BUDGET, FINANCE, AND ECONOMIC DEVELOPMENT COMMITTEE

Council of the County of Maui

MINUTES

July 2, 2024

Online Only via Teams

CONVENE: 9:04 a.m.

PRESENT:
Councilmember Yuki Lei K. Sugimura, Chair
Councilmember Tasha Kama, Vice-Chair
Councilmember Tom Cook, Member
Councilmember Gabe Johnson, Member
Councilmember Alice L. Lee, Member (Out 11:45 a.m.)
Councilmember Tamara Paltin, Member
Councilmember Keani N.W. Rawlins-Fernandez, Member (In 10:05 a.m.)
Councilmember Nohelani Uʻu-Hodgins, Member

EXCUSED: Councilmember Shane M. Sinenci, Member

STAFF:
James Krueger, Senior Committee Analyst
Jarret Pascual, Committee Analyst
Carla Nakata, Legislative Attorney
Maria Leon, Committee Secretary
Criselda Paranada, Committee Secretary
Lenora Dinneen, Council Services Assistant Clerk
David Raatz, Director of Council Services
Shelly Espeleta, Supervising Legislative Analyst
Ryan Martins, Council Ambassador

Residency Area Office (RAO):
Mavis Oliveira-Medeiros, Council Aide, East Maui Residency Area Office
Roxanne Morita, Council Aide, Lānaʻi Residency Area Office
Bill Snipes, Council Aide, South Maui Residency Area Office
Jade Rojas-Letisi, Council Aide, Makawao-Haʻikū-Pāʻia Residency Area Office

ADMIN.:
Lance Taguchi, County Auditor, Office of the County Auditor (BFED-21(25))
Marcy Martin, Acting Director, Department of Finance (BFED-21(25))
Mark Pigao, Accounting System Assistant Administrator, Department of Finance (BFED-21(25))
Ortaine Acidera, Waterworks Fiscal Officer, Department of Water Supply (BFED-21(25))
Kristina Toshikiyo, Deputy Corporation Counsel, Department of the Corporation Counsel (All)

OTHERS: Resource Personnel
Craig Hirai, Executive Assistant, Hawai‘i Housing Finance & Development Corporation (BFED-21(26))
David Oi, Housing Finance Manager, Hawai‘i Housing Finance & Development Corporation (BFED-21(26))
Dwayne Takeno, Principal, N&K CPAs, Inc. (BFED-21(25))
Christian Hara, Senior Audit Manager, N&K CPAs, Inc. (BFED-21(25))

Others (20+)

PRESS: *Akakū*: Maui Community Television, Inc.

CHAIR SUGIMURA: *. . .(gavel). . .* Good morning, everybody. Welcome to the Budget, Finance, Economic Development Committee. Today is July 2nd--can you believe that? The year is spinning by. It is now...it is now 9:04 a.m. And my name is Yuki Lei Sugimura, I'm the Chair of this Committee. And this meeting is being conducted in accordance with the Sunshine Law. And as a reminder, when your name is called, if you're not in the Chamber, please let us know if there is anyone with you in the room. Minors do not need to be identified. So, to start us off, Chair Lee, do you have a greeting for us?

COUNCILMEMBER LEE: Oh, it's an easy one. It's bonjour, and that's for all of you going to France this weekend to get bread. Thanks.

CHAIR SUGIMURA: Okay. We can go...we can use that when we go to the Olympics. Very good.

COUNCILMEMBER LEE: Sure.

CHAIR SUGIMURA: Bonjour. Next, we have Vice-Chair of this Committee, Member Kama.

VICE-CHAIR KAMA: Bonjour, Chair. And I'd love to go to Paris if our Chair would allow all of us to go.

CHAIR SUGIMURA: *. . .(laughing). . .* Travel, right? Next, we have Member Paltin, who...you did go to France, right?

COUNCILMEMBER PALTIN: Oui. *. . .(laughing). . .* Bonjour kākou, aloha kakahiaka. I'm streaming live and direct from Nāpili. I have with me two unidentified minors and one pocket Pit, Kingy Poo Paltin-Vierra.

CHAIR SUGIMURA: You must bring him back to the Chambers, we miss him. Next, we have Member Johnson, welcome.

