HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

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, JULY 14, 2011 IN THE CITY AND COUNTY OF HONOLULU, STATE OF HAWAII

AMENDED MINUTES 8/11/11

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, July 14, 2011, at 9:15 a.m.

CALL TO ORDER/ ROLL CALL

Chairman David Lawrence called the meeting to order at 9:05 a.m.

Present: Director David Lawrence, Chairman
Director Ralph Mesick, Vice Chairman
Director Paul Kyno
Designee Scott Kami
Designee Mary Alice Evans

Executive Director Karen Seddon

Excused: Director Allan Los Banos
Director Kalbert Young
Director Betty Lou Larson, Secretary
Director Michael Ng
Director Richard Lim
Director Francis Jung

Staff Present: Sandra Ching, Deputy Attorney General
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Rick Prahler, Development Branch Chief
Galen Lee, Fiscal Manager
Stan Fujimoto, Development Section Chief
Marlene Lemke, Real Estate Services Section Chief
Dean Sakata, Housing Finance Specialist
Patrick Inouye, Housing Finance Specialist
Byron Chock, Housing Finance Specialist
Jocelyn Iwamasa, Housing Finance Specialist
Lisa Wond, Planner
Mavis Masaki, Planner
Krystal Lee Tabangcura, Procurement Specialist
Kent Miyasaki, Housing Information Specialist
Esa Pablo, Secretary to the Board

Guests: Gary Furuta, GSF LLC
Gil Barden, Pacific Island Investments
Shirley Leman, Helping Hands Hawaii at Safe Haven
Max Gray, Partners In Care
Linoe McKeague, Partners in Care
Eddie Ontai, Catholic Charities Housing Development Corporation
Makani Maeva, Vitus Development
Joelle Chiu, Vitus Development
Kent Anderson, Roman Catholic Church
Keith Kato, Hawaii Island Community Development Corporation

CORRECTED 8/11/11

QUORUM

A quorum was present.

Director Mesick moved, seconded by Director Kami, to approve the Meeting Minutes of June 9, 2011.

II. A. APPROVAL OF MINUTES
6/9/11 Regular Meeting

The motion was unanimously approved.

Director Mesick moved, seconded by Director Kami, to approve staff's recommendation:

III. A. DISCUSSION AND/OR DECISION MAKING
Approve the Developers as Eligible Developers Pursuant to Section 15-307-24, Hawaii Administrative Rules, Exemptions from Statutes, Ordinances and Rules Pursuant to Section 201H-38, Hawaii Revised Statutes; and Execution of a Development Agreement for Such Exemptions, for the Meheula Vista Senior Affordable Rental Housing Project Located in Mililani Mauka, Oahu, TMK No.: (1) 9-5-002:032 (portion).

> That the HHFDC Board of Directors approve the following for the Meheula Vista Senior affordable rental housing project on approximately 7.5 acres of land at 95-1080 Lehiwa Drive in Mililani Mauka, Oahu, Hawaii, on TMK (1) 9-5-002: 032 (portion), substantially as discussed in this For Action:
>
> A. Approval of the developers, or other entit(ies) approved by the Executive Director, as Eligible Developers pursuant to Section 15-307-24, HAR;
>
> B. Approval of the proposed exemptions from statutes, ordinances and rules, recommended for approval herein, pursuant to Section 201H-38, HRS;
>
> C. Execution of any development agreement(s) for such exemptions as required by the HHFDC Executive Director;
>
> D. Authorize the Executive Director to take all actions necessary to effectuate the purpose of this For Action;
>
> Subject to the following:
>
> A. Execution of any development agreement(s) for such exemptions as required by the HHFDC Executive Director; and
>
> B. Compliance with all rules and regulations and such other terms and conditions as may be required by the Executive Director.

Development Section Chief Stan Fujimoto presented the For Action, stating that the 301-unit Meheula Vista Senior affordable rental housing (Project) is located in Mililani Mauka, Oahu.

The Project proposes to develop in two or more phases, based on the availability of finances requested through the HHFDC's Low Income Housing Tax Credit (LIHTC) and Rental Housing Trust Fund (RHTF) programs.

The Project will be targeted for seniors, age 55 years and older, of which will include 16 units accommodating incomes at 30% and below the U.S. Department of Housing and Urban Development (HUD) area median income (AMI) and 284 units at 60% and below the HUD AMI.

On June 10, 2010, the Board approved a $9.7 million Dwelling Unit Revolving Fund (DURF) interim loan to GSF LLC (Developer) or other entity for land acquisition, planning and design for an affordable family or a senior rental housing project. Release of the DURF funds were approved by the Governor, with loan documents pending.

