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 12, 2012, at 9:05 a.m.

Chairman Ralph Mesick called the meeting to order at 9:05 a.m.

Present: 
Director Ralph Mesick, Chairman  
Director Allan Los Banos, Vice Chairman  
Director Betty Lou Larson, Secretary  
Director Francis Jung  
Director Paul Kyno  
Director Michael Ng  
Director Leilani Pulmano 
Designee Mary Alice Evans for Director Richard Lim 
Designee Luis Salaveria for Director Kalbert Young

Executive Director Karen Seddon

Excused: 
Director Richard Lim  
Director Kalbert Young

Staff Present: 
Sandra Ching, Deputy Attorney General  
Colette Honda, Deputy Attorney General  
Janice Takahashi, Chief Planner  
Darren Ueki, Finance Manager  
Rick Prahler, Development Branch Chief  
Galen Lee, Fiscal Manager  
Stuart Kritzer, Asset Manager  
Marlene Lemke, Real Estate Services Section Chief  
Stan Fujimoto, Development Section Chief  
Patrick Inouye, Housing Finance Specialist  
Byron Chock, Housing Finance Specialist  
Jocelyn Iwamasa, Housing Finance Specialist  
Leo Domingo, Development Project Coordinator  
Kent Miyasaki, Housing Information Specialist  
Esa Pablo, Secretary to the Board

Guests: 
Delene Osorio, Big Island Housing Foundation  
Glenn Okino, GMO Construction Services  
Gary Furuta, GSF LLC  
Jeff Furuta, GSF LLC  
Andrew Furuta, Castle & Cooke Hawaii  
Stacy Sur, Hawaii Housing Finance  
Jim Dooley, Hawaii Reporter  
Kali Watson, Hawaiian Community Development Board  
Patti Barbee, Hawaiian Community Development Board  
Doug Bigley, Nanakuli Kauhale Development LP  
James Kwong, Yogi Kwong Engineers  
Michael Kahikina, Nanakuli Hawaiian Homestead Community Association  
Kamaki Kanahele, Nanakuli Hawaiian Homestead Community Association  
Eddie Ontai, Catholic Charities Housing Development Corporation

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A quorum was present.

Director Jung moved, seconded by Director Kyno, to approve the Meeting Minutes of June 14, 2012.

The motion was unanimously approved.

Chairman Mesick deferred action on the June 14, 2012 Executive Session Minutes until the end of the meeting.

Chairman Mesick deferred action on the May 10, 2012 Executive Session Minutes until the end of the meeting.

Director Jung moved, seconded by Vice Chairman Los Banos, to approve Staff’s recommendation:

That the HHFDC Board of Directors:

1. Approve proposed Chapter 15-319, HAR, subject to Governor approval, and authorize the Executive Director, or designated representative(s), to conduct a public hearing on the adoption of Chapter 15-319, HAR;

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

3. Subsequent to the public hearing, authorize the Executive Director to transmit Chapter 15-319, HAR, to the Governor for final approval if no substantive amendments are required.

Planner Mavis Masaki presented the For Action, stating the intent of the proposed rules to be to:

1. Set forth a clear procedure for an application to obtain water service for new consumers;

2. Clarify the respective rights and responsibilities of the HHFDC and water consumers;

3. Establish a new water rate schedule, service fees and late payment charges; and

4. Establish a clear procedure for discontinuation of water service for nonpayment of bills or noncompliance with HHFDC requirements for service.
Under the proposed rules, the HHFDC is responsible for the installation of service connection, shut-off valve, and consumer supply pipe valve, maintenance of the potable water system pumps and tanks, water mains and transmission lines, the service connection, and water meter.

The water consumer is responsible for the installation of the supply pipe, backflow preventer and pressure relief valve, maintenance of the backflow preventer, shut-off valve, and supply pipe.

The current water rates have not been raised since 1989 and do not cover the potable water system operating expenses.

The proposed water rate schedule implements a fee increase to match the Board of Water Supply (BWS) rate schedule approved by the Public Utilities Commission, accomplishing the increase over a 4-year period. Thereafter, rates will automatically increase on an annual basis by the percentage established in the Consumer Price Index for water, sewer, and trash collection service.

Other fees being proposed include:

1. Dishonored check fee of $25.00; and

2. Reconnection charge (after termination of water service for nonpayment) for actual cost, not to exceed a maximum charge of $250.00.