COUNCILMEMBER JOHNSON: Aloha, Chair --

UNIDENTIFIED SPEAKER: . . .*(inaudible)*. . .

COUNCILMEMBER JOHNSON: -- Councilmembers, Committee Members. My Teams is not working, so I'll be on in a minute, but there's no testifiers at the Lānaʻi District Office, and I'm here and ready to work. Mahalo.

CHAIR SUGIMURA: Yeah, nice to see you here in-person. Member Rawlins-Fernandez--I don't see her. Okay. Next, we have Member Sinenci, who is on vacation, so he's excused. And Member Uʻu-Hodgins, bonjour.

COUNCILMEMBER UʻU-HODGINS: . . .*(inaudible)*. . . I'm at the Pāʻia District Office today, and I have with me Susan Clements and Jade Rojas-Letisi as well.

CHAIR SUGIMURA: All right. Welcome, everybody, to this meeting. I'd also like to say--I don't see him--Lance Taguchi, our Auditor. Can somebody call Lance? Oh, he's not going to come here until the second item. Okay. Department of Finance, we have Acting Director Marcy Martin; Director of Water Supply, John Stufflebean; Department of Corporation Counsel, Kristina Toshikiyo. And our other resources that we have today are David Oi, he's the Housing Finance Manager; Craig Hirai, he's sitting up here, he is the Deputy HHFDC Director [*sic*]. And from...BFED-21, from N&K CPAs, Inc., Dwayne Takeno, Principal; Christina [*sic*] Hara, Senior Audit Manager. And Members, if no objections, I'd like to designate those representatives from HHFDC and N&K CPAs, Inc. as resource persons for this meeting.

VICE-CHAIR KAMA: No objections, Chair.

COUNCILMEMBERS VOICED NO OBJECTIONS.

CHAIR SUGIMURA: Thank you. Thank you. Under Rule 18(A) of the Council, and they were for the respective items on the agenda. Okay. Also, I would like to thank our Committee Staff: Maria Leon, thank you for being here, Senior Committee Secretary; Cris Paranada, thank you and welcome; James Krueger and...and Jarret Pascual, which are our Legislative Analyst team; Carla Nakata, Legislative Attorney; Lei Dinneen, Council Services Assistant Clerk, out in the lobby. And please see the last page of...for information on our meeting connectivity, the last page of the agenda. And Members, for today's meeting we have two items only on the agenda, which is BFED-21(26), Hawaiʻi Housing Finance and Development Corporation Funding Mechanisms for Affordable and Workforce Housing in the County of Maui; BFED-21(25), Annual Comprehensive Financial Report, Single Audit Report, and Department of Water Supply Financial Audit Reports. Those items are on our agenda today. Do we have any testifiers?

MR. PASCUAL: Chair, there's currently no testifiers signed up for the beginning of the meeting.

CHAIR SUGIMURA: Okay. So, what I'm going to do then is ask for HHFDC then to do a presentation, and then I'll ask for another testifier at the end...at the end of the resources to see if anybody has...if we have any testifiers.

. . .CLOSE PUBLIC TESTIMONY AT BEGINNING OF MEETING . . .

ITEM 21(26): HAWAIʻI HOUSING FINANCE & DEVELOPMENT CORPORATION FUNDING MECHANISMS FOR AFFORDABLE AND WORKFORCE HOUSING IN THE COUNTY OF MAUI (RULE 7(B))

CHAIR SUGIMURA: So, at this time then, I'd like to welcome Craig Hirai from HHFDC, as well as Dean [*sic*] Oi from HHFDC also. They are a wealth of information, and I wanted the Members to know that the reason why I have this on the agenda is so that we can learn, and the community can learn, the finance...financing that's available to the County of Maui through the State of Hawaiʻi. And, actually, they are going to maybe talk about some of the projects they have funded. I think you...we hear a lot of developers who come and say that they want to get some County funding because they're looking for LIHTC fund...funding from the State, and these are the guys that award it. So, very important element for us getting our housing rebuilt, as well as to help us with the rebuild of Lahaina for the projects that they are working on, and I wanted that to be made aware also because we always hear about there's not enough housing, there's not...nobody's doing anything. But actually, HHFDC, because they own Front Street Apartments and other projects, they are working on things, but quietly in the background because they're from...you know, like doing their job. So, at this time then, I'd like to ask for Craig Hirai and David Oi to do your presentation...presentation on HHFDC.

