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, MAY 13, 2010
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, May 13, 2010, at 9:00 a.m.

Chairman David Lawrence called the meeting to order at 9:02 a.m.

Present: Director David Lawrence, Chairman
Director Betty Lou Larson, Secretary
Director Georgina Kawamura
Director Linda Smith
Director Ralph Mesick
Director Francis Jung
Director Allan Los Banos Jr.

Executive Director Karen Seddon

Excused: Director Theodore Liu

Staff Present: Sandra Ching, Deputy Attorney General
Craig Iha, Deputy Attorney General
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Rick Prabler, Development Branch Chief
Stan Fujimoto, Development Section Chief
Ken Takahashi, Development Project Manager
Marlene Lemke, Real Estate Services Section Chief
Cynthia Okubo, Acting Asset Manager
Patrick Intoye, Housing Finance Specialist
Jocelyn Iwamasa, Housing Finance Specialist
Byron Chock, Housing Finance Specialist
Lorna Kometani, Housing Sales Coordinator
Lisa Wong, Planner
Peter Nelson, Property Management Coordinator
Kent Miyaseki, Housing Information Specialist

Guests: Doug White, AOAG Plantation Town Apartments
Michael Kinura, Plantation Town Apartments, LLC.
Chelsey Wandasan, Plantation Town Apartments
Ryan Harada, Central Pacific Bank
Andrew Gomes, Honolulu Advertiser
John Frazier, Kauai Housing Development Corporation
Liz Char, Hawaii Civil Rights Commission
Gwen Lau, Hawaii Civil Rights Commission
Peter Savio, Hawaiian Island Homes
Marian Gushiken, EAH Housing
Kai Watson, Hawaiian Community Development Board
Pari Barbee, Hawaiian Community Development Board
Roy Katsuda, Hale Mahaolu
Robyne Nishida Nakao, Hale Mahaolu
Byron Goka, Lokenani Hale
Barry Kaplan, Hawaiian Island Homes

Chairman Lawrence noted a quorum present.

HHFDC Regular Meeting - May 13, 2010

QUORUM
Director Los Banos moved, seconded by Director Mesick, to approve the Meeting Minutes of April 8, 2010.

The motion was unanimously approved.

Development Section Chief Stan Fujimoto introduced Mr. Douglas A. White, president of the Plantation Town Apartments Association, who had requested to speak before the Board regarding the Plantation Town Apartments (PTA) project’s conversion of its unsold units to market units, being the reason for the For Information presented before the Board today.

Mr. Fujimoto provided background information on the PTA project, stating that the Board approved the sale of the unsold units as market units on July 9, 2009, due to the project’s inability to sell during the unprecedented recession following the credit crisis in 2008, while having an outstanding construction loan balance of $19 million. On December 16, 2009, the City Council concurred and approved the sale of market units.

Mr. Fujimoto called upon Mr. White to present his testimony.

Mr. White referred to his written testimony submitted, asking the Board to adopt a policy that would require the residents of an occupied project to be notified and offered the opportunity to participate before the proposed actions go before the Board on matters such as the PTA conversion.

Director Jung inquired on the significance of impacts in the conversion of market units to the members of the PTA Association of Apartment Owners (AOAO). Mr. White stated that purchasers of the market units are not obligated to its 10-year buy-back restrictions, thus allowing the market units to be rented, which, in his opinion, would deplete the overall value of the project.

In response to Director Jung, Mr. White stated that he did not know the current market value of the PTA units; however, according to the HHFDC’s documents he reviewed, the market value would be about a $5,000 increase.

Director Larson inquired on Mr. White’s opinion on the impacts to the current residents, if the Project were to face foreclosure. Mr. White stated that there are other options that he felt could have been explored had the PTA residents been given the opportunity to participate.

Director Jung inquired on Mr. White’s conversations with fellow members of the PTA board. Mr. White referred to his written testimony, stating that three members from the PTA board, who are representatives of the developer, did not share information on the conversion.

Chairman Lawrence expressed his appreciation to Mr. White for addressing such matters in terms of his efforts to prevent future predicaments.

