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, JUNE 9, 2011 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, June 9, 2011, at 9:00 a.m.

CALL TO ORDER/ ROLL CALL

Chairman David Lawrence called the meeting to order at 9:03 a.m.

Present: Director David Lawrence, Chairman
Director Ralph Mesick, Vice Chairman
Director Betty Lou Larson, Secretary
Director Richard Lim
Director Francis Jung
Director Gary Siracusa
Director Michael Ng
Designee Scott Kami

Executive Director Karen Seddon

Excused: Director Allan Los Banos
Director Kalbert Young

Staff Present: Craig Iha, 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
Patrick Inouye, Housing Finance Specialist
Byron Chock, Housing Finance Specialist
Jocelyn Iwamasa, Housing Finance Specialist
Peter Nelson, Property Management Coordinator
Lorna Kometani, Housing Sales Coordinator
Lorraine Egusa, Budget Analyst
Kent Miyasaki, Housing Information Specialist
Esa Pablo, Secretary to the Board

Guests: Marian Gushiken, EAH Housing
Aaron Eberhardt, EAH Housing

QUORUM

A quorum was present.

II. A. APPROVAL OF MINUTES 5/12/11 Regular Meeting

Director Jung moved, seconded by Director Mesick, to approve the Meeting Minutes of May 12, 2011.

Chairman Lawrence questioned the transfer price amount stated on page 380. The following amendment was made to the meeting minutes to read as follows:

> ~~Based on the transfer price of $209,607,000 million for the Project,~~ Ewa Homes II, L.P. would be exempted from the payment of conveyance tax totaling $12,578.40.

The motion was unanimously approved, as amended.

III. A. DISCUSSION

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

DECISION MAKING
Approve the Rental Housing Trust Fund Project Award for the Ewa Villages Phase II Project Located in Ewa Beach, Oahu, TMK Nos.: (1) 9-1-017: 076 and 077 (portion)

That the HHFDC Board of Directors approved the following:

A. A RHTF Project Award Loan of $5,175,353 to the Ewa Homes II, L.P. or its successors, as approved by the Executive Director, with the terms and conditions as shown in Section III(I) of this For Action, and the issuance of the Letter of Intent subject to the following:

   1. Authorization and approval by the governor of the proposed project and the release of RHTF program funds as mandated under Chapter 15-311, Hawaii Administrative Rules.

   2. Execution of documentation satisfactory to the HHFDC outlining the terms and conditions of the Project Award. The documents shall specify the standard terms and conditions as required in order to meet all statutory requirements of the RHTF program and the specific terms and conditions that are applicable to the Applicant's request for Project Award funds.

   3. Completion of all documentation necessary and required to secure the release of RHTF funds.

   4. Certification of the applicant to comply with all applicable statutory and Program requirements, including, but not limited to, Chapters 343, 103D, §103-50 and §104, Hawaii Revised Statutes, as they may relate to the use of State funds.

   5. Availability of RHTF program funds.

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

Finance Manager presented the For Action stating that the proposed Ewa Villages Phase II (Project) will consist of 76 family units, in 9 two-story buildings in 5 clusters, with each cluster surrounded by a central courtyard, located in Ewa Beach, Oahu.

Changes to the Project's development budget and financing structure were noted in Exhibit D of the For Action.

The key dates of the Project's estimated construction timeline were as follows: (1) construction start date in March 2012; (2) first building completion in April 2013; and (3) Project completion in July 2013.

Staff reviewed Hui Kauhale, Inc's (Applicant) loan terms requested and proposes the following:

1. Loan Amount: $5,175,353 increase to $11,943,353 from $6,768,000

2. Interest Rate: 0.00% Years 1 through 2 (Construction Period)
   0.75% Years 3 through 55 (Permanent Period)

   a. 0.00% for the Construction Period is recommended as (i) property operations have not commenced and (ii) eliminates the need to establish and track an interest reserve.

   b. An interest rate of 0.75% for the Permanent Period is recommended as it provides for a reasonable payback schedule.

3. Fee: None

4. Term/Maturity: 57 Years (2-year Construction Period plus 55-year

Permanent Period).

5. Repayment: Years 1 through 2 – No Payments

Years 3 through 57 – 79% of Available cash flow after payment of expenses, senior debt service, and other recognized expenses. 79% is the approximate proportional share of the RHTF with other subordinate funding.)

6. Collateral: Junior mortgage loan, subject only to the HMMF Bond or takeout permanent debt on the HMMF Bond and whatever liens that may be associated with the issuance of the HMMF Bond; on the fee simple interest in the Project.

