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, SEPTEMBER 13, 2007 IN THE CITY AND COUNTY OF HONOLULU, STATE OF HAWAII

The Board of Directors of the Hawaii Housing Finance and Development Corporation met for their Regular Meeting at 677 Queen Street, Suite 300, Honolulu, Hawaii, on Thursday, September 13, at 9:00 a.m.

CALL TO ORDER/ ROLL CALL

Chairman Charles King called the meeting to order at 9:00 a.m.

Present: Director Charles King, Chairman
Director David A. Lawrence, Vice Chairman
Director Georgina Kawamura
Director Theodore E. Liu
Director Linda Smith
Director Charles Wathen
Director Richard Toledo
Director Allan Los Banos

Excused: Director Betty Lou Larson, Secretary
Executive Director Orlando (Dan) Davidson

Staff Present: Sandra Ching, Deputy Attorney General
Charleen Aina, Deputy Attorney General
Scott Kami, Administrator Department of Budget & Finance
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Karen Seddon, Development Branch Chief
Edward Sunada, Fiscal Manager
Dean Sakata, Finance Specialist
Gary Umeda, Housing Development Specialist
Beth Hallinan, Project Coordinator
Chris Sadayasu, Development Specialist
Ryan Morita, Property Management Coordinator
Mavis Masaki, Planner
Marsha Umamoto, Secretary to the Executive Director
Esa Pablo, Secretary to the Board

Guests: Kevin Carney, EAH Housing Inc.
D. Scott MacKinnon, Special Deputy Attorney General
Sam Chung, Peninsula Real Estate Partners
Jesse Wu, Stanford Carr Development

Other: Wendy Watanabe, Court Reporter

QUORUM

Chairman King declared a quorum present.

Chairman King introduced Chief Planner, Janice Takahashi, who sat in for the Executive Director.

Ms. Takahashi introduced and welcomed the new Secretary to the Board, Esa Pablo.

Chairman King requested for a motion to amend the Agenda, by moving Item IV.B., under the Executive Session, to follow after Item II.A., in the regular discussion.

Director Smith moved, seconded by Director Lawrence to amend the Agenda.

The motion was unanimously approved.

Chairman King called for the question to approve the Executive Session Meeting Minutes of August 9, 2007.

Director Smith moved, seconded by Director Lawrence.

The motion was unanimously approved.

II.A. APPROVAL OF MINUTES
8/9/07 Regular Meeting

Chairman King asked for a motion to amend the Meeting Minutes of August 9, 2007, on page 92, last bullet of the Executive Director's Report, Villages of Kapolei, to read:

". . . Executive Director Davidson felt that this project is a success financially as well as in terms of our mission, and up to a thousand units will be added in the future."

Director Smith moved, seconded by Director Lawrence to amend the Minutes of August 9, 2007.

The motion was unanimously carried.

Director Wathen requested that his explanation as to why he recused himself from voting for the adoption of Resolution No. 003 Official Intent with Respect to the Issuance of Hula Mae Multi-Family Tax-Exempt Revenue Bonds for the Kukui Gardens Project TMK No. (1) 1-7-26:07, to be reflected in the August 9, 2007 Meeting Minutes.

Chairman King deferred the approval of the August 9, 2007 Meeting Minutes to the next Board Meeting on October 11, 2007.

Chairman King announced that Directors David Lawrence and Charles Wathen had volunteered to serve on a streamlining task force at the last Strategic Planning Meeting held on July 12, 2007.

Pursuant to Chapter 92, Hawaii Revised Statutes, Chairman King formally established a streamlining task force to review HHFDC administrative rules and procedures, and appointed Directors Lawrence and Wathen to work with staff and private experts to identify ways for HHFDC to coordinate and streamline its financing and development approvals. Chairman King asked that the task force report its findings and recommendations to the full Board.