Director Larson commended that perhaps the Board should look into requiring a developer to notify residents and report to the Board should this situation arise again in the future.

Chairman Lawrence thanked and apologized to Mr. White for what the Board has overlooked in the past and commented that the Board will be more cognizant in approving future conversions, based on the suggestions made.

In response to Director Kawamura, Chairman Lawrence concurred that because this item is for information only, no policy proposals can be made by the Board at this time.
Director Kawamura moved, seconded by Director Los Banos, to approve staff's recommendation:

That the HHFDC Board of Directors approve the following:

A. An RHIF Project Award of $2,509,748 that will amend the Project's existing RHTF loan award to $4,409,748 from $1,900,000 as described in Section III(H).

B. Amend the collateral description and position on the RHTF loan award as described in Section III(H).

C. Add the grant provision as described in Section III(H)(4) to the RHTF loan award.

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

Finance Manager Darren Ueki presented the For Action, stating that the Hale Makana O Nanakuli Affordable Rental (Project) consists of 48 family units, located in Nanakuli, Oahu.

Mr. Ueki restated the Project’s Facts discussed at the April 8, 2010 Board Meeting regarding funding awards approved by the Board on April 2009 and its receipt of a consolidated application request in November 2009, for an additional $2,509,748 in RHTF funds and amendments to its existing RHTF loan.

Mr. Ueki noted that the Project received only $1.9 million of its original request of $5.7 million from the RHTF, creating a shortfall of approximately $3.8 million.

Since its April 2009 RHTF award of $1.9 million, the Hawaiian Community Development Board (Applicant) has been able to secure various federal funding commitments in an aggregate amount of approximately $2.7 million.

Both the original and revised tables of the Project's proposed Financing Structure and Project Budget and Use of Funds were cited, along with the Project's estimated construction timeline.

Staff has reviewed the Applicant’s request and proposed the following terms:

1. Loan Amount: $2,509,748 increase to $4,409,748 from $1,900,000.
   
   a) The original $1,900,000 RHTF Project Award on April 9, 2009, was $3,800,587 shy of the Applicant’s request of $5,700,587.
   
   b) Since April 2009, the Applicant secured aggregate commitments or letters of interest of $2,743,135 from three Federal sources (USDA 515, HOME, and HUD). The Applicant was also able to increase the sizing of the permanent bond amount by $331,041. These additional sources reduced the financing gap to $726,411.
   
   c) Although the Applicant secured other sources of financing, the Project’s budget increased by $916,390 and declines in LIHCT pricing reduced equity by $866,947. This increased the financing gap to $2,509,748.

(1) Increases in the project budget were primarily attributable to (i) $396,920 increase in construction costs; (ii) $270,000 guarantee fee for lender and LIHCT investors that was erroneously left off the original application; and (iii) $129,326 in additional reserve requirements.
d) Recommend increasing the RHTF project award to $2,509,748 in order to fill the remaining financing gap based on the Applicant’s ability to find other financing sources to support State funds.

2. Amend collateral description to only parcel (1) 8-9-002: 001.

a) In its Consolidated Application, the Applicant erroneously included parcel (1) 8-9-002: 067 as part of the collateral securing the RHTF loan. The Ha‘i Makana O Nanakuli Project shall be situated, in its entirety, on parcel (1) 8-6-002: 001. Parcel (1) 8-9-002: 067 is the location of a Boys and Girls Club structure that was financed by the Weinberg Foundation.

b) Recommend amending the RHTF loan collateral description to parcel (1) 8-9-002: 001 as the project and its structures shall only be located on this parcel.

3. Amend lien position on parcel (1) 8-9-002: 901 to an ALTA insured 3rd position from an ALTA insured 2nd position.

a) Subsequent to the Project’s original RHTF Project Award in April 2009, it was able to secure a USDA 515 Loan along with project based rental subsidy with the USDA Rental Assistance (“RA”) program. (Note: USDA RA can only be obtained if a project has a USDA 515 Loan). USDA is requiring that they have a 2nd lien position on the Project behind the HMMF Bond.

b) Recommend amending the RHTF loan to take a 3rd lien position behind the HMMF Bond and the USDA 515 Loan based on the value provided by the USDA RA subsidy.