The HHFDC Staff has met with the Waiahole-Waikane Community Association members on May 22, 2012. Additional committee meetings will be held to inform the community of the rules and application.

The next steps in the rulemaking process are as follows:

1. Continued outreach to water system consumers through additional community meetings;

2. Governor approval of the request to conduct a public hearing on the proposed rules, via the Department of Budget and Finance and the Department of Business, Economic Development and Tourism’s Small Business Regulatory Review Board;

3. Statewide publication of notice of the public hearing no later than 30 days prior to the hearing date;

4. The public hearing; and

5. Submission of a request for the Governor’s final approval of the proposed rules. The request will include a summary of all public comments on the proposed rules.

Any substantive amendments to the proposed rules will return to the Board for further discussion and approval.

Ms. Masaki and Development Branch Chief Rick Praehler opened for questions.

In response to the Board, Staff noted the following:

1. The new fee projection of approximately $93,400 per year is inadequate to maintain the water system on an annual basis.

2. Vital improvements to the water system will be funded by the Dwelling Unit Revolving Fund. However, with the HHFDC’s mission being affordable housing, Staff has continued to legislatively seek Capital Improvement Program (CIP) funding for the $6 million needed for the
repair of the water system.

3. The HHFDC intent is not to exceed the fee charges of the BWS.

4. The Consumer Price Index is the only increase mechanism allowable, as indexing to the BWS rates would be considered discretionary.

The motion was unanimously approved.

Chairman Mesick asked that the Board proceed to Agenda Item C, to allow members from the Riverside Apartments project additional time to arrive from Hilo.

Director Larson moved, seconded by Director Jung, to approve Staff’s recommendation:

That the HHFDC Board of Directors approve the following:

A. Extend the deadline to issue Hula Mae Multi-Family (HMMF) Bonds for the Hale Makana O Nanakuli Project to September 30, 2012.

B. 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 (Project) is a 48 family unit project, located in Waianae, Oahu.

The Project’s facts and previous Board approvals from April 2009 - August 2011 were noted for newly appointed Board Director Leilani Pul mano.

Mr. Ueki opened for questions.

Director Jung commented that he was pleased with the Project’s cost per square foot of $308 and inquired on the reasoning for higher project costs on the Big Island. Mr. Ueki stated that projects on the Big Island tend to have more site work cost due to the lava rock and terrain.

With no further discussion, the motion was unanimously approved.

Chairman Mesick proceeded to Agenda Item D.

Designee Evans moved, seconded by Director Kyno, to approve Staff’s recommendation:

That the HHFDC Board of Directors approve the following:

A. Extend the Rental Housing Trust Fund (RHTF) Project Award Letter of Intent (LOI) to September 30, 2012, subject to the requirements set forth in the For Actions dated April 9, 2009 and May 13, 2010.

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 request before the Board is to extend the RHTF Project Award LOI to September 30, 2012, noting that the Hale Makana O Nanakuli (Project) is making progress in terms of the issuance of the Bonds.

With no further discussion, the motion was unanimously approved.

Chairman Mesick proceeded to Agenda Item E.
Chairman Mesick called for a motion to approve Staff’s recommendation:

That the HHFDC Board of Directors approve the following:

A. Disapprove the request from the Developer to increase the non-competitive (4%) Federal Low Income Housing Tax Credits (LIHTC) to $585,350 from $563,970 and increase the State LIHTC to $292,675 from $281,985 for the Hale Makana O Nanakuli Affordable Rental Project.

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

Designee Evans motioned to approve the request from the Developer to increase the non-competitive (4%) Federal LIHTC to $585,350 from $563,970 and increase the State LIHTC to $292,675 from $281,985 for the Hale Makana O Nanakuli (Project) Affordable Rental Project.

The motion was seconded by Director Jung and opened for discussion.

Mr. Ueki presented the For Action, stating that at the June 14, 2012 Board Meeting, a For Information was provided with the details of Staff’s denial of the Project’s request for additional LIHTC.

Although a majority of the Board expressed its support for the increase at the June 14, 2012 Board Meeting, the Executive Director advised Staff to submit a request for disapproval, as a significant amount of additional resources were previously provided to the Project.

Additionally, the Project has increased its scope of work beyond what was originally approved by the HHFDC, knowing that they did not have adequate financial resources to cover the additional costs.

