HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

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, DECEMBER 9, 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, December 9, 2010, at 9:00 a.m.

CALL TO ORDER/ ROLL CALL

Chairman David Lawrence called the meeting to order at 9:07 a.m.

Present: Director David Lawrence, Chairman
Director Ralph Mesick, Vice Chairman
Director Betty Lou Larson, Secretary
Director Francis Jung
Director Gary Siracusa
Director Kalbert Young

Executive Director Karen Seddon

Excused: Director Allan Los Banos
Director Richard Lim

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

Guests: Dave Nakamura, Mutual Housing Association of Hawaii
Makani Maeva, Vitus Group
Monika Mordasini, Michaels Development
Kevin Carney, EAH, Inc.
Marian Gushiken, EAH, Inc.

QUORUM

A quorum was present.

II. A. APPROVAL OF MINUTES 11/18/10 Regular Meeting

Director Mesick moved, seconded by Director Jung, to approve the Meeting Minutes of November 18, 2010.

The motion was unanimously approved.

Chairman Lawrence thanked newly appointed Department of Budget & Finance Director Kalbert Young and Mr. Gary Siracusa, representing Kauai, for attending the meeting and welcomed them as Directors of the HHFDC Board.

III. A. DISCUSSION AND/OR DECISION

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

That the HHFDC Board of Directors approve the following:

A. Resolution No. 031, attached as Exhibit C, which provides for the approval of the issuance of revenue bonds up to $66,000,000 for the Kuhio Park Terrace – Tower A and Kuhio Park Terrace- Tower B projects subject to the provisions recommended in Exhibit D.

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

MAKING
Approve Resolution No. 031, Authorizing the Issuance of Hula Mae Multi Family Tax-Exempt Revenue Bonds for the Kuhio Park Terrace - Tower A and Kuhio Park Terrace - Tower B Projects Located in Honolulu, Oahu, TMK No.: (1) 1-3-039: 001 Parcels 1-F (Tower A) and 1-D (Tower B)

Finance Manager Darren Ueki presented the For Action, stating that the Kuhio Park Terrace (Project) consists of 556 family units, located in Honolulu, Oahu. The following information was highlighted:

1. Michaels Development Company I, L.P. is the Developer for the Project and the Vitus Group is the Co-Developer.

2. An overview of the Hula Mae Multi-Family (HMMF) Bond Program was provided.

3. On September 9, 2010, the Board approved the following for the Project for both Towers A and B: (1) an allocation up to $66 million in tax-exempt bond cap from the HMMF Bond Program; and (2) $4,528,262 in annual Federal LIHTC and $2,264,181 in annual State LIHTC.

4. The proposed Financing Structure, Project's Budget and Use of Funds, and the Project's estimated construction timeline were cited, with a construction start date of January 2011; completion of Tower A in January 2012; and completion of Tower B in January 2013.

5. The HMMF Bond shall be a public issuance with credit enhancement provided through the Freddie Mac Targeted Affordable Housing Program.

6. The Bonds will be divided into two series: approximately $37 million in "A Bonds" and $29 million in "B Bonds," for a total of $66 million issued at closing. The "A Bonds" reflect the hard debt that the Project's net operating income can support and the "B Bonds" are needed for construction and to satisfy the 50% bond test for the 4% LIHTC scheduled for repayment from LIHTC Equity proceeds.

7. The issuance of HMMF tax-exempt bond is subject to the Governor's approval.

8. On Monday, November 29, 2010, a Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) Hearing was held, with three attendees from the general public. No written or oral testimonies were presented.

9. Resolution No. 031 satisfies the requirement to allow staff to effectuate the HMMF Bond sale.

Mr. Ueki opened for questions, along with Ms. Monika Mordasini, Michaels Development, and Ms. Makani Maeva, Vitus Group.

In response to the Board, Ms. Mordasini, Ms. Maeva, and Mr. Ueki noted the following:

1. There will be two substantial reserves for the Project: replacement reserves for future capital improvement costs and an Annual Contributions Contract (ACC) reserve from the Department of Housing and Urban Development (HUD) to be used to cover any decreases in subsidies received.