III.A. DISCUSSION AND/OR DECISION MAKING
Approval to Advance Funds from the Dwelling Unit Revolving Fund to Make a Deposit for the Acquisition of Parcel A of Kukui Gardens, TMK No. (1) 1-7-26:07

Chairman King asked for a motion to approve the discussion of Item III. A. Approval to advance Funds from the Dwelling Unit Revolving Fund to Make a Deposit for the Acquisition of Parcel A of Kukui Gardens, TMK No. (1) 1-7-26:07.

Director Lawrence moved, seconded by Director Smith to approve staff's recommendation.

Janice Takahashi, Chief Planner, introduced Scott MacKinnon (Special Deputy Attorney General), Samuel Chung (Financial Consultant), and Kevin Carney (EAH).

Ms. Takahashi summarized the structured transaction for the HHFDC to acquire a portion of the Kukui Gardens property (Parcel A).

Ms. Takahashi indicated that the Settlement and Release Agreement among the parties to the current litigation, relating to the proposed sale of the Kukui Gardens, is still in the process of being negotiated and finalized.

Although HHFDC is not a party to the litigation, this Settlement Agreement is needed in order to resolve the pending litigation, move the transaction forward, and to obtain the U.S. Department of Housing and Urban Development's (HUD) approval for Kukui Gardens Corporation (KGC) to prepay the existing promissory note and mortgage with HUD.

Pursuant to the Settlement Agreement, KGC, Carmel and HHFDC will also be entering into a Reinstatement and Fifth Amendment of Purchase Agreement (Amended Purchase Agreement) which reinstates: (1) the Purchase Agreement for the Kukui Gardens project between KGC and Carmel; (2) provides for Carmel to now purchase only Parcel B and for HHFDC to purchase Parcel A; and (3) extends the scheduled closing date to accommodate the Hula Mae multi-family bond financing.

Under the terms of the Amended Purchase Agreement, HHFDC will have seven calendar days after its effective date, in which to deposit with escrow, a $3 million earnest money deposit with respect to HHFDC's contemplated purchase of Parcel A, under the terms of the Amended Purchase Agreement with KGC.

Ms. Takahashi added that the $3 million deposit is to be credited and applied against the purchase price for Parcel A at closing. However, if the purchase of Parcel A fails to close as a result of any default by HHFDC, then KGC will have the right to retain the deposit plus any interest earned thereon as liquidated damages. If the purchase of Parcel A, by HHFDC, under the Amendment Purchase Agreement, fails to close as a result of a default by KGC or for reasons unrelated to a default by HHFDC, then the HHFDC deposit will be returned to HHFDC with any accrued interest thereon.

Ms. Takahashi referenced Act 231, Session Laws of Hawaii 2007, which authorizes the issuance of $25 million in general obligation (GO) bonds for fiscal year 2007-2008 for the acquisition and financing of Parcel A.

Ms. Takahashi noted that initially, the $25 million of GO bond proceeds, authorized by Act 231, was anticipated to be the State's initial equity contribution towards the acquisition of Kukui Gardens.

As the State normally sells tax-exempt GO bonds, the proceeds of a tax-exempt GO bond issue, generally must be used for government purposes and cannot be loaned to a private entity for their benefit. EAH has clarified in its application for Hula Mae Multi-Family bonds, that they are requesting a seller take-back loan of $25 million which may jeopardize the tax-exempt status of the State's GO bond issue.

The Department of Budget and Finance (B&F) was exploring financing alternatives with their bond counsel, to determine an appropriate GO bond structure in order that the GO bond proceeds can be utilized as proposed by EAH.

Ms. Takahashi said that the current and most immediate issue is the source of funds for the $3 million HHFDC deposit. While B&F has GO bond proceeds available to cover the $3 million deposit, the source of those funds is tax-exempt GO bond proceeds. Therefore, B&F was evaluating alternative non-tax-exempt funding sources for the $3 million deposit including the Dwelling Unit Revolving Fund (DURF).

Ms. Takahashi stated that the deposit is an eligible use of DURF funds, which can be used for carrying out the purposes of housing development programs, including the acquisition of housing. Any DURF advance would be reimbursed from a GO bond issue authorized by Act 231, and it is anticipated that B&F will issue taxable GO bonds prior to the $25 million being required, to effectuate the purchase of Parcel A. The $3 million advance from DURF will be repaid from the proceeds of this projected GO bond sale.