4. Require Applicant/Developer to contribute amounts listed as grants under the sources and uses should those grants not materialize.

a) Requirement is for grants that do not have an executed grant agreement as of this For Action; in order to limit future potential exposure of the RHTF.

5. All other terms and conditions of the existing RHTF loan remain the same.

6. Subject to the availability of funds.

Mr. Ueki opened for question, along with Mr. Kali Watson, on behalf of the Project.

In response to Director Larson, Mr. Ueki concurred that if the $2,509,748 RHTF request is approved, the remaining RHTF balance will be approximately $325,810.

Director Lawrence commended the Project on its progress.

In response to Director Kawamura, Mr. Ueki stated that the only appropriation that is pending allotment is the $10 million in RHTF funds that was approved by the Legislature, which is subject to the approval of the Governor and the Department of Budget and Finance.

The motion was unanimously approved.

Director Jung moved, seconded by Director Mesick, to approve staff’s recommendation:

That the Board of Directors of the Hawaii Housing Finance and Development

HHFDC Regular Meeting – May 13, 2016
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

Corporation Approve the Award of Federal and State LIHTC to the following Projects in accordance with the QAP and subject to the conditions specified in Exhibit H of this For Action.

A. The Banyan Street Manor project.

1. Allocation of up to $782,056 of annual Federal and $391,028 of annual State LIHTC to Banyan Housing, LP; subject to the terms as described in Section II, Subsection D and the following project specific conditions:

   a) The Developer’s Fee, Overhead, and related costs of this project does not exceed $1,392,347.

B. The Whitmore Circle Apartments project.

1. Allocation of up to $479,896 of annual Federal and $239,948 of annual State LIHTC to Whitmore Circle Partners, LP; subject to the terms as described in Section II, Subsection D and the following project specific conditions:

   a) The Developer’s Fee, Overhead, and related costs of this project does not exceed $1,105,689.

C. The Paanau Village Phase 2 project.

1. Allocation of up to $1,300,000 of annual Federal and $650,000 of annual State LIHTC to Paanau Village Partners LP; subject to the terms as described in Section II, Subsection D and the following project specific conditions:

   a) The Developer’s Fee, Overhead, and related costs of this project does not exceed $650,000.

D. 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 under the Low Income Housing Tax Credit (LIHTC) Program, the HHFDC publishes a Qualified Allocation Plan (QAP), which includes criteria used for evaluating and allocating LIHTC. The QAP is discussed with the Board on an annual basis to accept ongoing comments received for improvements.

There is a $2.10 annual per capita limit for 2010. The HHFDC has approximately $2.7 million in Federal and $1.35 million in State LIHTC available for the 2010 calendar year.

February 1, 2010, was the deadline for applications requesting LIHTC from the 2010 State Volume Cap. Six applications were received, totaling an aggregate amount of $6.66 million in Federal LIHTC and $3.33 million in State LIHTC.

Applications were evaluated and scored based on the criteria set forth in the 2009/2010 QAP.

Based on the limited LIHTC resources, hierarchy of scoring, and project feasibility, the Banyan Street Manor, Whitmore Circle Apartments, and Paanau Village Phase 2 projects were recommended.

If approved, the 2010 LIHTC Volume Cap will have a remaining balance of approximately $150,000 in Federal and $79,000 in State LIHTC.

Mr. Ueki opened for questions, along with Ms. Makani Maeva, representing Banyan Tree Manor and Whitmore Circle Apartments projects; and Mr. John

HHFDC Regular Meeting – May 13, 2010

292
Frazier, representing Paanau Village Phase 2 project.

In response to the Board, Mr. Ueki stated that:

1. Based on the direction of the Board, staff has focused on leveraging its resources to the greatest extent possible.

2. The QAP is approved by the Board on an annual basis. Comments and suggested changes are accepted throughout the year in addition to the formal comment period and are incorporated into the approved QAP.

The Board asked that in the future, staff provide data on all applicants rather than only the selected projects recommended by staff, providing a clearer and broader perspective on all potential projects at hand.