Presentations were held at several Mililani Mauka and Mililani Neighborhood Boards' meetings.

An HHFDC boundary was set and a final Environmental Assessment was published in the Office of Environmental Quality Control (OEQC) bulletin on June 23, 2011.

On April 29, 2011, HHFDC received and accepted an application for 201H exemptions from the Project, which included a letter from the City & County of Honolulu (City), indicating that the project was not eligible for the City's 201H exemption process due to not having the required 50% of its finances secured.

Proposed exemptions were distributed to the City's review agencies for comment, none of which pertained to health and safety.

Mr. Gary Furuta, with GSF LLC and Mr. Eddie Ontai, with Catholic Charities, on behalf of the Project, were introduced and made available for questions.

In response to the Board, the following was noted:

1. Any proposed exemptions approved by the HHFDC Board will then go to the City Council for final approval.

2. The proposed exemptions are necessary in order to provide the maximum number of units on the property.

3. Due to transportation options being provided, parking stalls are not necessary for every senior tenant unit. Prior senior projects developed by the Developer, include the "3 units to 1 parking stall" ratio and have shown to be sufficient.

4. After numerous presentations at Mililani Mauka and Mililani Neighborhood Board meetings, both have moved in support of the Project, subject to conditions that are in progress.

5. Selected sources of funding allow the developer to go through negotiated bidding as opposed to competitive bidding.

With no further discussion, the motion was unanimously approved.

IV. REPORT OF THE EXECUTIVE DIRECTOR

Chairman Lawrence proceeded to the Report of the Executive Director.

In response to the Board, staff noted the following:

1. Executive Director Seddon reported that she would be attending a National Council of State Housing Agency (NCSHA) workshop in Hershey, Pennsylvania, from July 16 - July 21, to explore new program opportunities and obtain a greater awareness of challenges faced on a national level.

2. The Wilikina Apartments project has been sold to a private developer who will rehabilitate, own, operate, and manage the project for the duration of 65 years. The project financing structure and procedures were discussed with the private developer. The Governor's final approval is pending.

3. Impacts from the tax bond and housing markets are uncertain until the United States debt ceiling is determined. However, the HHFDC has been fortunate in closing on two bonding transactions in 2011.

V. STRATEGIC PLANNING SESSION

With no further discussion, Chairman Lawrence proceeded to the Strategic Planning Session.

Chief Planner Janice Takahashi welcomed newly appointed Kauai Director Paul Kyno, and facilitated, along with Finance Manager Darren Ueki, the discussion on the HHFDC Fiscal Year (FY) 2012 Strategic Plan (July 1, 2011 – June 30, 2012).

The purpose of the planning discussion is to provide a road map of where the Corporation wants to go over the next year or more, how the Corporation plans to get there, and how it will determine whether such objectives have been met or not.

Strategic Planning Session reference binders were distributed for reference and noted to be available at the August 11, 2011 Board Meeting. CD copies of the reference binder materials were provided to Board members present.

Ms. Takahashi provided the Board with a general overview on the following topics:

1. **Planning Environments** – There is positive growth in the economy with stronger projected growth in 2012. The for-sale housing market has also stabilized. However, the lack of available inventory and difficulty in developing new housing are problems, which exert upward pressure on housing prices. Rents have also been rising and are expected to increase as homeowners who have lost their homes to foreclosure continue to enter the rental market.

2. **Housing Need** – Based on the 2006 Housing Policy Study, approximately 17,400 rental units for those with incomes at 80% and below the HUD AMI and an additional 6,800 for sale units for households with incomes between 80% and 140% of the HUD AMI, is in need by 2015. (An updated housing study is underway and expected to be completed by the end of the year.) Affordable rent guidelines and housing continuum charts were referenced.

3. **HHFDC Tools & Resources** – With State budget shortfalls and federal stimulus funds coming to an end, the HHFDC must steward its available resources well.

4. **HHFDC 2011 Strategic Plan Goals** – In the fiscal year ending June 30, 2011, the HHFDC assisted in the delivery of 617 housing units for an aggregate amount of 3,890 units over a 5-year period (FY 2007 – 2011). The HHFDC 5-year goal was to deliver 5,000 units or 1,000 units per year.

   Discussion ensued on HHFDC's housing goal of 1,000 units per year (or 5,000 units over 5 years) relative to the cost of developing housing and available resources. Executive Director Seddon noted that the goal of 1,000 units includes all types of HHFDC assistance (e.g., development tools like 201H and GET Exemptions) and not just what HHFDC finances.

The HHFDC employed the following strategies during the FY ending June 30, 2011:

1. Maximized financial resources to facilitate housing production or acquisition/rehabilitation projects.

2. Addressed financing gaps resulting from the downturn in the credit market by increasing project subsidies from state and federal funding sources.

