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 13, 2009 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, August 13, 2009, at 9:00 a.m.

CALL TO ORDER/ ROLL CALL

Acting Chair Betty Lou Larson called the meeting to order at 9:00 a.m.

Present: Director Betty Lou Larson, Secretary
Director Georgina Kawamura
Director Linda Smith
Director Theodore Liu
Director Ralph Mesick
Director Francis Jung
Director Allan Los Banos

Executive Director Karen Seddon

Excused: Director Charles King, Chairman
Director David Lawrence, Vice Chairman

Staff Present: Craig Iha, Deputy Attorney General
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Rick Prahler, Development Branch Chief
Stan Fujimoto, Development Section Chief
Cynthia Okubo, Acting Asset Manager
Patrick Inouye, Housing Finance Specialist
Byron Chock, Housing Finance Specialist
Mavis Masaki, Planner
Jocelyn Iwamasa, Housing Finance Specialist
Kent Miyasaki, Housing Information Specialist
Esa Pablo, Secretary to the Board

Guests: Carol M. Anzai, Kukui Gardens
Lorraine Kam, Kukui Gardens
David Soares, Kukui Gardens
Pam Witty-Oakland, St. Francis Development Corporation
Keith Kato, Hawaii Island Community Development Corporation
Kevin Carney, EAH Housing, Inc.
Bob Nakata, Faith Action for Community Equity
Marian Gushiken, EAH Housing, Inc.
Gary Furuta, Hawaii Housing Development Corporation
Patti Barbee, Hawaiian Community Development Board
Kali Watson, Hawaiian Community Development Board
Jun Yang, Faith Action for Community Equity
Jesse Wu, Stanford Carr Development

QUORUM

Acting Chair Larson noted a quorum present and stated for the record, all Directors present, as stated above.

II. A. APPROVAL OF MINUTES 7/9/09 Regular Meeting

Director Smith moved, seconded by Director Los Banos, to approve the meeting Minutes of July 9, 2009.

The motion was unanimously approved.

III. A. DISCUSSION AND/OR DECISION MAKING
Approve an Award of Tax Credit Assistance Program Funds to the Ainakea Senior Residences Project Located in Kapa'au, Hawaii, TMK No.: (3) 5-3-011: 102; the Hale Wai Vista I Project Located in Waianae, Oahu, TMK No.: (1) 8-6-001: 035; and the Kukui Gardens Project Located in Honolulu, Oahu, TMK No.: (1) 1-7-026: 007.

Director Smith moved, seconded by Director Jung, to approve staff's recommendation:

That the Hawaii Housing Finance and Development Corporation Board of Directors approve the award of TCAP Funds to the following Project in accordance with the QAP and the TCAP Program Outline and Application Process, subject to the conditions specified in Exhibit H of this For Action.

A. Ainakea Senior Residences Project

1. Allocation of up to $3,300,000 of TCAP funds.

B. Hale Wai Vista I Project

1. Allocation of up to $1,780,000 of TCAP funds.

C. Kukui Gardens Project

1. Allocation of up to $4,781,610 of TCAP funds.

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

Acting Chair Larson and Director Mesick recused themselves from voting on this For Action.

Finance Manager Darren Ueki presented the For Action, stating that this For Action is the first to award resources from the American Recovery and Reinvestment Act of 2009 (ARRA) and provided the Board with background information on the Tax Credit Assistance Program (TCAP).

On June 12, 2009, the U.S. Department of Housing and Urban Development (HUD) informed the HHFDC that its application request of approximately $9.86 million, the amount available to the State of Hawaii, met the standards established for the implementation of the TCAP. However, until the TCAP Grant Agreement with HUD is executed, the HHFDC may not commit or disburse any of its TCAP funds.