Additional discussion ensued on the timing of the sale and financing structure for the project.

EXECUTIVE SESSION

As such, Chairman King entertained a motion to go into Executive Session and take up Item IV. B., Discussion on the financing for the acquisition of the Kukui Gardens property, prior to making a decision.

Director Wathen moved, seconded by Director Smith.

Following the executive session, Chair King asked for a vote and the motion was unanimously carried except for Director Wathen who abstained from voting.

III.B. DISCUSSION AND/OR DECISION MAKING
Approval of Application Cycles for the Hawaii Housing Finance and Development Corporation's Rental Housing Trust Fund Project Award Program for Fiscal Year 2008.

Chairman King asked for a motion to approve the discussion of Item III. B.

Director Toledo moved, seconded by Director Smith, for staff's recommendation to: (1) Approve the application cycles for the Fiscal Year 2008 Rental Housing Trust Fund (RHTF) Project Award program; (2) Authorize staff to begin marketing of the Fiscal Year 2008 RHTF Project Award application cycles; and (3) Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Ms. Takahashi introduced Finance Manager, Darren Ueki, to present Item III. B.

Mr. Ueki gave a summary of the For Action, pointing out that the RHTF's Capacity Building Grant and the Predevelopment Loan Programs were temporarily suspended by the Board in June of 2003, due to the lack of program funds and the Board's desire to focus on the actual production of affordable units.

Director Smith stated for the record, that $15 million out of the $50 million originally requested, as a part of the Executive Budget, was approved by the Legislature, for the funding of the RHTF.

In response to Director Smith's inquiry about the Board having to approve the RHTF Project Award application cycles, Mr. Ueki stated that by administrative rules, funding cycles for the RHTF are to be approved annually by the Board.

Chairman King commented with regard to the suspension of the Capacity Building Grant and Predevelopment Loan Programs, that there may be other organizations available that provide funding for these types of activities.

There being no further discussion, Chairman King called for a vote on the motion.

The motion was unanimously approved.

EXECUTIVE SESSION

Chairman King introduced Ms. Charleen Aina, Deputy Attorney General, and called for a motion to go back into Executive Session for discussion on Office of Hawaiian Affairs, et al. vs. HHFDC, et al, Civil No. 94-0-4207 (SSM), First Circuit Court, Pursuant to Section 92-5(a)(4), Hawaii revised Statutes.

Director Kawamura moved, seconded by Director Lawrence, to move into Executive Session.

III.C. DISCUSSION AND/OR DECISION MAKING
Approval of Amendments to Proposed Chapter 15-30, "Pineapple Workers and Retirees Housing Assistance Fund Program," Hawaii Administrative Rules

Chairperson King asked for a motion to approve the discussion of Agenda Item III.C.

Director Wathen moved, seconded by Director Los Banos.

Chief Planner Janice Takahashi called on Mavis Masaki, Planner, to present the For Action.

Ms. Masaki explained that following the Board's approval of proposed Chapter 15-310, "Pineapple Workers and Retirees Housing Assistance Fund Program," Hawaii Administrative Rules in July, staff had received the following comments and concerns about the proposed rules: (1) First, there was concern that the requirement for program applicants to provide their social security numbers and authorize a credit report as part of the application process, was not necessary for a short-term grant program, and (2) There were also concerns that applicants would have negative impacts from having their credit reports pulled, and of the risk of identity theft, if this information was inadvertently released.

Ms. Masaki further explained that Representatives Marcus Oshiro and Michael Magaoay specifically disagreed with the definition of "in danger of losing their homes" in the proposed rules, and expressed that as currently defined, to mean that applicants must be delinquent on their rent or mortgage payments, the HHFDC cannot provide timely assistance to maintain applicants in their existing housing.

After careful consideration of these concerns, Ms. Masaki explained that the staff recommendation was to amend the proposed rules by deleting the following requirements: (1) Submittal of social security numbers; (2) authorization of credit reports; and (3) the definition of "in danger of losing their homes."

