence moved, seconded by Director Kawamura, to approve Staff's recommendation as follows:

> That the HHFDC's Board of Directors accept the audited financial statements for the fiscal year ending June 30, 2007 and authorize the Executive Director to finalize responses to management responses.

Executive Director Davidson apologized for his lateness, due to Legislative hearings held at the State Capitol.

Executive Director Davidson introduced Mr. Edward Sunada, Fiscal Manager, and Mr. John Quinn, with KMH, LLC, to present the For Action.

Before handing over the discussion to Mr. Quinn, Mr. Sunada indicated that there were two revised handouts that were distributed that morning. One titled "Management Discussion and Analysis," and the other, "Schedule of Findings and Questioned Costs."

Mr. Quinn pointed out the following financial findings:

- Current Assets –an increase in cash flow coming from the Dwelling Unit Revolving Fund (DURF) from sale proceeds off of land and units.
- Assets held by trustee –declined as a result of previous redemption of bonds.
- Business Activities –due to an increase of 30% to 50% in conveyance tax for the Rental Housing Trust Fund (RHTF). Also Operating grants and contributions –rezone of a $12 million improvement as a result of a decline in fair value of investments the prior year.
- Multi-Family mortgage loan programs –increased from about $3 million to about $8.8 million, in which $5.5 million went to the Waianae Housing Project in the RHTF.
- Estimated future costs of land sold –approximately $30 million liability essentially represents the estimate future cost to complete the Kapolei project, including estimated future revenues.

In response to Director Wathen, Mr. Quinn indicated that the estimated total loss for the Kapolei project is approximately $50 million. With shared

appreciation factored in, the appreciation would make up the difference by the time the project is completed; however, Mr. Quinn stated that there is still a long period of time to see what the outcome is, depending on how the values hold up.

In response to Director Smith, Mr. Quinn covered the following audit findings, which are considered essentially resolved:

- 2006-1 Financial Management regarding lack of Accounting oversight –the Fiscal Manager's position has been filled with Mr. Sunada.

- 2006-2 Non-reconciliations of General Ledger Accounts –management reconciled general ledger account balances to the corresponding transaction or activity level in a timely manner.

- 2006-3 Insufficient Staffing and Lack of Training –although staffing and training is an ongoing issue, sufficient progress has been made however; there is a growing need in finding replacements of long-term employees approaching retirement and to plan for a smooth transition of personnel.

Discussion ensued on a software capability for the Fiscal Department's needs. Mr. Sunada stated that a fair amount of time is being spent on defining the requirements of the accounting system in order to properly design the Request For Proposal (RFP) to solicit proposals. Difficult areas include the need to handle the State systems of accounting, procurement, etc. along with Federal requirements (e.g. HUD). Additionally, there is the need to accommodate the requirements of operations such as property management reporting. The goal of the Agency is to move all in-house tasks into one system, not being subjected to other individuals in other agencies.

Director Smith suggested that other housing finance development corporations in other states be observed, perhaps providing some models that HHFDC can look at and modify as opposed to recreating a software from scratch. Mr. Sunada responded that staff has looked at other systems; however, it was determined that those systems were not able to meet the demands of the Agency.

The Board ensued in discussion on a new accounting computer system, in which Mr. Sunada stated that the basic issue is finding a system that is capable of handling all or has the capability of interfacing with other programs to meet the needs of the general accounting involving two charts of account, State and HUD, as well as a fair amount of cost allocations necessary and provide the ability of third parties (i.e. property managers at project sites to use the property management portion of the system for property transactions and reporting).

Director Los Banos recused himself from voting on the For Action, with regard to his son being associated with the accounting team. Mr. Quinn responded that the company did look into that, and because his son did not work on any of the HHFDC items, there is no issue.

With that clarified, the motion was unanimously approved.

III.D. DISCUSSION AND/OR DECISION MAKING
Discussion on a Policy for the Long-Term Preservation of Affordable Housing

Chairman King indicated that the "For Discussion" in Item III. D. frames the context for appointing a task force. The task force would take a look at HHFDC's current affordability restrictions and make recommendations to amend them, if necessary.

In response to Chairman King's question if pending legislation on perpetuity impacted the HHFDC, Ms. Janice Takahashi, Chief Planner, replied in the negative.

Discussion ensued on the issue of requiring housing to remain affordable in perpetuity.

Director Wathen wondered if the corporation could immediately adjust the scoring mechanism for financing applications such that the minimum threshold for affordability is 60 years.

Following further discussion, there was agreement to let the task force make a recommendation based upon its findings.

Chairman King appointed Directors Smith, Wathen, Lawrence, and himself to the task force.

IV. REPORT OF THE EXECUTIVE DIRECTOR

Executive Director Dan Davidson reported on the following items:

- Legislature Report –Executive Director Davidson reported on the following supplemental budget requests: 1) A CIP appropriation of $25 million for the Rental Housing Trust Fund (RHTF); 2) A CIP appropriation of $25 million for the Dwelling Unit Revolving Fund (DURF); 3) Extension of 50% of the conveyance tax through 2013; and 4) A CIP appropriation of $26 million to complete the Kukui Gardens structured transaction.

  Unfortunately, without the $25 million GO bond infusion, it is projected that the monies in the RHTF will be depleted by July 2008. Executive Director Davidson stated that the Corporation would need to find other means of funding.

- HB 2732/SB 2294 –Increases the reserved housing requirement for a planned development on a lot of at least one acre in the Kakaako community development district, Mauka area. For such a planned development, at least 50% of the floor area is required to be constructed and made available as reserved housing units for low- and moderate-income families.

  The Board ensued in discussion on the impacts of HB 2732, which Executive Director Davidson indicated would be further monitored by staff.

Ms. Takahashi reported on the housing-related Administration bills as follows: 1) HB 3057/SB 2979 Relating to Housing –permanently makes 50% allocation of conveyance tax proceeds into the RHTF; 2) HB 3058/SB 2980 Relating to the Housing Loan and Mortgage Program –increasing Hula Mae Multi-Family (HMMF) revenue bond authority from $400 million to $500 million; and 3) HB 3059/SB 2981 Relating to Low-Income Housing Tax Credits (LIHTC) – reducing the period over which state LIHTC are taken from 10 to 5 years.

Ms. Takahashi thanked Chairman King for providing supporting testimony on an additional Administration bill, SB 3064, Relating to Salaries.

Director Smith encouraged the Board to submit written testimony in support of HB 1127, relating to Smart Growth, in increasing the acreage from 15 to 50.

Director Wathen stated that he supported HB 3401, relating to Affordable Housing Development, indicating that it would reduce barriers for affordable housing.

Chairman King noted that he would not be able to attend the next Board meeting in March.

VI. ADJOURNMENT

Having no further business on the agenda, Director Wathen moved, seconded by Director Toledo, to adjourn the meeting at 11:40 a.m.

BETTY LOU LARSON
Secretary