To qualify for TCAP funding, eligible projects are required to meet the following criteria, in addition to other requirements as mandated by the LIHTC program and Section 42 of the Internal Revenue Code: (1) Received an Award of Federal LIHTC from HHFDC between October 1, 2006 and September 30, 2009; (2) No material changes to the project since receiving the Federal LIHTC award, as determined by HHFDC in its sole discretion; (3) Federal LIHTC award sold to an LIHTC equity investor or Federal LIHTC used by the project owner/developer; (4) Commit to the expenditure of no less than 75% of TCAP funds by February 16, 2011 and 100% of TCAP funds by February 16, 2012; and (5) Achieve 100% project completion by February 16, 2012.

The deadline for eligible projects to submit their TCAP requests was on July 13, 2009. The HHFDC received ten requests totaling an aggregate amount of approximately $42.8 million for TCAP funding.

The HHFDC's initial structure for the TCAP funding was in the form of a grant to avoid "program income" recognition; however, other applicants requested for TCAP funds in the form of a loan to avoid negative impacts on their taxes and capital accounts. Therefore, to address these concerns, the HHFDC is willing to consider a loan of TCAP funds based on a low-interest, deferred payment, and cash flow contingent basis, which would also avoid "program income" recognition.

HUD requires that state housing credit agencies, such as HHFDC, award TCAP

funds competitively and in a manner consistent with their Qualified Allocation Plan (QAP). As such, the HHFDC's competitive process criteria is as follows: (1) Ability to expend TCAP funds based on HUD mandate deadlines; (2) Satisfaction of Environmental Assessment Requirements; (3) Construction Readiness; and (4) Developer's Experience with Federal Funds and related Cross Cutting Requirements.

Due to the closeness in scores between projects, staff made final recommendations based on the following distinctions: (1) Scheduled project completion; (2) Scheduled expenditure of TCAP funds; and (3) Ability of TCAP funds to release other State financing resources.

As a result, the HHFDC recommends fully funding the Ainakea Senior Residences and the Hale Wai Vista I projects, with the remaining funds awarded to the Kukui Gardens project.

With the Hale Mahaolu Ehiku project being eligible under both the TCAP and Section 1602, Tax Credit Exchange Program (Exchange Program), the developer has chosen to defer its request for TCAP funding and proceed under the Exchange Program at this time.

The HHFDC reserves the right to: (1) recapture an awardees TCAP funds if the HHFDC determines that the HUD mandated deadlines and requirements are not being met; (2) redistribute recaptured TCAP funds to a more deserving project in order to meet the mandated deadlines; (3) elect to award recaptured TCAP funds to an awardee who is not fully funded or to applicants listed in Section II. H., of this For Action, that did not receive an award of TCAP funds; and (4) elect to open a separate funding round for recaptured TCAP funds, if deemed necessary.

Mr. Ueki opened for questions, along with Mr. Keith Kato, representing Ainakea Senior Residences; Mr. Gary Furuta, representing Hale Wai Vista I; and Ms. Marian Gushiken, representing Kukui Gardens.

In response to Director Smith, Mr. Ueki stated that both the TCAP and Exchange Program address shortfalls or downward pricing seen in the tax credit industry. The TCAP is utilized in situations where a financial gap is created due to lower pricing on a project's tax credits, whereas the Exchange Program is utilized in situations where a tax credit investor was not found, allowing a project to monetize its tax credits at a set price.

In response to Director Smith, Mr. Ueki concurred that the Hale Mahaolu Ehiku project was the only recommended project eligible for both the TCAP and Exchange Program. However, the developer has made the decision to proceed with the Exchange Program.

In response to Director Liu, Mr. Ueki stated that the funding cap for the Exchange Program is based on the 9% LIHTC cap formula.

In response to Director Liu, Mr. Ueki stated that he believes that a developer could utilize both programs; however, given the aggressive deadlines to expend the program funds it would be difficult. At this point, the HHFDC has not received any project requests to utilize both programs.

In response to Director Smith, Mr. Ueki stated that the receiving entities have been informed about the reporting responsibilities that the HHFDC currently knows about. However, reporting of TCAP funds is structured similarly to the HOME program, which both the Ainakea Senior Residences and Hale Wai Vista I Projects have experience with.