Discussion ensued on the proposed rule amendments. Directors Toledo, Kawamura, and Smith expressed reservations with eliminating all criteria by which to determine an applicant's financial need for program assistance.

Ms. Takahashi explained that the majority of the former pineapple workers who are eligible, are currently paying $200 to $300 per month, and will be facing rent increases of up to $600 to $700 per month, by the end of the year.

Director Smith proposed an amendment to the For Action, to limit program assistance to applicants who can either demonstrate that they are delinquent on their housing payments, or that their rent or mortgage payments exceed 30 percent of their gross household income.

There being no further discussion, the Chair asked for a vote on the amendment to the motion.

The amendment was unanimously approved.

The Chair then asked for a vote on the motion, which was unanimously approved.

III.D. DISCUSSION AND/OR DECISION MAKING
Consolidated Annual Performance and Evaluation Report for Program Year 2006 (July 1, 2006 – June 30, 2007).

Ms. Takahashi presented Item III. D. Consolidated Annual Performance and Evaluation Report for Program Year 2006 (July 1, 2006 – June 30, 2007, for discussion.

Ms. Takahashi explained that the State Consolidated Annual Performance and Evaluation Report, or CAPER, is an annual report submitted to HUD that assesses the State's performance in meeting the goals, priorities and objectives of the State's Consolidated Plan.

The Consolidated Plan consists of: (1) a 5-year strategy; (2) annual action plans for the investment of Community Planning and Development (CPD) funds; and (3) the CAPER.

The HHFDC is the lead agency for the preparation of the Consolidated Plan and related Action Plans and CAPERS, as well as the HOME Investment Partnership (HOME) program. The Hawaii Public Housing Authority is responsible for administration of the Emergency Shelter Grant (ESG) and Housing Opportunities for Persons with AIDS (HOPWA) programs.

Ms. Takahashi noted that the CAPER focuses on the administration of the HOME, ESG and HOPWA programs on Hawaii, Kauai and Maui. The City and County of Honolulu has its own allocation of CPD funds and prepares a separate Consolidated Plan.

Ms. Takahashi indicated that the State received approximately $3.4 million in federal CPD funds for program year 2006 and highlighted the accomplishments that were made during the year utilizing HOME, ESG and HOPWA funds.

A discussion ensued on the high cost of development, in which Mr. Ueki explained that the majority of the HOME activities and projects require multiple year funding, which results in HHFDC getting a "red flag" from HUD. However, staff believes, that stacking multiple years of HOME funds produces a more desirable outcome than just trying to get rid of the red flag.

Director Toledo noted that the federal government's policy on immigration negatively impacts Hawaii, particularly with respect to the Compact for Free Association which greatly impacts Hawaii's homeless programs. Ms. Takahashi indicated that this federal policy could be identified as a barrier in the 2008 Action Plan.

III.E. DISCUSSION AND/OR DECISION MAKING
Halekauwila Place Affordable Family Rental Project at the Pohukaina Site in Kakaako, Oahu, Hawaii; TMK (1) 2-1-051: por.009, Ratification of Selection

There being no further discussion, Chairman King called for a motion for the discussion on Item III.E. Halekauwila Place Affordable Family Rental Project at the Pohukaina Site in Kakaako, Oahu, Hawaii; TMK (1) 2-1-051: por. 009, Ratification of Selection.

Director Wathen moved, seconded by Director Lawrence, in the approval of staff's recommendation.

Mr. Ueki gave a brief background on the For Action, requesting the Board to ratify its March 8, 2007 approval of Halekauwila Partners, LLC's proposal for Halekauwila Place, a 196-unit affordable family rental housing project, in light of new information regarding bond financing through HHFDC.

Mr. Ueki pointed out that the issued Request for Proposals (RFP) for the affordable rental housing project excluded the use of State tax-exempt bond authority as "use of State sources" in evaluating proposals for selection. Therefore, the proposal for Halekauwila Place continues to use the least amount of State resources.