MR. OI: Thank you, Chair. Thank you, Councilmembers, Members of the Committee. It's a pleasure to be back before you today. Again, my name is David Oi, I'm the Finance Manager for the Hawaiʻi Housing Finance and Development Corporation. I'm with my Deputy Director, Craig Hirai. So, today we'll go through an overview of our major financing mechanisms and programs that HHFDC administers, and hopefully we can answer any questions you may have as well. So, today we'll just go...

CHAIR SUGIMURA: One second...one second, David. Do we have this posted on Granicus?

MR. KRUEGER: Yes, Chair. We're uploading it.

CHAIR SUGIMURA: Oh, you're uploading it, okay...for the public and the Members. Thank you. Please proceed. Thank you. Sorry about that.

MR. OI: No, no. Thank you, Chair. So, we'll go through a brief overview of HHFDC. We'll go through some projects that we have in progress, and also past projects in the County of Maui. We'll do some brief overview of program income limits that apply to the programs that we administer, go through the general financing programs. Do a basic overview of a financing stack...so, that's basically the different funding sources that would go into financing a multi-family rental project. And just an overview, as well as our...and of our funding round where we award our resources to developers through our competitive process. So, HHFDC's mission is up here on the screen. You know, we are here to increase and preserve the supply of workforce and affordable housing statewide by providing different financing and development programs. We work in the realm of both for-sale and rental affordable and workforce housing. So, we see ourselves as part of the continuum of housing in Hawaiʻi. So, on the screen, you can see that we have different levels of AMI--you'll hear me refer to that a lot--that's the area median income as determined by HUD. And you can see the different state agencies that focus on these particular areas. So, HHFDC would be on the far right. So, we, again, facilitate affordable, for-sale, and rental housing. We do everything as...in assisting with pre-development, financing, closing, as well as compliance for these projects. And we work mainly in the realm of the 60 percent AMI all the way up through 140 percent...below 140 percent AMI. Other state agencies that work in this realm are also HCDA, as well as the Department of Hawaiian Home Lands. The Hawaiʻi Public Housing Authority is also a housing development agency for the State. They work in the 60 percent and below range, mainly around 30 percent AMI or so. And the Department of Human Services is mainly the department that assists with the homeless population, such as the Kauhale homes by the Governor, and other unsheltered populations. This slide is relevant, and I like this slide because it gives you a view of who we're trying to house and who we're working for. So, this sort of shows, you know, an average of the area median...the average income for different occupations and different households in Hawaiʻi. So, I like this slide because you can see that we all know some, or maybe every...anyone on this screen in any of these fields. So, you can see where the occupations, even when you have households, you can see on the far right, we do firefighter plus teacher, engineer plus retail worker--so, we can see how the family dynamic works into the area median income discussion. So, this is where an area median...a family would fall and how they would qualify for any of the programs that we have available. So, I briefly wanted to go through some of the projects that HHFDC is working on currently in the County of Maui. So, right now, we have Kaiāulu o Kūkuiʻa, this is out in Lahaina in the Villages of Leialiʻi. This is 200 family units that is currently under construction. It is targeted to be completed in October 2024. So, this used three of our financing programs--and I will go through the details of these programs later in the presentation--used Federal low-income housing tax credits, private activity bonds, and the state's Rental Housing Revolving Fund, which is our state-funded gap financing program. The developer of this project is Ikaika ʻOhana. These pictures are a little old--well, relatively old, I took them a few months ago--so, the project has made significant progress since this time, we're excited to see this one open. Some of the planned projects that we have right now, there are three phases of Hale O Piʻikea in Kīhei. So, the first phase closed in October of last year, and is currently under construction. This is 90 family units, again, serving the population of 30 to 60 percent AMI. There's a...next project that we're targeting to close towards the beginning of fourth quarter, and would start construction around then is Phase II, that would be 97 senior units. And the third phase, Phase III, is pending permits right now, and we hope to...hopefully get that one closed before the end of the calendar as well so we can put that project under construction as well. So, you can see, there's about a 160 units all combined with this project that we're hoping to close within the...before the end of the calendar year. So, additional planned projects, we have Liloa Hale in Kīhei. This is targeted to close...it is now July, so it was targeted to close this month. We're hoping to get this one closed and under construction as well. This is 116 senior units for