7. Other Terms:

a) The Project's loan to value ratio (on the RHTF loan and debt senior to the RHTF loan) shall not exceed 100%.

b) No disbursement of Developer's Fee until satisfactory completion of the Project.

c) The RHTF Project Award is subject to the availability of funds.

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

In response to the Board, Mr. Ueki, Executive Director Seddon, and Ms. Gushiken noted the following:

1. The Project has incurred additional costs due to economic trends of the market and financial delays, and under these circumstances, the development costs are considered reasonable.

2. Currently, similar projects repay approximately $750,000 into the Rental Housing Trust Fund (RHTF) annually. Larger RHTF repayment amounts are usually not seen until loan years 20 to 30.

3. In addressing the challenges of the economic downturn, the Board has directed staff to reduce project leveraging and provide a higher level of subsidies until more private capital is available, in its efforts to keep projects moving forward.

4. Current studies indicate that rentals are becoming more sought-after than homeownership.

5. This Project is the final project from the 2010 RHTF funding round.

6. Increases in RHTF loans are rare; however, due to the economic downturn, the Board and Corporation faced unusual circumstances that have resulted in its decision to help committed projects through completion. Federal subsidy monies acquired from the American Recovery and Reinvestment Act (ARRA) program also provided a portion of the assistance.

7. Each project is unique in its construction and infrastructure costs and is therefore, evaluated on a project-by-project basis.

8. In comparison to Phase I of the Project, the costs per unit are similar, site work is in progress, with vertical construction anticipated to start in

August 2011.

Director Lim stated that the cost per unit might be something to look at during the strategic planning session, as well as the cost of comparable market units.

9. The Project rental rates are below the market rates for its one to three-bedroom units. A comparison report of market and affordable rental rates could be made available to staff.

10. Amended construction plans were required to be reconfigured and resubmitted, repeating the approval process through the Department of Planning and Permitting, anticipated throughout the rest of 2011.

The motion was unanimously approved.

III. B. DISCUSSION AND/OR DECISION MAKING
Approve Cancellation of Certification and Exemptions Approved Pursuant to Act 15 Session Laws of Hawaii 1988 and Amendment of the Development Agreement for the Puukolii Triangle Project Located in Kaanapali, Maui, TMK Nos.: (2) 4-4-15:24 to 31, and 33 (portion)

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

That the HHFDC Board of Directors approve the following for the Puukolii Triangle project, substantially as described in this For Action:

A. Cancellation of certifications and exemptions from statutes, ordinances and rules previously approved by HFDC pursuant to Act 15 Session Laws of Hawaii 1988 on January 20 and April 8, 1993;

B. Amendment to the existing Puukolii Village Development Agreement to include the affordable housing requirements substantially as described in this For Action;

C. If needed, HHFDC joining, as co-petitioner, or consenting to the submittal of motions by Kaanapali Land Management Corp., or other entity approved by the Executive Director, to the Land Use Commission seeking approval of the revisions approved hereunder as they affect the Puukolii Triangle project only; and

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

Subject to the following:

A. Approval by the County of Maui, as required by Act 198, Session Laws of Hawaii 2005;

B. Approval by the Department of Attorney General as to form; and

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

Development Section Chief Stan Fujimoto provided an overview of the For Action, stating that the Puukolii Villages (Project) consists of two villages, Puukolii Mauka and Puukolii Triangle, on private land within the Kaanapali 2020 project, adjacent to the Villages of Leialii, located in Lahaina, Maui.

Project background information was provided to the Board regarding previous approvals and events.

On May 25, 2011, HHFDC received a letter from Kaanapali Land Management Corporation (KLMC) requesting to cancel the previously approved Act 15 exemption for the Puukolii Triangle Project to enable the developer to incorporate the Puukolii Triangle into the Kaanapali 2020 master plan and seek entitlement approvals directly with the Land Use Commission (LUC) and the County of Maui (County).

In addition, since Act 198 requires that the affordable housing requirement for Puukolii Triangle be by mutual agreement between HHFDC, the County, and the developer, this For Action also seeks approval of an amendment to the existing development agreement for Puukolii Triangle. The major provisions to the proposed amendment to the development agreement are as follows:

1. Parties: HHFDC, the County and KLMC, or other entity approved by the Executive Director;

2. Property: Approximately 58 acres within Puukolii Triangle, and other property as approved by the Executive Director.

3. Affordability Requirements:

    a. A minimum of 340 affordable units in compliance with the Maui Workforce Housing Policy, Chapter 2.96, Maui County Code (Ordinance 3418, 2006)(Workforce Housing Policy) shall be developed on the Property;

    b. The affordable housing requirement shall include a requirement for housing that is affordable to households earning up to 120% of the county median income as required by Act 198; and

    c. The County shall be responsible for enforcement of the affordable housing requirements as required by this Amended Agreement.