The Project is able to be completed with the current resources previously awarded by the Board with no detriment to the Project.

Previous increases of LIHTC have been used for the purposes of hardships, such as increases to project construction costs.

The HHFDC recognizes that the additional work does enhance the project. However, as originally planned, the Project provides for a safe, clean, and sound housing for residents that can satisfactorily meet the commitment for the promised 65-year affordability period.

Mr. Ueki opened for questions.

In response to the Board, Mr. Doug Bigley, with Nanakuli Kauhale Development L.P., and Mr. Kali Watson, with the Hawaiian Community Development Board, noted that the additional allocation of LIHTC would be used for hard surface flooring, providing a long-term cost savings in maintenance as well as health and safety.

Present team members of the Project were introduced as follows: Mr. Kamaki Kanahele, President of the Sovereign Councils of Hawaiian Homelands Assembly; and Mr. Michael Kahikina, Vice President of the Nanakuli Hawaiian Homestead Community Association and Executive Director of Kahikolu O Waianae project.

Mr. Kahikina thanked the Board for considering the enhancement for the Project, expressing his regret of not installing hard surface flooring earlier and having to deal with the extreme maintenance costs of carpeting in the Kahikolu O Waianae project.
Director Larson stated that she felt this was a good project and although the upgrades would make the Project better, there was concern on a national level that upgrades are not the intended purpose for the limited LIHTC resources, but rather used for the purpose of creating good affordable decent housing that will last, of which standards the Project already meets. Therefore, in setting precedence for future projects, she would be voting against the motion.

In response to Director Ng, Mr. Ueki stated that the RHTF and LIHTC, although two different funding sources, do heavily impact each other. Executive Director Seddon reiterated that it is not a common practice of the Board to increase an award to a project other than for some sort of hardship or an increase in project cost.

Designee Evans commented that the upgrade of the hard surface flooring is really a long-term investment and will contribute to the health of the tenants. Furthermore, because the federal credits are non-competitive, it will not take away from other projects, being a prudent move on the part of the Board to increase the value of a project that is going to provide benefits to the community for 65-years.

The Board continued to discuss both positions of Staff and the Project, expressing their concerns of cost, health of the tenants, and overall scrutiny.

Chairman Mesick asked if there were any last comments from Staff.

Executive Director Seddon stated that although the upgrades add to the Project, adding additional Tax Credits for this purpose does not follow the intent of the LIHTC program, which is to award the absolute minimum amount of tax credits needed (IRS, Section 42).

Director Ng stated that although he would vote in favor of the motion, in consideration of the Staff, hopefully this would be a one-time exception.

Mr. Bigley commented that sometimes when looking at projects down the road there are things that just make sense. In California, when projects are awarded their allocation, they also receive an additional 15% cushion, avoiding the need to come back for more funding, which could be a possible method in managing the LIHTC program.

With no further discussion, Chairman Mesick called for the question.

Directors Mesick, Los Banos, Ng, Jung, and Designees Evans and Salaveria voted in favor of the motion, with Director Larson opposing.

The motion was approved.

Chairman Mesick proceeded back to Agenda Item B.

Designee Salaveria moved, seconded by Vice Chairman Los Banos, to approve Staff’s recommendation:

That the HHFDC Board of Directors approve the Award of Federal and State LIHTC to the following Project in accordance with the QAP and subject to the conditions specified in Exhibit G of this For Action.

A. The Mehuila Vista I project.

1. Allocation of up to $721,082 of annual Federal and $360,541 of annual State LIHTC; 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

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

Director Larson recused herself from voting on this For Action.

Chairman Mesick noted that he understood that he did not have to recuse himself from this For Action.

Mr. Ueki presented the For Action for newly appointed Director Pulmano, stating that the information is similar to the information presented at the June 14, 2012 Board Meeting, in which the Board deferred recommendation for the Meheula Vista Phase I project, with regard to a plea presented by the Riverside Apartments for favorable consideration of the 2012 Volume Cap LIHTC.

The remaining 2012 Volume Cap LIHTC are less than the amount requested by the Riverside Apartments, resulting in an increase to its RHTF loan amount to approximately $7,894,095 to address the shortfall in its LIHTC. A financial feasibility report was completed based on the lower LIHTC and higher RHTF project award amounts.