our kūpuna in the 30 to 60 percent AMI range. This one does have funding in it as well from the County of Maui, our partners here, with the federal funds that the county administers. And another project I wanted to highlight was Kaiāulu O Kupuohi in Lahaina. This was a project that, unfortunately, was lost in the fires in Lahaina. This was 90 family units, project was actually just over a year old when the fires unfortunately hit and took this project. The county has agreed to provide some funding for this project, we have funding in this project as well, and we're looking forward to see this project getting rebuilt very quickly over the next...over the next year. And then our final project I wanted to highlight was a 303-family unit project for 30 to 60 percent AMI. This project is projected to go into service in 2029. This is our Kahului Civic Center mixed-use project. This is just the general financing program for now, it's still subject to some modification. The first phase, Phase I, which would be just under 200 units, is still pending its financing application from the state, so they're still solidifying their financing and their estimated approval as well. And finally, Chair, briefly mentioned, Front Street Apartments in Lahaina--sorry about the delay. So, Chair had mentioned Front Street Apartments in Lahaina. So, this is a...a overview of the projects that the state currently owns in Lahaina. So, the purple is the site of the former Front Street Apartments, this is HHFDC property that we're planning to rebuild as affordable units, possibly increasing the density if we are able to, to service more affordable households. The green is the Lahaina Surf project currently owned by Hale Mahaolu, and we want to assist them as well with their rebuild. And Piʻilani Homes, that is Hawaiʻi Public Housing Authority's project across the street in blue. So, the state has these three parcels that we are working on to rebuild as quickly as possible, to place back into service for affordable families and households. So, this is a overview snapshot of the projects that HHFDC has worked on in the County of Maui since 2018. So, a couple of the things that I wanted to point out on this slide, where you can see that we have steadily increased our development on Maui. There's been a lot of quality projects that have been meritorious of award...that were awarded, and we're looking forward to placing in service. And on the right, I wanted to show how the focus in the past has really been on that 30 to 60 percent AMI population. Now, that is partially due to the restrictions and rules of the low-income housing tax credit program, and the private activity bond program. But, you know, you can see that there are many other AMIs that HHFDC has a mission to service that currently represents an opportunity to provide more funding for in the future, not just statewide, in the County of Maui as well. And then--sorry, this is probably really small and if you're looking at it from the audience, I apologize--but it just shows the disbursement of different projects in different stages that HHFDC currently has. The green projects are those that have been in service and are currently in service on Maui. The orange are those that are under construction. And the purple are the planned units, or those that are just awaiting financial closing. So, you can see the...historically, HHFDC has a presence on Maui with the projects we've funded, both for kūpuna and for families, and we look forward to doing more. And then this is just a table again that shows the placed-in-service dates. So, the placed-in-service is when the project opens up and starts accepting tenants. And then also, the number of units and the type of financing that were received to fund the project. So, as you can see, there's different state programs, which I will go over in this presentation, and there's also the county financing that is at the...federal programs and grants that are administered at the county level, as well as the county's Affordable Housing Fund. So, I wanted to kind of briefly touch on the program income and rent limits. So, you hear me speaking about AMIs and different rents and different AMI groups. So, a lot of it is driven by the area median income that is determined by HUD in different counties. So, each year, the Department of Housing and Urban Development releases its updated AMI limits for the counties. So, what I've highlighted here is what the HUD has determined to be 100 percent AMI for 2024 for a family of three...so, you can see the...the difference among the different counties, and then the state median income is shown at the bottom. And I didn't round that figure, that is really the figure that they published, it actually came out to the dollar, so...yeah. For the AMI guidelines, the...again, published by HUD annually, and then that is the link if you access this online, if you want to see what the limits are for different counties around the country as well as Hawaiʻi, and different counties in the state. So, you can see here, I've highlighted the 60 percent AMI and the 100 percent AMI for a four-person household, and the affordable rent limits for a two-bedroom unit in the County of Maui. So, these figures, again, look a little different than the ones I had just posted on the screen. Now, the reason for that is because with the programs that HHFDC administers, such as the low-income