In response to Acting Chair Larson, Mr. Ueki concurred that because the Ainakea Senior Residences and Hale Wai Vista I projects are under construction, there are no problems anticipated in meeting the TCAP deadlines. The developer of the

Kukui Gardens project has indicated an ability to expend the TCAP funds and anticipates construction to commence within thirty to forty-five days.

In response to Acting Chair Larson, Mr. Ueki stated that any unused monies would be returned to the U.S. Department of the Treasury and repayment on the loan would be considered as "deferred."

The motion was unanimously approved.

Director Liu commended the HHFDC staff for being efficient in applying for the TCAP funds, placing the Agency in a position to be able to make such awards to deserving projects, with Director Smith concurring. Executive Director Karen Seddon thanked the Board, stating that the HHFDC staff has expended considerable time and effort towards learning the new complicated federal programs. Mr. Ueki recognized Patrick Inouye, Jocelyn Iwamasa, and Byron Chock, from the Finance Branch, stating that they are the "brains" behind the Agency's success with the ARRA programs.

III. B. DISCUSSION AND/OR DECISION MAKING
Approve an Amendment to the Rental Housing Trust Fund Loan and Grant for the Franciscan Vistas Ewa Project Located in Ewa Beach, Oahu, TMK No.: (1) 9-1-126: 009 (portion).

Director Kawamura moved, seconded by Director Los Banos, to approve staff's recommendation:

That the HHFDC Board of Directors approve the following:

A. Amend the RHTF Project Award as described in section III (G).

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

Mr. Ueki presented the For Action, stating that the Franciscan Vista Ewa project (Project) is located in Ewa Beach, Oahu, consisting of 150 elderly units.

On January 10, 2008, the Board approved the following for the Project: (1) an allocation up to $21 million in Hula Mae Multi-Family Bonds; (2) $1,386,836 in Federal Low Income Housing Tax Credits (LIHTC) and $693,418 in State LIHTC; and (3) a RHTF Project Award of $11 million in the form of a loan and $725,000 in the form of a grant.

With guidance from the Board, the HHFDC offered eligible projects additional gap financing from the RHTF, in which the Project submitted an additional request for $2.8 million in RHTF funding.

In May 2009, the Board approved to increase the Project's RHTF loan from $11 million to $13.8 million, along with a reduction to its interest rate of 1% to 0.95%, and extending its RHTF Project Award until December 31, 2009.

The commencement of the Project's construction is anticipated to be in October 2009, with its completion date anticipated in February 2011.

The St. Francis Development Corporation (Applicant) is requesting conversion of the RHTF grant award in the amount $725,000 to a RHTF loan by combining it with the current RHTF loan award in the amount of $13,800,000 for a combined total of $14,525,000. The applicant had requested a conversion of the RHTF grant to a loan so that the RHTF grant funds will not be treated as income to the partnership.

The Applicant is also requesting a reduction of the interest rate on the aggregate loan amount from 1.0% to 0.95% (blended interest rate for the loan and the grant funds), offsetting the impact of an increased loan principal that would have been a zero cost grant.

Staff recommends the following amendments to the existing RHTF Project Award:

1. Convert the RHTF grant in the amount of $725,000 to a loan by combining it with the current RHTF loan award in the amount of $13,800,000 for a combined total of $14,525,000.

2. Reduce the interest rate on the aggregate loan amount to from 1.0% to 0.95% (blended interest rate for the loan and the grant funds).

3. All other loan terms and conditions will remain the same.

4. Subject to the availability of funds.

Mr. Ueki opened for questions, along with Ms. Pam Witty-Oakland and Mr. Jesse Wu, on behalf of the Project.

In response to Director Smith, Mr. Ueki stated that the same funding stipulations apply regardless of the conversion.