However, due to the continued concern regarding the project feasibility of the Riverside Apartments, the Executive Director advised Staff to maintain the original recommendation to award the balance of the 2012 Volume Credits to the Meheula Vista Phase I.

Mr. Ueki opened for questions.

In response to the Board, Staff noted the following:

1. The underwriting of the Riverside Apartment application submitted in February 2012 entailed funding for acquiring and rehabilitating, along with addressing geotechnical issues.

2. Addressing a fix for the ground issues would require a separate application.

3. Once an application is received from the current owner, Staff is willing to work with the applicant to discuss possible options.

4. Staff has not been provided any formal written notice by HUD with regard to the Section 8 Vouchers being pulled from the Riverside Apartments.

5. The current Owner of the Riverside Apartments is electing to sell the project, which cannot take place unless the financing being requested is obtained.

Ms. Delene Osorio, representative of the Riverside Apartments, expressed her surprise on not being place on this meeting’s agenda based on the discussion of last month’s Board meeting and once again pleaded on the project situation.

In reference to the questioning of the engineer report within the For Action, Ms. Osorio introduced and called upon engineers Mr. James Kwong and Mr. Kealohi Sandefur, of Yogi Kwong and Associates, who generated the report.

In response to the Board, Mr. Kwong and Mr. Sandefur reported that additional investigation was funded and completed since the original application with no anticipated surprises. With the main concern being corrosion, increases to the casing thickness to extend life expectancy has been included within the estimated cost of approximately $3 million.
When asked by the Board if the remediation of the site could be done without a sale, Ms. Osorio responded that it may be possible; however, this would be the fourth application submitted and would like to resolve the issue once and for all.

With regard to timing, Executive Director Seddon stated that the owner could come in to apply for other available funds, such as DURF or 4% LIHTC at anytime.

Designee Evans inquired on the Board’s options due to her concern with HUD foreclosing and the Section 8 subsidies being lost if no affirmative action was taken.

Chairman Mesick clarified that the Board cannot commit to helping the Riverside Apartments unless there is a specific request on the table.

Mr. Bigley expressed his concern with the follow up process of the Agency, stating that there was no collaboration and asked for some dialog in helping to fix the problem.

Director Jung stated that although he does respect the Staff and the work that was done, he would vote against the motion due to his concern with the Riverside Apartments.

With that said, Director Jung motioned to defer action until next month to allow Staff to work with both entities to come up with a solution that meets both the needs of the Riverside Apartments and Meheula Vista Phase 1.

Project Manager Gary Furuta, of the Meheula Vista Phase 1 project, stated that he sent the Board correspondence on the value of both projects and possible ways of moving both projects forward.

Designee Salaveria reminded the Board that there is a reason why the tax credits are so valuable in the equity it provides.

Designee Evans stated that she would support the motion by Director Jung.

Chairman Mesick asked Mr. Furuta how the one-month delay would impact the Meheula Vista Phase I project. Mr. Furuta responded that delaying it another month would just mean the Project would be that much closer to receiving its permits and approvals. However, if the project is delayed another year, the project would need to go through the permitting and the 2011 process again, reiterating his belief of finding a solution that would serve both projects.

Director Jung restated his motion and asked that the materials be given to the Board in time to review before the next meeting.

In response to Director Ng, Mr. Kwong stated his years of experience and the dangers of the unstable slope if it is not fixed. According to Mr. Kwong and Mr. Sandefur, the design of the mitigation plan was made to provide for 30 years, with a 20 - 25 year inspection budgeted. However, the longevity of the reinforcements could be adjusted by the design of the casings.

Chairman Mesick clarified the motion, stating that the Board will defer action on this For Action to allow Staff to work with the Developers to develop a plan to move both projects forward. Director Jung concurred.

Director Kyno seconded the motion.

The motion was approved, with Director Larson abstaining.

Housing Finance Specialist Patrick Inouye asked for clarification in terms of what Staff can do, stating that in reviewing applications in general, the HHFDC is not
in the position to “consult” on how a project should structure their deals. Executive Director Seddon clarified that the Board is asking Staff to work with the applicants on a different solution.

With that said, Chairman Mesick proceeded to the Report of the Executive Director.

Executive Director Seddon reported on the following:

1. The Request for Proposals (RFP’s) for the USDA Rural Development projects Nani O Puna and Kekuilani Gardens is ready and is anticipated to be published next week.