3. Pursued additional financial resources during the 2011 State legislative session with success in obtaining $15 million for the RHTF - $10 million for FY 2012 and $5 million for FY 2013; $26 million for the Senior Residence at Iwilei; and $7 million for the newly-authorized LIHTC Loan Program (which monetizes the state LIHTC).

4. Provided DURF interim loans to private developers to purchase land for housing development, taking advantage of declining property values and sales prices.

5. Worked closely with development partners to ensure housing projects stay on course.

For the 2010 Strategic Plan, there were two specific policy issues that the Board looked at: (1) whether the LIHTC program favored preservation over the construction of new housing units and (2) ensuring the long-term financial stability of the DURF. Chair Lawrence appointed two subcommittees to address these issues.

1. The LIHTC Subcommittee concluded that revisions to the existing Qualified Allocation Plan (QAP) were not needed because it does not favor preservation over new construction. However, the subcommittee suggested that the HHFDC could consider removing criterion 6, which gives up to 2 points for the "preservation of existing affordable rental housing at risk of being converted to market."

2. The DURF Subcommittee tried to assess whether the guidelines for making DURF loans aligned with HHFDC's strategic goal of long-term financial stability of HHFDC programs. The Board recognized the inherent risks in financing affordable housing and had concerns with contributing more DURF funds to a project or bailing out banks. The subcommittee found that on a transactional level, emphasis is placed on the developer's experience, project feasibility, and whether a DURF loan would result in the production of housing units. At the macro level, the Subcommittee felt that there should be more planning for this major asset in order to achieve HHFDC's goals and objectives.

   The DURF Subcommittee is yet to meet again to complete its assignment. Staff asked Chairman Lawrence to appoint new members to replace those no longer on the Board and reconvene the DURF Subcommittee.

The Strategic Planning Discussion for FY 2012, based on prior Board meeting discussions, are noted as follows:

1. Qualified Allocation Plan (QAP) - LIHTC/RHTF
   a. Purpose and intent
   b. Scoring criteria

      (1) New construction versus Preservation (acquisition/rehab) – In previous Board discussions, it was suggested that the Corporation take advantage of declining property values and sales prices to acquire land and existing housing.

      (2) Leverage (loan to value; cost reasonableness) – There were concerns regarding variance in construction costs per unit and/or square foot.

      (3) Level of affordability (rental rates) – Concern was expressed that projects appear to be setting the rents at the maximum guideline rent levels. Therefore, it was suggested that project owners lower the initial rents to provide more room for tenants to adjust to inevitable rent increases in an effort to keep rents affordable over a longer period of time.

      Concerns were also expressed on rental affordability levels being the same regardless of geographic location (e.g., Waianae vs. Honolulu).

      (4) Length of affordability – Under the LIHTC program, there is a 30-year affordability period. Should more points be given to projects with longer affordability periods?

(5) Sustainability – Resource conserving features (e.g., solar water heating) lowers operating costs, which sustains affordable levels.

c. Suggested criterion for partnerships with transitional housing programs

2. DURF
   a. Purpose
   b. Level of risk
   c. Loan portfolio management to achieve goals and objectives

3. More public-private partnerships (PPP)
   a. Disposition/lease of certain HHFDC-owned rental properties

4. Rental Assistance Program
   a. Purpose
   b. Commitments for new rental projects

5. Interaction with other housing entities
   a. Hawaii Public Housing Authority
   b. City and County of Honolulu
   c. Counties (HOME program)

6. MCCs versus Hula Mae Single Family – requested by Designee Kami

Ms. Takahashi thanked the Planning and Evaluation Office staff for putting together the reference binders for the Board.

In reference to the discussion list, the Board noted the following:

1. Longer affordability periods or affordability in perpetuity may drive away potential investors or make it difficult for developers to obtain necessary finances for projects to move forward. The Board needs to understand fully the pros and cons of longer affordability periods.

2. Although long-term sustainability is good, initial system costs will raise the overall development costs and may reduce the number of units produced.

3. Finding a balance between preservation and new construction units is needed. While the Corporation could acquire existing units at a lower cost than developing new ones and maybe prevent the loss of units, housing stock is not increased

4. Improvement is needed in determining the level of risk for each project.

Chairman Lawrence moved, seconded by Director Mesick, to recess the meeting at 10:13 a.m.

RECESS
10:13 a.m.

The meeting was reconvened at 10:20 a.m.

RECONVENED
10:20 a.m.