4. Completion Dates: Unless otherwise approved by HHFDC at HHFDC's sole discretion;

    a. Completion of 340 affordable units within 10 years from the date of approval of this For Action.

As a previous co-petitioner for the LUC reclassification, the HHFDC may need to be a co-petitioner or consent to amendments made by KLMC for the Puukolii Triangle.

Mr. Fujimoto opened for questions, noting that project representatives were not present.

In response to the Board, Mr. Fujimoto and Executive Director Seddon, noted the following:

1. The HHFDC's primary concern is that the affordable housing units (340 for the Puukolii Triangle) are built and that such requirements could be stated within its amended development agreement between the developer, County, and the HHFDC.

2. The estimated total project cost of $59,639,000 was provided at the time of the Project's previous approval in 1993, for a total of 1700 units, including 1325 affordable units. However, the Project was determined to be unfeasible and is being amended by KLMC so it can become a reality.

3. Until the Kaanapali 2020 master plan is finalized, the total number of affordable units is pending.

4. Both the Puukolii Mauka and Puukolii Triangle consist of affordable housing components.

The motion was unanimously approved.

III. C. DISCUSSION AND/OR DECISION MAKING
Approve Proposed Chapter 15-320 "Low Income Housing Tax Credit Loan Program" Hawaii Administrative Rules

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

That the HHFDC Board of Directors:

1. Approve the proposed Chapter 15-320, HAR, subject to:

   a. Enactment into law of H.B. 960, H.D. 1, S.D. 2, C.D. 1 Relating to Low Income Housing; and

   b. Approval as to form by the HHFDC's Deputy Attorney General;

2. Subject to the Governor's approval, authorize the Executive Director or designated representative(s) to conduct a public hearing on the adoption of Chapter 15-320, HAR;

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

4. After the public hearing, authorize the Executive Director to transmit Chapter 15-320, HAR, to the Governor for final approval provided that no substantive amendments are made.

Planner Mavis Masaki presented the For Action, stating that House Bill 960 (HB 960), relating to the Low Income Housing Tax Credit (LIHTC) Program, is pending the Governor's approval.

HB 960 allows qualified low-income housing projects that were awarded LIHTC, to exchange for a zero-interest loan for 9% volume cap and 4% non-volume cap State LIHTCs that may be returned for a loan of up to $0.50 for every dollar of State LIHTC previously awarded.

The 2011 Legislature appropriated $7 million in General Obligation bond funds to fund the loan program for the Fiscal Year 2012.

The intent of the HHFDC providing the proposed rules were to (1) create a cost-effective financing mechanism for LIHTC projects and (2) limit participation in this loan program to LIHTC projects that have found an investor for their Federal LIHTCs, made a good faith attempt to find an investor for their State LIHTCs prior to requesting a loan, but were unsuccessfully or the quoted pricing was below the price used in underwriting the loan at a level that impedes financial feasibility, and are otherwise ready to proceed once the loan has been made.

The loan program will start with projects awarded State LIHTCs after January 1, 2011. Each funding round will be limited to projects that have received State LIHTC awards in a single calendar year, subject to availability of funds. There will be an application fee of $500.00.

If successfully awarded the loan, all State LIHTC issued to a project, must be returned.

First preference will be to 9% volume cap projects to ensure full utilization, with second preference, subject to the availability of funds, given to 4% non-volume cap projects.

Within each preference, competitors are to be ranked based on the scoring factors set forth in the LIHTC Qualified Allocation Plan.

Under HB 960, the HHFDC has the authority to forgive loan balances after successful compliance for a minimum of 30 years. However, the proposed rules state the authority to forgive loan balances after a successful compliance for the entire affordability restriction period.

Compliance monitoring will utilize the criteria for the LIHTC program. The loan projects would be subject to a recapture of its loan funds in the event of default.

Ms. Masaki opened for questions.

In response to the Board, Mr. Ueki, Ms. Masaki, and Ms. Seddon, noted the following:

1. The LIHTC being returned would necessitate a written notification to the HHFDC of their intent and further require a process of due diligence in their unsuccessful attempts to sell the credits.

2. Once a project receives its credits, they would be eligible for the loan program, with 9% volume cap credits utilized first, and 4% non-volume credits addressed during the following calendar year after applying, anticipated in January 2012.

3. Being similar to the federal Section 1602 tax credit exchange program, staff is confident that the proposed program's process will turn over quickly.

Director Larson commented that this loan program should stabilize the HHFDC, by avoiding additional monies being placed into projects that are unable to sell its credits.

4. Any tax credit pricing under $0.50 for each dollar of State LIHTC awarded to a project, would acknowledge its eligibility for the loan program.