In response to Director Smith, Mr. Ueki explained that it is anticipated that the $14.5 million RHTF loan balance will be reduced to approximately $5.6 million by the expiration of the loan term, at which point there should be sufficient equity in the project for the Applicant to seek other sources for full repayment of the RHTF loan.

In response to Acting Chair Larson, Mr. Ueki stated that this Project is no different from any other project that the HHFDC deals with in terms of having uncertainties and project obstacles to endure.

Mr. Wu, Stanford Carr Development, gave a brief update on the Project, stating that the Project is currently dealing with its final approvals for subdivision, zoning, and design plans.

In response to Acting Chair Larson, Mr. Wu stated that the Project anticipates putting together its marketing plans by next summer, sending out clear timelines of its marketing efforts in terms of its distribution of notices and outreach information.

Acting Chair Larson stated that Catholic Charities produces a housing guide for the public, providing information on affordable housing projects and requested to be informed of the Project's finalized information.

The motion was unanimously approved.

Director Jung moved, seconded by Director Smith, to approve staff's recommendation:

That the HHFDC Board of Directors:

A. Approve the proposed Chapters 15-311, 15-312, and 15-313, HAR, and the repeal of Chapters 15-180, 15-163, and 15-168, HAR, subject to approval as to form by the HHFDC's Deputy Attorney General;

B. Subject to the Governor's approval, authorize the Executive Director or her designated representative(s) to conduct public hearings on the adoption of Chapters 15-311, 15-312, and 15-313, HAR, and the repeal of Chapters 15-180, 15-163, and 15-168, HAR;

C. Authorize the Executive Director to make any non-substantive amendments to the draft rule following the public hearing; and

D. After the public hearings, authorize the Executive Director to transmit Chapters 15-311, 15-312, and 15-313, HAR, and the repeal of Chapters

III. C. DISCUSSION AND/OR DECISION MAKING
Approve Proposed Chapters 15-311 "Rental Housing Trust Fund Program," 15-312 "Hula Mae Multi Family Rental Housing Program" and 15-313 "Low-Income Housing Tax Credit Program;" Hawaii Administrative Rules and Repeal Chapters 15-180 "Rental Housing Trust Fund Program," 15-163 "Hula Mae Multi Family Program" and 15-168 "Low-Income Housing Tax Credit

15-180, 15-163, and 15-168, HAR, to the Governor for final approval provided that no substantive amendments are made at that time.

Program, "Hawaii Administrative Rules.

Planner Mavis Masaki presented the For Action, stating that staff is seeking to start an approval process to amend the HHFDC's program administrative rules for the Rental Housing Trust Fund Program (RHTF), Hula Mae Multi-Family program (HMMF), and Low Income Housing Tax Credit (LIHTC) Program, and proposes to conduct a single public hearing for comments on all three programs.

The amendments to the administrative rules are primarily dealing with formatting, renumbering, updating statutory references, and additions and/or deletions of provisions to existing rules that have superseded or been amended by legislative action.

The following proposed amendments are as follows:

Chapter 15-311 RHTF, Hawaii Administrative Rules (HAR)

1. Repeals all references to the defunct Rental Housing Trust Fund Commission throughout the rules;

2. Conforms the list of program preferences to conform to section 201H-202, HRS (see §15-311-21);

3. Imposes the following program fees (see §15-311-3):

   a. Application fee: $500; and

   b. Annual compliance monitoring fee: $35 per unit per year for all project units except manager's units.

4. Adds program application and selection criteria provisions that are currently part of the Rental Housing Trust Fund procedural manual and standardizes the criteria list for evaluating RHTF projects with the standards used for Hula Mae Multi Family Rental Housing Program (see §§15-311-31, 15-311-32, and Exhibit B);

5. Adds program compliance monitoring requirements that are currently part of the Rental Housing Trust Fund procedural manual (see §§15-311-42, 15-311-43);

6. Makes necessary updates to statutory citations and the agency name; and makes necessary grammatical and clarifying amendments throughout.