Ms. Maeva provided background information on the Whitmore Circle Apartments and Banyan Street Manor projects.

The motion was unanimously approved.

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

That the HHFDC Board of Directors approve the following:

A. Amend the State Loans as described in Section III(D).

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

Mr. Ueki noted that the recommendation before the Board does not result in any increased financial risk to the State.

Mr. Ueki proceeded with the For Action, stating that the Kukui Gardens Makai (Project) consists of 359 family units, located in Honolulu, Oahu.

Legislative appropriations have resulted in various loans for the Project, as well as an appropriation of Hula Mau Multi-Family bonds and Low Income Housing Tax Credits awarded from the HHFDC.

Staff has reviewed the Kukui EAH/DGI Associates, L.P.’s (Applicant) request and proposed the following terms:

1. Allow deferral of up to the entire budgeted Developer’s Fee of $1,609,000.

   a. A continued downward pricing pressure on the LIHTC has prompted the Developer to defer its fee in order to keep the project budget balanced.

   b. Developer currently needs to defer $434,155 in order to keep the budget balanced. However, it would like the ability to defer additional amounts of Developer’s Fee should LIHTC pricing decline further.

   c. Recommendation based on the following:

      (1) Project budget remains balanced without the infusion of additional direct State funds.

2. Approve payments of Deferred Developer’s fee out of Project cash flow and prior to repayment of the State and TCAP Loans to the Project.
a. Recommendation based on the following:

(1) Typically, payment of the Deferred Developer's Fee is considered a priority payment item over State loans.

(2) Under LIHTC guidelines, Deferred Developer's Fee payment needs to occur within 10-years from project completion in order to be considered an eligible cost basis item.

(3) Deferral of Developer Fee does delay repayment of the State loans by an estimated 24 months from conversion; however, this is immaterial considering the approximately $55,000,000 in aggregate State loans to the Project.

3. Allow related party operating expenses to be classified, for LIHTC investor purposes, as “below the line”, “discretionary” expenses instead of “above the line” “non-discretionary” expenses.

a) Ability to amend cost allocation requested to help the Project meet its 1.20x debt service ratio requirement with its lender/LIHTC investor. The ability to classify an expense as “below the line” allows the lender/LIHTC investor to view the expense as “discretionary” and be paid after hard debt service and only if there is sufficient cash flow to cover the payment. If there is not enough cash to cover the “below the line” expenses, it remains the responsibility of the Project; it can be deferred until there is sufficient cash for payment or the developer could elect to pay.

b) The Developer has more ability to control its related party expenses (i.e. costs paid to EAH). The developer can elect to defer these costs items and limit the repercussions

c) Recommend based on the following:

(1) No net effect on cash flow available for debt service on the State or TCAP Loans.

(a) Payments of the related party fees are still operating expenses of the Project and remain senior to the State and TCAP loans regardless of its definition as an “above the line” or “below line” expense for the lender/LIHTC investor.

(b) Definition only matters to the lender/LIHTC investor.

(2) Helps Project secure its LIHTC investor by meeting a minimum debt service ratio requirement of 1.20x.

4. All other terms and conditions of the State loans remain the same.

Mr. Ueki opened for questions, along with Mr. Kevin Carney and Ms. Marian Gushiken, on behalf of the Project.

In response to Director Kawamura, Mr. Ueki stated the developer's fees that are deferred would take priority over a Rental Housing Trust Fund loan because of the 10-year payback period. Otherwise, the deferred developer's fee cannot be claimed as part of the eligible basis for tax credit purposes.

In response to the Board, Mr. Ueki clarified that there would be no operational impact in terms of the Dwelling Unit Revolving Funds being used.
The motion was unanimously approved.

Chairman Lawrence called for a motion to recess.

Director Larson moved, seconded by Director Kawamura, to recess the meeting at 10:20 a.m.

The meeting was reconvened in regular session at 10:27 a.m.