2. An RFP for professional services for a Real Estate Consultant for the disposition of the projects in the Rental Housing System (RHS) has been published.

3. With the launch of the private-public partnership being started by the City and County of Honolulu (City & County), through its Housing Preservation Initiative, HHFDC looks to learn what works and what does not in offering the RHS projects for disposition and preservation.

4. A Qualified Allocation Plan (QAP) Committee has been established, consisting of three developers and three in-house Staff. The QAP Committee will assist in efforts to reestablishing a scoring balance between acquisition/rehabilitation and new construction projects.

5. With regard to the Riverside Apartments project, Executive Director Seddon expressed her apologies for the delayed analysis, explaining that the unique circumstances of the project caused a misstep in the evaluation. However, she felt that it is her fiduciary responsibility to examine and determine whether or not a project is feasible based on the facts and information provided, to effectively steward the limited funding resources the Agency has been given in the best way possible.

In response to the Board, Executive Director Seddon and Staff noted the following:

1. Asset Manager Stuart Kritzer was introduced, stating that Arizona was unique in that it was opposite of Hawaii, having more supply than demand. The QAP would be modified annually to incentivize new development as well as acquisition/rehabilitation according to the needs of the communities. Bond deals with the 4% LIHTC stopped occurring due to the larger amount needed (about 150 - 200 units) to make the deal economically feasible, having developers turn towards the 9% LIHTC. However, with the downfall of the market in 2008, Arizona, like Hawaii, had to reengineer and rebuild its plan.

2. Due to the higher costs in Hawaii, the 4% LIHTC becomes economically feasible with 50 units or more.

3. Having three developers on the QAP Committee provides vital input in determining how the criteria affect the application process and the types of projects proposed. The developer representatives are Mr. Jesse Wu, with Stanford Carr Development; Ms. Makani Maeva, with Vitus Group; and Mr. Gary Furuta, with Hawaii Housing Development Corporation.

4. The Board will have the opportunity to review and discuss changes made to the QAP before having to take action on the final version.

5. The first meeting of the QAP Committee will be held tomorrow, July 13, 2012. The QAP’s of Arizona, Massachusetts, and California will be
reviewed and considered.

With regard to the QAP, Director Larson stated that because she would not be available to attend the August through October Board meetings, she suggests that the Board consider looking at: (1) How the HHFDC can, not only build, but make sure people who are good tenants, in need of housing, gain access to affordable projects, suggesting that one point is given for consumer-friendly access in terms of the application process (e.g. criminal checks, credit checks, and minimum income qualifications); and (2) not only the technical aspects, but also the public purpose and its role in the QAP to provide incentives. (e.g. The City & County’s Ready to Rent Program)

With respect to Director Larson’s suggestion, Executive Director Seddon stated that the QAP Committee plans on looking at the performance of a project from the perspective of ownership, stating that criteria/requirements are needed to ensure compliance of services promised.

6. The HHFDC’s Strategic Planning Session is tentatively scheduled for the Board Meeting held on September 13, 2012.

Chairman Mesick apologized and introduced newly appointed Maui Director Leilani Pulmano, taking the place of Director David Lawrence, who did a great job during his years of service and will be missed.

Director Larson announced that she submitted a letter of delegation, via email, of her duties to the Executive Director in her absence from July 13, 2012 through November 5, 2012. A hardcopy of the letter has been signed and filed.

7. The Proclamation of Homeownership Month and the signing of Senate Bill 2740, relating to the housing loan and mortgage program, was held in June 2012.

8. The conveyance tax allocation for the RHTF has been coming in every two months, with a monthly average of $750,000, as opposed to a monthly average of $1 million during 2011.

Chairman Mesick motioned, seconded by Designee Evans, to move into Executive Session to approve the Executive Session Minutes of May 10, 2012 and June 14, 2012.

The motion was unanimously approved.

The Board convened in Executive Session at 11:05 am.

The Board reconvened into Regular Session at 11:21 am.

Chairman Mesick announced that the Board will be deferring approval of the Executive Session Meeting Minutes of May 10, 2012 and June 14, 2012 to the next Board Meeting held on August 9, 2012.
With no further business on the Agenda, Chairman Mesick called for a motion to adjourn.

Director Jung moved, seconded by Director Kyno, to adjourn the meeting at 11:23 am.

The motion was unanimously approved.

BETTY LOU LARSON
Secretary