Chapter 15-312 HMMF, HAR:

1. Imposes the following program fees (see §15-311-4):

   a. Application fee: $500;

   b. Administrative fee: $50,000 payable at bond issuance (one-time) and 1/8% (.125%) of the permanent Multi Family loan amount (annually)*;

   c. Compliance monitoring fee: $35 per unit per year for all project units except manager's units.

      *Note that the annual administrative fee amount is proposed to be reduced from the current 1/8% of the original bond issue amount, which is larger than the loan amount.

2. Adds program application, selection criteria, and compliance monitoring provisions that are currently part of the Hula Mae Multi Family program procedural manual and standardizes the selection criteria list with standards used for the Rental Housing Trust Fund program (see §§15-312-2, 15-312-5, 15-312-6);

3. Makes necessary updates to statutory citations and the agency name; and makes necessary grammatical and clarifying amendments throughout.

Chapter 15-313 LIHTC, HAR:

1. Imposes the following fee schedule (see §15-313-13):

   a. Application fee: $1,500;

   b. Administrative fee: 10% of first year's federal credit amount reserved (one-time);

   c. Compliance monitoring fee: $25 per unit for all units within each project per year (annual).

2. Makes necessary updates to statutory citations and the agency name; and makes necessary grammatical and clarifying amendments throughout.

In response to the Board, Ms. Masaki stated the following:

Any future changes to the HHFDC's Administrative Rules would require going through the amendment process, taking at a minimum four months.

Mr. Ueki clarified that currently the administrative fee from the HMMF program is $50,000, which is a one-time payment due at bond closing, with 1/8 of the 1% annual fee of the original bond amount. However, the HHFDC is looking to have the administrative fee based on the permanent amount. Therefore, a $10 million bond amount for construction would reduce to $4 million from a project's tax credits.

According to the HHFDC's Deputy Attorney General, it is preferred to have all rules and dollar amounts established in the HHFDC's Administrative Rules.

The Board inquired on the advantages of adding the rules as opposed to what has been done up to now. Deputy Attorney General Craig Iha stated that would be a question to be taken up in Executive Session.

In response to Acting Chair Larson, Mr. Ueki stated that the compliance monitoring fee for the RHTF and LIHTC programs are being contemplated. Currently, projects are only required to pay a LIHTC compliance fee since the RHTF's compliance fee is not implemented in the rules. However, with administering costs increasing, the HHFDC needs to start imposing compliance fees for the RHTF program.

Director Jung moved, seconded by Director Smith, to move into Executive Session for further discussion on this matter, subsequent to the Report of the Executive Director.

The motion was unanimously approved.

IV. REPORT OF THE EXECUTIVE DIRECTOR

Acting Chair Larson opened for discussion on the Report of the Executive Director.

In response to Acting Chair Larson, Mr. Ueki stated that once the HHFDC completes awards of Section 1602 Tax Credit Exchange Program funds, there is a possibility of a fall round for funding from the Rental Housing Trust Fund

(RHTF), offering the opportunity for deferred projects to fill financial gaps. Recommendations to the Board are anticipated within the year.

In response to Acting Chair Larson, Mr. Ueki clarified that at the point the HHFDC is ready to make commitments on the $30 million appropriated from the current Legislative Session, funds will then be transferred into the RHTF and will not hinder the Agency's ability to make new commitments. All pending projects are considered until the Board approves a new Approved and Rejected List for the RHTF.

In response to Acting Chair Larson, Mr. Ueki stated that staff has conversed with all applicants regarding project timelines and is confident that projects are not being jeopardized with the given timeline.

Director Smith suggested that the Dwelling Unit Revolving Fund's (DURF) uncommitted balance in the HHFDC Program Resources (Major Programs) Report, Exhibit A, reflect commitments made to the Senior Residence of Iwilei and Holomua, showing an overcommitted fund.