Director Kawamura moved, seconded by Director Smith, to approve staff’s recommendation:

That the HHFDC Board of Directors approve a DURF interim loan to Wailuku Senior Living, L.P., or other development entity approved by HHFDC, in an amount not to exceed $2,235 million, at zero percent (0%) interest per annum, no loan origination fee, twelve-month loan term with two (2) six (6) month extensions, no administrative fee, and repayment contingent on available cash flow, substantially as described in this For Action, subject to the following:

A. Availability of DURF funds;

B. Approval and release of funds by the Governor;

C. Approval and execution of necessary loan documents by the Executive Director;

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

E. The Executive Director shall be authorized to take all actions necessary to effectuate the purpose of this For Action.

Mr. Prabier presented the For Action, stating that the Lokenani Hale Affordable Elderly Rental Housing (Project) consists of 61 units and 1 manager’s unit, located in Wailuku, Maui. The Project serves persons with incomes at or below the 50% area median income (AMI).

The Project was developed with a conventional bank mortgage from Central Pacific Bank (CPB) and equity from a Low Income Housing Tax Credit (LIHTC) allocation in 2003. The Project was built and placed into service in 2005.

Wailuku Senior Living, L.P. (Developer) has requested for a Dwelling Unit Revolving Fund (DURF) loan in the amount of $2,235 million to pay off the project’s conventional bank mortgage with CPB and restructure its finances.

Staff has reviewed the Developer’s request and proposed the following terms:

Loan Amount: $2,235,000 in interim financing.

Borrower: Wailuku Senior Living, L.P.

Form of Loan: Twelve-month interim loan secured by a first mortgage on the property; non-recourse loan.

Interest Rate: 0% per annum.

Origination Fee: None.

Administrative Fee: None.

Loan Term: Twelve months, with two six (6) month loan
extension options, to be granted at the sole discretion of HHFDC.

Repayment Terms: Payments of 75% of available cash flow after the payment of project operating expenses, senior dept service (if any), and any other expenses or expenditures recognized by HHFDC.

The Project is presently in financial distress and may face the challenges of foreclosure if no action is taken soon.

The loan will be secured by an ALTA-insured first mortgage and has an assessed property value of $8.8 million.

The Developer has contracted Hale Mahaolu, a non-profit organization, to provide property management services for the Project.

Mr. Prahler opened for questions, along with Mr. Ueki; Mr. Roy Katsuda and Ms. Robyne Nishida Nakao, from Hale Mahaolu; and Mr. Byron Ooka, Project Owner.

In response to Director Kawamura, Mr. Ueki referred to Exhibit C, the Project's Operating proforma, stating that the estimated payment to repay the DURF loan would be approximately $42,000 in year one. Furthermore, based on that proforma, the DURF loan would be retired in 32 years.

In response to Director Jung, Mr. Ueki stated that staff views the Project from the perspective of a preservation of affordability. If the Project proceeds to foreclosure, it is the understanding of staff, that everything invested in the Project in terms of financing and affordability would be lost.

The Board conversed and determined the following:

1. Prominent Project restraints in cashflow are due to a lack of project-based subsidies and its AMI target group of 50% being too low. Need flexibility in AMI target group to broaden tenant eligibility, decreasing the Project's vacancy rate and increasing project cashflow.

2. The Project's CPB mortgage is approximately 50% of its revenues per month.

3. CPB loan is unable to be refinanced. Current CPB loan terms include a Personal Guarantee and an interest rate of approximately 8%. Loan is currently not in default.

Director Mesick commented that he felt more information was needed in terms of understanding the effects of the foreclosure process and the financial implications of the State getting involved.

4. The Project has a Declaration of Restrictive Covenants for its IHTC awarded. If the Project should go through foreclosure, it is the understanding of staff that there is a mechanism in place to eliminate the restrictions for the purposes of liquidating the property.

5. Tax Credit Investor is disinclined to assist the Project at this time. However, in the case of foreclosure, the tax credit investor will lose its tax credits.

6. Hale Mahaolu is presently assisting the Project by managing the grounds and building.

7. DURF loan will also provide assistance in establishing individualized meters to monitor each renter's use of electricity and backlog of payments

HHFDC Regular Meeting – May 13, 2010
in other operational expenses.