housing tax credit program, HUD publishes a different set of guidelines called the Multi-Family Tax Subsidy Project inco--...income limits. So, those are the guidelines that are used to qualify tenants for low-income housing tax credit projects. So, those are anything that uses funds that are captured under Section 142 of the Internal Revenue Code, which is private activity bonds, and low-income housing tax credits, which is the Treasury Code Section 42, is all qualified under here. Also, under here, HHFDC uses these limits for its Rental Housing Revolving Fund, which again, state's financed GAP Funding Program. So, overall, if you want to look at these limits and how they relate to HHFDC's programs, you want to make sure you're looking at the MTSP limits for HUD. So, these are the major financing programs that you'll hear about, this is the long name, you'll mostly hear the abbreviated version and the acronyms for all of these. So, the Low-Income Housing Tax Credit program that's the LIHTC program; Hula Mae Multi-Family Bond Program, that's the tax private activity tax exempt bonds; Rental Housing Revolving Fund, or HRF, that is the state's GAP Financing Program, so, that's a legislatively-funded GAP loan program; and the Affordable Homeownership Revolving Fund Program. So, LIHTC was...is a federal program created from the Tax Reform Act of 1986. It's governed under Section 42 of the Internal Revenue Code, and it has specific what we call set-aside requirements to qualify a project to receive this...receive...use these tax credits. So, the project must have 20 percent of its units at 50 percent of the AMI or below, or 40 percent of the units at AMI...60 percent of the AMI or below to qualify for low-income housing tax credit projects. Now, I want to note that when we award our projects, you know, the projects are, I would say, mostly all are 100 percent affordable. So, they all...for LIHTC projects, they all are at 60 percent or below, the majority of them. It's tougher to receive an award currently when you're not servicing all the units at 60 percent or below. So, LIHTC--this is not my quote, this is a quote from the federal side--it's probably the most important resources for creating affordable housing in the whole country, subsidizes an average of 1,400 projects and over 107,000 units annually. So, this is how widely-used and critical the LIHTC program is for affordable housing. So, I won't go into too much of the detail here, it took me awhile to absorb this too, but it's a...basically a dollar...it's not a...it's not a grant, it's not physical money, it's not cash that's given out to a developer, it's a tax credit that is awarded and that can be used over a ten-year period for anyone who has a lot of tax liability. So, basically what will happen is an awardee of these tax credits will go out and market them to someone who has a tremendous amount of tax liability in exchange for cash that can go into the project as equity. So, that's really what it is, it's credits. It's not funds, it's not a loan, it's not a grant, but it is a cost because it is a tax credit. So, the cost to the Federal Government is about 8 billion...$8 billion right now. The State of Hawai'i also offers a matching credit for low-income housing tax credits, so, it's 50 percent of the federal amount. So, if a project receives...is awarded federal low-income housing tax credits, they also receive a corresponding amount in half of the...half of the amount from the State of Hawai'i and the state tax credit. The State Tax Credit is not used by every state throughout the country, but it has been noted as being a key to closing a lot of the financing gap for affordable housing. So, again, the developers will sell these credits to partners in return for equity investment in their projects, so this is how they get their equity in. So, the credits are taken over a 10-year period--again, issued by the Government, it's not physical funds--and in exchange for these credits to be used, a project has to commit to keeping the project affordable at specific set-asides, meaning specific incomes for specific units, for a 15-year period, which is the compliance period. They are also required to maintain another 15 years after that, which is called the extended-use period. Again, they have to keep those specific rents at that level, at the affordable level, for that total of 30 years. Hawaiʻi requires...we require a total 45 years, so our extended-use period after the first 15 years is 30 years. I'll just briefly go through this. There's two types of LIHTC credits that projects can receive. the 9 percent credits, which is basically the...subject to Federal volume caps. So, the Federal Government allocates a certain amount that they can issue in tax credits every year to states. It's basically based on the state's population. So, Hawaiʻi gets approximately 4 million a year, so that's over ten years for an awardee this year can receive that amount. Now, that equates to about two to three projects we can award every year. This 9 percent credit--now remember, this is equity--this represent--this can translate into about 70 percent of the cost of the project for the...for the developer. So, this is a very valuable resource for a developer, and as a result, it's very competitive. You know, we'll get approximately nine to ten applications a year, can possibly award two, maybe three. And then the rules