5. The average pricing of State tax credits recently seen are approximately within the $0.40 to $0.60 range.

The motion was unanimously approved.

III. D. DISCUSSION AND/OR DECISION MAKING
Approve Resolution No. 035, Expressing Appreciation to Gary Siracusa

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

That the HHFDC Board of Directors approve Resolution No. 035 that expresses appreciation to Gary Siracusa.

Chief Planner Janice Takahashi presented the For Action, stating that Director Siracusa, appointed as an interim member of the Board, served from November 22, 2010 to June 30, 2011.

Director Siracusa's extensive experience in construction, development, and LEED AP credentials, has contributed significantly in the HHFDC's Board proceedings and in the Corporation's efforts of awarding substantial financing resources to support the development or preservation of hundreds of housing units.

With that said, Director Siracusa thanked the Board of Directors and Staff for the privilege and pleasure to serve on a Board with objectives of providing safe, affordable, and sustainable housing, appreciating the dedication and commitment of the entire "Team."

The Board and Staff thanked Director Siracusa and 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 Chairman Lawrence, Executive Director Seddon stated that in a meeting with First Hawaiian Bank Chairman and Chief Executive Officer Don Horner, the HHFDC was asked to provide an overview of its various financing programs.

Director Jung inquired on the impacts to the HHFDC's ability to function, as well as in its long-term plans, as a result of the Legislature and the cost of various markets on the different islands, being addressed during the Board's strategic planning.

Executive Director Seddon responded that there is a lack of affordable housing in general, both rental and home ownership, and we will use any available market data for the strategic meeting this year. Unfortunately, the updated housing policy study (last issued in 2006) will not be available until October/November 2011.

Chairman Lawrence inquired on the general cost of acquiring existing housing, being cheaper, as opposed to building new housing. In response to Chairman Lawrence, Director Larson mentioned that a lot of the market affordable rentals are often times old and are in dire need of being redeveloped, resulting in increased rents that end up being close to market rents, defeating the purpose of "affordable" housing.

Chairman Lawrence noted that Na Hale O Maui, non-profit organization, purchases foreclosed properties, refurbishes, and sells them in leasehold to affordable buyers, revolving funds into a trust to acquire other projects available.

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

1. A settlement agreement is in process for the Kamakana Villages of Keahuolu project.

2. The Halekauwila Place project is currently considering utilizing a U.S. Department of Housing and Urban Development (HUD) FHA 221(d)4 Multifamily Loan Program and will have a revised proforma for Board consideration later this summer.

3. The Dwelling Unit Revolving Fund (DURF) cash flow is currently sufficient to cover all awarded DURF projects.

4. The Senior Residence of Iwilei has an appropriated amount of $26 million from the legislature and a working proforma in place. However, further funding sources through HUD are being sought, in attempts to free up $5 million in permanent DURF funds. Preliminary work is in progress to avoid losing its building permits.

5. Renewed efforts on the Holomua project appear to be successful. The Project's Bank requirements are more stringent than the HHFDC in terms of presales, which may be getting close to being met if the media reports are correct about sales.

6. The HHFDC Strategic Planning Session will take place over two meetings - July and August. The July 14, 2011 Board Meeting will consist of an overview of the HHFDC's programs, housing reports, and the Qualified Allocation Plan (QAP), with the August 11, 2011 Board Meeting being more on discussion and Board direction.

   The following topics of interest were highlighted by the Board:

   a. Provide staff with clear direction regarding its policies.

b. Knowing at what data point would be found reasonable in determining whether the Board would "bailout" a particular project or not.

c. Explore possible options regarding the cost per unit, ensuring that the types of units being built are relative to the rents being charged.

d. Reevaluate the impacts of financial decisions that may defeat the purposes of the HHFDC mission of providing affordable housing for the targeted population in need, keeping in mind that lower rents would require higher subsidies.

e. Explore the cost of preservation versus new construction under current demographic conditions, leveraging monies currently available rather than focusing on long-term uncertainties.

f. Think of innovative ways to increase the affordable housing inventory, without owning or the need of continued maintenance with State funding. (e.g. Kuhio Park Terrace Project - maintained by a private owner, leased on state land)

Executive Director Seddon encouraged the Board to think "outside-the-box," being more open to new types of deals that would welcome a wider range of developers, increasing opportunities for the HHFDC to partake and utilize its financial tools in different and unique ways.

V. ADJOURNMENT

With no further discussion, Director Mesick moved, seconded by Director Jung, to adjourn the meeting at 10:30 a.m.

The motion was unanimously approved.

Karen Seddon for

BETTY LOU LARSON
Secretary