Mr. Ueki added that since the last For Action was approved, on March 8, 2007, the HHFDC is required to be the issuer of the 501 (c)(3) bonds, rather than the Pacific Housing Assistance Corporation. However, in spite of the additional information, the members of the selection committee had confirmed that the recommendation set forth by the Board, will remain in effect.

Chairman King called for a vote on the motion.

The motion was unanimously approved.

III.F. DISCUSSION AND/OR DECISION MAKING
Discussion on Act 15 Session Laws of Hawaii 1988, as it Relates to Proposed Revisions to the Act 15 Certification for the Puukolii Mauka Project Within the Puukolii Villages Project in Lahaina, Maui, Hawaii; TMK (2) 4-4-15: 1 to 23, Por. 33

Ms. Takahashi introduced Chris Sadayasu, Project Manager to present the For Discussion to the Board.

Mr. Sadayasu stated that the purpose of this For Discussion is to provide the Board with background information about Act 15, Session Laws of Hawaii 1988, as it relates to the Puukolii Village development.

Act 15 was a development tool enacted by the Legislature to allow the HFDC to expedite the land entitlement and permitting process in order to generate affordable housing opportunities. One of the projects approved under HFDC's Act 15 powers was the Puukolii Village project in January 1993. The project as approved did not move forward. Act 15 then lapsed on April 20, 1993.

When the Kaanapali Land Management Corp. attempted to revive the project and determined it needed to request amendments to the existing Development Agreement, they were told that any amendments and future approvals of previously certified Act 15 projects must be completed using the 201G, Hawaii Revised Statutes process. The Legislature then enacted Act 198, Sessions Laws of Hawaii 2005, which provided another way to amend the Development Agreement and specifically applied to the Puukolii Village project. Act 198 provided that the affordable housing requirement for this project shall be established by agreement among the Developer, HHFDC, and the County of Maui housing department.

Therefore, pursuant to Act 198, the developer will be requesting the Board's approval of its proposed amendments to the Puukolii Village project at the October 11th Board meeting. Some of the proposed amendments include a reduction in density, a lower percentage of affordable units, and an increase in the range of affordability. The developer has pledged to comply with the recently enacted County of Maui's workforce housing policy and will be presenting these amendments at the next meeting.

The Board indicated they would like to have additional background information specific to the project and how it fits within the master plan for that area as part of the presentation by the Developer at the next Board meeting. They also wanted confirmation that this project has community support and appreciated the fact that the next meeting is in Lahaina, Maui where the project is located.

With no further discussion, Chairman King asked for the vote on the motion.

The motion was unanimously approved.

IV. REPORT OF THE EXECUTIVE DIRECTOR

Ms. Takahashi called upon Mr. Edward Sunada, Fiscal Manager, to present the HHFDC Program Resources report, Item IV. E., Exhibit A, of the Report of the Executive Director.

Handed out at the meeting, were the revised copies of the financial statement which reflected the change in the amount of available DURF funds, from $44 million to $43 million.

In discussion on the University of Hawaii (UH) Housing Program, Mr. Ueki explained to the Board that initially it was for sale, but in turn, UH looked at it as a potential rental project.

In response to the Board Members, Mr. Scott Kami, B&F Administrator, clarified that the bond issue was set up to where UH's lease rent would cover all debt service costs and the lease rent was to cover all of the agency's expenses. Mr. Kami suggested that staff take a look at what is being allocated to these funds. Mr. Ueki said staff will look into it.

Director Smith commended staff for compiling a listing of all the program funds.

In response to Director Wathen, Mr. Sunada stated that a survey was conducted based on accounting and information needs and will be receiving the results by the end of the month.

Mr. Sunada thanked the Board for the praise, but stated that it is the staff that deserves it.

V. ADJOURNMENT

Having no further discussion, Chairman King adjourned the meeting.

Director Smith moved, seconded by Director Lawrence.

The meeting adjourned at 12:20 p.m.

The motion was unanimously carried.

Betty Lou Larson

BETTY LOU LARSON
Secretary