with this though, is they have to place the project in service at the end of the second year after they get the award. So, they're really under a lot of pressure. Once they get these awards, this is really valuable for them, but they have to be able to get going, you know, and get placed in service, or they're subject to what's called recapture, which means the total amount that they would have been awarded for the ten years, they have to pay it all back--that part's cash--if they get awarded. The 4 percent credits are...yeah, they're...I wouldn't...they're not quite as valuable, they represent about 30 percent of a project's cost, but there is no volume cap. However, this financing requires the use of private activity bonds that the State receives an allocation for. So, when you receive 4 percent credits, the amount of equity that you have, you have to use private activity bonds from some source to finance at least 50 percent of your costs. So, you automatically are going to incur debt for half of the cost of the project. So, in 2022, for example, you know, we had...we allocated...awarded nine housing project units, and this resulted in 11...about 1,100...1,100 new units. So, we all hear a lot of talk about bond shortage, bonds are oversubscribed, private activity bonds, tax-exempt bonds--this is all dealing with this topic here. So, the key to the private activity bonds is that they provide...they're a source of low-interest financing to projects for the construction or rehabilitation acquisition of rental projects. Again, they're used with the 4 percent LIHTC credits because they have to be used to pay for half of the costs. And what happens is the bonds, once they're sold, the proceeds from the sale are used to provide below-market interest rate loans to developers to construct their projects. So, that's why they're so valuable. Instead of going out for a 9 percent interest rate construction loan in the current environment, they can get closer to 7, 7.1. So, it...and it correspondingly drops in any interest rate environment, so these are extremely valuable to keep the costs down of borrowing. They have the same set-asides as the LIHTC program. And this is kind of just an explanation of that 50 percent cost I was...I was mentioning. So, for 4 percent LIHTC projects, you have to pay 50 percent of the costs. So, if the project is $39 million in TDC, total development costs, only 32 million would qualify--there's certain costs that qualify for what we call basis--at least 16 million has to be paid for with bonds. So, the biggest issue we have with bonds is what we call a bond cap. It's subject to a federal cap. The amount that the state gets every year is determined by the Internal Revenue Service. So, in 2024, it's the greater of $125 per capita, or what they call the small state minimum of $378 million. Hawai'i always receives the small state minimum. So, despite our tremendous housing crisis in Hawai'i, we are...we are a small state when it comes to private activity bonds, unfortunately. Now, state law, Statute 39B-2, this is how the state's bond cap is allocated when it is awarded annually. So, by statute, the State of Hawai'i gets 50 percent of the bond cap allocation, and each county is statutorily allocated an amount based on the total that's out...that's given to the state. Now, you'll notice I'm...I'm saying here, it's the State of Hawai'i, it's not HHFDC. So, we are not guaranteed, as the housing authority, any portion of this amount. Private activity bonds are not just for housing, they're used for infrastructure, qualified private activity bond projects...anything that private activity bonds can be used to finance. So, the Department of Budget and Finance determines where the funds will be allocated every year, and we have been fortunate enough that they have given all of the State's allocation to HHFDC to use for housing, which we've used up entirely every year when we get it. So, this is just some metrics, you know, the average use of the bonds, you get about $291,000 per unit of bonds, and you can...with the state's 50 percent allocation annually, we fund about 650 units a year of new construction. But the demand is tremendous for these bonds. We received...in 2023, we received 28 applications for private-- requesting private activity bonds; 2024, we received about 26; and the total ask, if you add all 26 together--remember, I said we get about 378 million in bonds every year, the state gets half--the total ask in our application round was over a billion dollars. So, the demand is about six-to-one for the bonds currently, which...I think the message that comes out from that is how severe the housing crisis is, but also, how many developers are willing to help. And it actually has been driving a lot of financing, finding new ways to finance projects, we're trying to incentivize those as well. We're not alone being oversubscribed in bonds. The states in orange--and we are on this map--the states in orange are the oversubscribed states, and this has definitely grown, this is a map from 2022. But another thing is, you can see that some states are oversubscribed so, you know, we...we're...we're the same as a lot of other states, but we're unique, you know. We're very small, but we have the same oversubscription issue as larger states, such as New York, Washington, California. But there are undersubscribed states that don't use their