2. It was clarified that State of Hawaii can issue up to $273 million in Private Activity Bond Cap that is received from the Federal Government on an annual basis. With Legislative approval, at a programmatic level, staff may

issue up to $500 million in HMMF Program Bond Authority.

3. The Hawaii Public Housing Authority (HPHA) is selling the Project buildings to Michaels Development while retaining ownership of the land.

4. It is anticipated that the $46 million seller's note will be repaid out of the Project's surplus cashflow over the next 15-20 years. Details of the seller's note are currently being finalized.

Mr. Ueki added that any issues regarding the Project are discussed with all interested parties on weekly conference calls and it has been made clear that a complete financing package would need to be in place before the bonds are issued.

The motion was unanimously approved.

III. B. DISCUSSION AND/OR DECISION MAKING
Approve (1) Resolution No. 032, Which Provides for Official Intent with Respect to the Issuance of Hula Mae Multi Family Tax-Exempt Revenue Bonds and (2) Reservation of Low Income Housing Tax Credits for the Ko'oloa'ula Phase I Project Located in Kapolei, Oahu, TMK No.: (1) 9-1-017: 107

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

That the HHFDC Board of Directors approve the following:

A. Approve Resolution No. 032, attached as Exhibit F, which provides for official intent with respect to the issuance of revenue bonds up to $17,700,000 for the Ko'oloa'ula Phase I project subject to the provisions recommended in Exhibits C and E.

B. Reserve up to $1,352,162 in annual Federal LIHTC and $676,081 in annual State LIHTC from the non-competitive pool (4% LIHTC) to the Ko'oloa'ula Phase I project subject to the provisions recommended in Exhibits D and E and no negative comments by the City and County of Honolulu by December 13, 2010 (the expiration of the county's 30-day review and comment period).

C. 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 Ko'oloa'ula (Project) consists of 120 family units, located in Kapolei, Oahu. The following information was highlighted:

1. Mutual Housing Association of Hawaii is the Developer for the Project. Project Representative Dave Nakamura was recognized in attendance.

2. An overview of the Low Income Housing Tax Credit (LIHTC) Program was provided.

3. On January 28, 2010, the Ko'oloa'ula Limited Partners (Applicant) submitted a consolidated application for the following: (1) $17.7 million in tax-exempt bond cap for the HMMF Bond Program; (2) $1,352,162 in annual Federal LIHTC and $676,081 in annual State LIHTC; and (3) a RHTF Project Award Loan of $13.495 million.

4. The proposed Financing Structure, Project Budget and Use of Funds, and the estimated construction timeline were cited, with a construction start date of July 2011; completion of first building in January 2012; and completion of the final building in August 2012.

5. The Project proposes a private placement of the bonds to a qualified investor during the construction period, which will be replaced by a permanent loan by a third party financial institution once construction is completed.

6. Resolution No. 032 is a non-binding resolution which enables the

developer to recognize eligible expenditures made 60 days prior that may be reimbursed from the bond proceeds.

7. If Resolution No. 032 is approved and the bond issuance is determined to be feasible, staff will return to the Board at a future date to seek final approval for the issuance, sale, and delivery of the bonds. The Bond issuance is subject to the approval of the Department of Budget and Finance and the Governor.

Mr. Ueki opened for questions, along with Mr. Nakamura, on behalf of the Project.

Mr. Nakamura discussed and provided visuals of the Project's location, schematic site plan, and exterior elevations.

Mr. Ueki noted that all of the Project financing would need to be in place before any action is taken on the bonds.

The motion was unanimously approved.

III. C. DISCUSSION AND/OR DECISION MAKING
Approve Amendments to the Terms and Conditions of the Rental Housing Trust Fund Loans for the Ewa Villages Phase I Project Located in Ewa Beach, Oahu, TMK Nos.: (1) 9-1-017: 076 and 077

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

That the HHFDC Board of Directors approve the following:

A. Amend the RHTF Project Award as described in Section III (F).

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 Ewa Villages Phase I (Project) consists of 64 family units, located in Ewa Beach, Oahu. The following information was highlighted:

1. EAH, Inc. is the Developer of the Project.

2. Historical Project background was provided (From June 2006 - October 2010).

3. On October 25, 2010, Hui Kauhale, Inc. (Applicant) submitted a request for the following:

    a. Combine both RHTF loans into one project loan for a combined amount of $5,990,240 at an interest rate of 0% during the construction phase and 0.5% during the permanent phase and a term of 684 months (57 years).

    b. Repayment – the prorata share of net cashflow after operating expenses and other items (asset management and partnership management fees not to exceed $15,000/year with annual increases permissible by 3%/year). NOTE: The asset management and partnership management fees were subsequently adjusted to $17,500 based on discussions with the LIHTC investor.

    c. Amend the affordability requirements by decreasing the 50% AMGI units from 18 units to 9 units and increasing the 60% AMGI units from 41 units to 50 units. NOTE: Hui Kauhale, Inc. subsequently withdrew the request to amend the affordability requirements.

    d. Delete the dishwasher and the wall panels that would have allowed for tenant installation of individual air conditioning units as an amenity in each unit. NOTE: This revision was in the revised application that was submitted for the request to increase the LIHTC award. The request will be presented in a separate For Action at a later date.

4. The proposed Financing Structure, Project Budget and Use of Funds, and the estimated construction timeline were cited, with bond closing and construction start date anticipated in March 2011; completion of first building in May 2012; and project completion in June 2012.

5. The following amendments to the existing Rental Housing Trust Fund (RHTF) Project Award are recommended:

   a. Combine both RHTF loans into one (1) project loan for a combined amount of $5,990,240 at an interest rate of 0% during the construction phase and 0.5% during the permanent phase and a term of 684 months (57 years). Repayment of the loan is still satisfactory.

   b. Repayment of the loan:

      i. Years 1 thru 2: No payments (construction period).

      ii. Years 3 thru 57: Payments of 38% of available cashflow after payment of operating expenses, debt service on the first mortgage and other expenses (including an annual asset management payable to the LIHTC). Other expenses also include an annual partnership management fee payable to the General Partner in the amount of $10,000 (with maximum increases permissible by 3%/year). (38% is the approximate proportional share of the RHTF with other subordinate funding.)

      At the end of the term, any outstanding amounts of principal and accrued interest shall be due and payable in full.

   c. Delete the dishwasher and the wall panels that would have allowed for tenant installation of individual air conditioning units as an amenity in each unit. NOTE: This revision was in the revised application that was submitted for the request to increase the LIHTC award. The request will be presented in a separate For Action at a later date.

   The notation of a dishwasher as an amenity to the project was incorrectly stated from the very first application to HHFDC in 2006.

   The deletion of the wall panels that would have allowed for tenant installation of individual air conditioning units as an amenity in each unit stems from concerns of the construction team about preserving the siding warranty. The original design concept was to install panels at likely air conditioning locations that would be framed and finished under the contractor's work and then during operations if tenants opted to install air conditioning units, they would hire a contractor to do so, with the property management approval. However the potential for moisture to infiltrate the area if not property sealed or flashed provides potential for invalidating the manufacturer's warranty with the Hardie siding. The deletion of this amenity also provides an estimated cost savings of $148,000, which is beneficial to the project, which has experienced cost increases during the development phase.

Mr. Ueki opened for questions, along with Mr. Kevin Carney and Ms. Marian

Gushiken, on behalf of the Project.

In response to the Board, Mr. Ueki and Mr. Carney noted the following:

1. Tenants within the Project have the option to install a window air conditioning. Ceiling fans are incorporated in each unit.

2. Electrical provisions will be unified throughout all units, with electrical services being done through an outside panel and individually metered.

3. Loan interest rates are discussed and negotiated.

4. The 38% of available cashflow payment was calculated by reviewing the Project's current financing structure and subordinating debts.

5. Revised subdivisions and building permits are pending with the City and County of Honolulu.

The motion was unanimously approved.

III. D. DISCUSSION AND/OR DECISION MAKING
Information on Report to the 2011 Hawaii State Legislature Pursuant to S.C.R. No. 93, S.D. 1, H.D. 1 (2010) Requesting the Hawaii Housing Finance and Development Corporation to Review the Feasibility of Developing Single Room Occupancy Dwellings in Transit Oriented Development Projects to Alleviate the Affordable Housing Shortage

Planner Mavis Masaki presented the For Information, stating that the 2010 Legislature requested that the HHFDC address the feasibility of developing Single Room Occupancy (SRO) dwellings in Transit Oriented Development (TOD) projects.