Acting Chair Larson requested that "open dates" of projects be placed in the project's Facts Sheet of the For Actions.

In response to Director Jung, Executive Director Seddon stated that the HHFDC continues its efforts in promoting the revolving fund for future projects; however, there are always additional efforts that can be made towards maximizing the DURF's resources.

Director Jung expressed his appreciation to the Executive Director and HHFDC staff, in their efforts to maximize the use of the DURF funds for the development of affordable housing.

In reference to the Development Branch Monthly Status Report, Director Smith inquired on the Villages of Leialii. Executive Director Seddon stated that based on direction from the Board and information provided by the Attorney General's Office, the HHFDC is able to develop on ceded lands as long as it remains a leasehold property.

In response to Acting Chair Larson, Executive Director Seddon stated that she does not foresee any insurmountable issues with leasehold buyers being able to obtain loans. Director Mesick clarified that uneconomical renegotiations on rents may make it difficult for a leasehold property to obtain a loan from the bank; however, if it is a long-term lease with a fairly low-lease rent, there should not be a problem.

On the Senior Residence of Iwilei project, Executive Director Seddon reported that in initial conversations with the developer, the Project does not plan to forfeit just yet and is continuing efforts to find additional resources for the project's financing and the HHFDC will keep the Board apprised as information is received.

Regarding the Holomua multi-family project, Development Branch Chief Rick Prahler reported that the project has met about 30% of its sales target requirement of 90% to receive funding from the DURF, with its loan agreement in the process of being finalized.

In response to Acting Chair Larson, Executive Director Seddon stated that the Plantation Town Apartments project is selling slower than anticipated, but is receiving a positive response considering the current economy.

The HHFDC is in the process of returning the Hanapepe property to the Department of Land and Natural Resources (DLNR) due to changes in zoning laws and infrastructure costs. As such, the HHFDC feels that the property is not

economically feasible and prefers to place efforts on affordable projects that are more viable.

In response to Director Jung's inquiry on Act 176, Executive Director Seddon stated that the HHFDC is currently in discussions with the Attorney General's Office in defining procedures for submitting both ceded and non-ceded land sales.

Director Jung commented that every effort needs to be made in acquainting the Legislature on the burdens being placed on the State of Hawaii as a whole. Director Smith added that it is anticipated that several agencies will be proposing amendments to Act 176, addressing the burdens that the Legislature may have overlooked.

Acting Chair Larson announced her participation on the OHA Roundtable this Friday regarding the RHTF conveyance tax for affordable housing and requested that revenue impacts from the new conveyance tax amount be reported to the Board when available.

EXECUTIVE SESSION
10:15 a.m.

With no further discussion on the Report of the Executive Director, Director Jung moved, seconded by Director Mesick, to move into Executive Session at 10:15 a.m., pursuant to Section 92-5(a)(4) to consult with the board's attorney on questions and issues pertaining to the board's powers, duties, privileges, immunities and liabilities as it relates to agenda item III. C.

The motion was unanimously approved.

RECONVENED
10:30 a.m.

Acting Chair Larson reconvened into Regular Session at 10:30 a.m.

III. C. DISCUSSION AND/OR DECISION MAKING
Approve Proposed Chapters 15-311 "Rental Housing Trust Fund Program," 15-312 "Hula Mae Multi Family Rental Housing Program" and 15-313 "Low-Income Housing Tax Credit Program;" Hawaii Administrative Rules and Repeal Chapters 15-180 "Rental Housing Trust Fund Program," 15-163 "Hula Mae Multi Family Program" and 15-168 "Low-Income Housing Tax Credit Program, "Hawaii Administrative Rules.

Director Jung moved, seconded by Director Kawamura, to approve staff's recommendation for agenda item III. C.

The motion was unanimously approved.

V. ADJOURNMENT

Director Jung moved, seconded by Director Mesick, to adjourn the meeting at 10:32 a.m.

The motion was unanimously approved.

BETTY LOU LARSON
Secretary