Finance Manager Darren Ueki provided an overview of the 20 selection criteria in the QAP, stating the purpose and intent, priority level, range of points assigned, and whether each criterion is mandated under Section 42, Internal Revenue Code (IRC). It was noted that the QAP, which is approved by the Board, is the scoring mechanism used to determine how the LIHTCs are awarded. The public has an opportunity to comment on the QAP through a public hearing process, which takes place on an annual basis. Public comments are also received on an ongoing basis.

The following criteria were discussed and noted as follows:

Criteria 4, "The Project has appropriate zoning or the applicant has secured the necessary exemptions/variances to construct the project as proposed." – It was suggested that this criterion could be a threshold factor. Staff noted that a point score is felt to be more ideal in dealing with "project readiness" because the City and County's Department of Planning and Permitting (DPP) will not allow a project to proceed without assurances that financing is in place.

It was discussed that perhaps the number of points awarded for this criterion could be scaled back from 0-4 points to 0-1 point.

Criteria 5, "Applicant demonstrates that all low-income units will be made available, through a process acceptable to HHFDC, to people on the waiting list for low-income public housing." – The HHFDC plans to resume discussions with the Hawaii Housing Public Authority (HPHA) on the matter.

Criteria 6, "Preservation of existing affordable rental housing at risk of being converted to market." – Is a balancing act between preserving existing inventory and the need for additional housing units and dependent upon how a project's financing is structured. The LIHTC Subcommittee recommended that we could eliminate this criterion; however, staff does not believe that is necessary. It helps to preserve projects with project-based rent subsidies (like USDA), that once lost, would be difficult to get back.

Criteria 16, "Energy Efficient and Green Building." – It was suggested that the priority level be changed from "moderate" to "high" and that more points be added to justify items within the given list.

Director Kami noted that some criteria have been identified as "moderate" priority but have been assigned different points; for example, criteria 16 and 18 are of moderate priority but the points are 0-3 and 0-6, respectively. Should the points be standardized based upon priority level?

Designee Evans commended the HHFDC for providing a model for energy efficiency that offers flexibility in a proactive approach.

Criteria 18, "Project location and market demand." – Designee Evans asked if Smart Growth is incorporated in this criterion (e.g., where you build a project, higher density, transit oriented development). Staff answered in the affirmative.

Criteria 19, "Developer experience." – There was concern of possible subjectiveness. Staff is aware of the matter and that is the reason why crosschecking is done.

It was reiterated that staff receives public comments on an ongoing basis in addition to a public hearing that is held annually to accept formal comments.

Chairman Lawrence stated that this is the Board's opportunity, during strategic planning in July and August, to make any changes to the QAP, not when the applicant comes before the Board for project approval. The Board cannot be bargaining with the developer at the table once staff analyzes the project based on the approved QAP, which is unfair to the process, staff, and the developers.

Executive Director Seddon asked the Board to think of innovative ways that the Corporation could expedite any area of the development process. Ms. Takahashi added that Criteria 1 and 4, regarding acquisition/rehab units and project readiness, could help in speeding up that process.

In reference to construction costs per square foot, it was questioned whether there was enough emphasis on development partners in getting the best deals possible, requiring greater transparency and due diligence.

Discussion ensued on reasons for the variance in construction costs. Because there are so many variables that influence project costs, staff suggested that they could have the developers provide more information and justification on its project costs for the Board.

Ms. Takahashi provided a summary of the QAP criteria, of which carried the most points and indicated that it appears that the scoring system supports the priority levels. The criteria with the highest points are leveraging, level of affordability, and length of affordability.

Designee Kami requested, if available, for a list of actual median incomes that are served at each LIHTC project.

Regarding Director Larson's suggested criterion for partnerships with transitional housing programs, Ms. Takahashi proposed that it be included in Criterion 5. While HHFDC focuses on assisting those in the 60% AMI and above target groups, and not the homeless, the Corporation can help move people through the housing continuum (from transitional to permanent housing). There is higher risk for project owners; even though, people in transitional housing often come with support services that follow them for at least a year.

Ms. Takahashi asked for the Board's opinion on the matters discussed.

Designee Evans asked for more time to ponder on today's discussions until the next meeting in August.

Chairman Lawrence asked that this For Discussion be included in next month's Board meeting packet for reference.

Regarding discussion on the QAP criteria, the Board recapped its interest in finding economical ways of preserving and increasing housing inventory, adding more "teeth" in certain areas of the QAP, and incentives in getting the job done faster.

VI. ADJOURNMENT

With no further discussion, Vice Chairman Mesick moved, seconded by Designee Kami, to adjourn the meeting at 12:05 p.m.

The motion was unanimously approved.

BETTY LOU LARSON
for Secretary