The following information was highlighted and noted in response to the Board:

1. SRO dwellings generally contain small living units intended to house only one occupant.

2. According to the U.S. Department of Housing and Urban Development (HUD), a typical SRO resident is a "low-income, middle-aged, unemployed, or unemployable male who has been formerly homeless."

3. TOD refers to land uses surrounding a transit station intended to take advantage of being located near to transit.

4. In preparation for this report, the HHFDC met with the City and County of Honolulu's Department of Planning and Permitting with regard to its TOD planning process. The TOD planning process appears to allow for SRO-type developments within the districts.

5. There is a need for SRO-type housing; however, SRO developments are difficult to finance without substantial subsidies and is generally not favored by surrounding communities. Because SRO dwellings are considered "substandard housing" in the City and County of Honolulu, they are not eligible housing for purposes of the Section 8 voucher and other rental subsidy programs. This means that any up-front savings in construction costs are offset by the unavailability of rental subsidies to cover operational expenses of such projects.

6. Construction cost savings are minimal, since SRO development in a mid-rise building ranges from $300 to $450 per square foot and new construction (depending on design - dormitory or individual units with kitchenettes) versus individual unit new construction for a mid-rise or high-rise would cost approximately $400 to $500 per square foot.

7. The cost per square foot to incorporate a communal kitchen or bathroom within a SRO development is generally higher than the construction of a traditional one-bedroom development. In addition to the very low-income population it would serve, the development would not be feasible with regard to operating expenses and repayment of debt incurred during the

planning, development, and construction phases.

Director Mesick suggested that specific recommendations be added as to what may be changed to improve the viability of addressing SRO-type developments.

Director Jung commented that perhaps staff should look into: (1) whether or not dispersing or concentrating SRO-type developments would alleviate some of the issues raised by the community; (2) is this something this Agency wishes to pursue; and (3) if so, how?

With much discussion, the Board asked that possible recommendations and conclusions be added into the report to the Legislature.

9. The SCR 93 Report to the Legislature will be posted on the HHFDC website once submitted.

IV. REPORT OF THE EXECUTIVE DIRECTOR

With no further discussion, Chairman Lawrence proceeded to the Report of the Executive Director.

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

1. An HHFDC Overview and Program Fact Sheets (December 2010) binder was distributed to all attending Board Members.

Director Mesick commented that perhaps a training session on the HHFDC's affordable housing mission should be scheduled to familiarize new Board Members of the functions and duties of the Corporation. Chairman Lawrence and Director Siracusa concurred.

Reverting to agenda Item D, Report to the 2010 Legislature, Director Jung thanked staff for providing information on that matter and commented that he believed this to be a unique opportunity for the Agency to do something to address homelessness.

2. Considering the circumstances of the economy, the Agency was able to develop approximately 4,100 units out of its goal of 5,000 units.

In response to Director Larson, Chief Planner Janice Takahashi stated that a comprehensive list of HHFDC projects could be provided at the next board meeting, as well as scheduling for a Board orientation.

3. With the economic downturn, the Senior Residence of Iwilei (Project) faced funding issues, but was able to obtain building permits. Construction of basic site work has commenced.

4. Construction of a Hospital for the Puukolii Project is under discussion.

5. The Kamakana Project has received approval from the Land Use Commission and the County of Hawaii County Council (County). Exemptions are being requested through the County in order to align the County's ordinances and the Kona Community Development Plan. Communication to the media from Director Jung, Forest City, and the HHFDC is ongoing.

With regard to the Kamakana Project, Director Jung requested that the HHFDC staff inform the Board of opposing views on projects to enable the Directors to address and clarify any misperceptions concerning the nature of affordable housing projects. Chairman Lawrence concurred.

V. ADJOURNMENT

With no further business on the agenda, Chairman Lawrence asked for a motion to adjourn.

Director Mesick moved, seconded by Director Jung, to adjourn the meeting at 10:30 a.m.

The motion was unanimously approved.

BETTY LOU LARSON
Secretary