8. The Project has a RHTF loan request pending.

Director Mesick reiterated that he felt there was not enough information provided to determine the Project’s feasibility and recommended that the action be deferred to further review possible options.

Director Mesick moved, seconded by Director Smith, to defer action on this item.

With 3 ayes and 3 nays, the motion did not carry.

Discussion ensued on alternative terms and assurances.

In response to the Board, staff clarified that the DURF loan is intended to be used as an interim loan until the RHTF monies are established and would then be able to take out the DURF loan.

Director Kawamura moved, seconded by Director Larson, to amend staff’s recommendation to require that the terms and conditions of the DURF loan included the following:

A. Any favorable Central Pacific Bank loan terms and conditions pertaining to additional security or collateral, such as a personal guarantee from Mr. Byron Ooka;

B. Explore the possibility of amending the AMI requirements applicable to the project in compliance with IRS Code (such amendment will be subject to the HHFDC Board approval); and

C. Submittal of an updated narrative report reflecting the project’s financial options and assumptions set forth in the proforma.

The motion was unanimously approved as amended, with Director Mesick abstaining.

Director Larson commended Hale Molalu for its efforts in assisting the Lokenani project and commended that in light of this For Action, perhaps developers could look at lowering its rents as the economy improves, to allow people, such as seniors with fixed incomes, the opportunity to grow with the rents’ prices long term.

Planner Lisa Wond presented the For Information, stating that the State of Hawaii’s Consolidated Plan Annual Action Plan (AAP) for Program Year (PY) 2010 was submitted to and conditionally approved by the United States Department of Housing and Urban Development (HUD) in January 2010.

For PY 2010, the State of Hawaii will be eligible to receive $3,043,720 in HOME Investment Partnership (HOME) program funds; $232,890 in Emergency Shelter Grants (ESG) program funds; and $181,691 in Housing Opportunities for Persons with AIDS (HOPWA) program funds. Ms. Wond further reported on the objectives of each programs’ funds and the allocated amounts to be distributed to the Counties of Hawaii, Kauai, and Maui.

This Supplement to the 2010 AAP is due to HUD by May 15, 2010.

Ms. Wond opened for questions.

In response to Director Kawamura, Ms. Wond stated that the State’s Fiscal Year 2010 - 2011 would be equivalent to HUD’s PY 2010.

In response to Director Larson, Ms. Wond stated that the Board approved the AAP for PY 2010 in December 2009.
Chairman Lawrence proceeded to the Report of the Executive Director.

In response to the Board, Chief Planner Janice Takahashi reported on the following outcomes of the 2010 Legislative Session:

1. A $10 million appropriation to the Rental Housing Trust Fund.

2. All fifteen of HHFDC’s Resolutions were approved, allowing the HHFDC to sell in fee-simple land.

3. HB 2845, HD1, SD1, CD1 was approved, allowing the HHFDC to sell in fee-simple, properties that were acquired through foreclosure or under the buy back process.

4. The Administrative Bill regarding the monetization of the Low Income Housing Tax Credits did not pass.

5. Act 26 was approved and requires that the dedication of infrastructure in affordable housing projects by the counties, are accepted within 60 days of the acceptance of a complete application for dedication to council.

6. Six out of thirteen staff positions were restored to the HHFDC.

In response to Director Kawamura, Executive Director Seddon clarified that written public testimonies are accepted up to the day of the meeting. However, persons wishing to submit their written testimonies to be included in the Board packets need to be received 7 days prior to the meeting date.

The Board discussed matters involving Mr. White’s testimony, regarding the Plantation Town Apartments and tenant notifications.

The Board discussed on potential opportunities to be more “proactive” rather than “reactive” in projects facing difficulties. Executive Director Seddon stated that the Board has the opportunity to further discuss these matters at its strategic planning session meeting.

In response to the Board, Executive Director Seddon stated that staff reviews and performs a rather extensive filtering process before requests are presented to the Board for approval.

With no further business on the agenda, Director Larson moved, seconded by Director Mesick, to adjourn the meeting at 12:30 p.m.

The motion was unanimously approved.

BETTY LOU LARSON
Secretary