private activity bonds entirely, even though they use them on everything besides housing as well, just that carve-out. So, you know, we face a common yet, you know, unique problem, I think. And finally, our Rental Housing Revolving Fund. Now, this is the fund that's allocated to HHFDC and funded by the legislature, it provides loans to fill capital stacks in the gap. So, you have your equity from the LIHTC, so that's like...if you're buying a home, that's like your cash you bring to closing. And then you have your first mortgage, that'll be like your bond loan financing, but you still have a gap, you know, that you got to fill. So, the Rental Housing Revolving Fund is the program that fills that gap for developers, so that's like their second mortgage, their gap filler. So, it provides, again, below-market interest rate loans, the debt service terms are very project friendly, they...if the terms extend out for the entire affordability commitment period, which can be as long as 45 years, and the payments in to repay the loan are cash contingent. So, if the project makes money, the...the repayment is based on the percentage of that. So, it's not a hard debt service, but it helps a project pencil because if you have a lot of debt service on a project that's affordable, it's difficult to service when it's just rents that are coming in as income. And with affordable units, we do not want to see rents being raised to their maximum just to service debt, you know, that sort of defeats the purpose of a project being affordable. Allowable uses of these funds are pretty broad. It can be used for development, pre-development, construction, preservation...so, it's a very flexible program. So, the rules on this project are it can fund anywhere from 140 percent AMI or below. But when you start mixing the...the...if you use this fund with, say, bonds or LIHTC, you have to adhere to all the programs, so you're kind of restricted to the LIHTC program as well. But if you were to use a project that only had RHRF financing, then you would have these rules in place. So, preference in the past has been given to what's called the Tier I group, which is projects that are basically 140 percent...100 percent AMI and below. The more affordable units you have at the lowest AMIs, the more preference the project would get for an award. Now, there's also, however, what we call the Tier II priority, that's projects that are built for renters at 140 percent AMI or below. This is that missing middle gap group, majority workforce income group. However, an exception to bypass these AMIs and give preference to this particular higher AMI group, under current legislation, has to be legislative...legislatively-appropriated. So, that did happen in 2022, where the legislature awarded HHFDC 150 million in funds to fund projects for AMIs at 80 percent up to 100 percent. So, this was strictly targeted towards workforce families and workforce projects. We awarded that 150...we had to turn around pretty quick on that one--probably half the time it takes us to normally do a funding round--but during that time, developer's appetite was great. They submitted 13 applications, and we were able to award four projects and expend the entire 150 million. So, the demand is there, and I'm certain in this county too, the demand is just as great. We did award projects...applicants came in from every island, but we did not have a project on Maui, unfortunately, at that time that was awarded. So, again, legislatively-funded...so this was our latest funding that we received from the legislature. Now, the capital stack, again, is how you put all these funding sources together to build a project. So, you have two basic terms of the project. You have the construction period, and then you have the permanent financing. So, the permanent financing is what's left after the project is placed in service, and this is what has to be the debt that's left on the project to be paid after the project...when the project is in operations. So, for a $45 million project, the message that I kind of want to show is that it takes a lot of sources. You can see in here, developer equity is always valuable if a developer puts some skin in the game as well. The LIHTC, the bond loan, and deferred costs…so these are loaned back into a project to help reduce the debt that's taken from the state, county or other sources. So, this is what it takes to build what would have been a--this isn't a real project, this is just based on percent…average percentages. So, if any developers are watching, this isn't any of your projects, so… Now, once all the financing goes into place, you know, the key is the closing. The closing is when all the money comes in, and right after the project closes--just like if you close on your home or a business transaction--construction will start immediately after that because the loan's outstanding, and you…nobody wants to be servicing a loan of these sizes without something actually happening. So, the pathway is...to closing is…is really critical to get, you know, something going that residents can see. The key threshold is permitting. In order to start our closing calls, the project has to show that permits are in-hand, or ready to issue. There are...documents for our loan through Rental Housing Revolving Fund have to be completed and approved by our Attorney General, bond counsel is contracted and, of course, we have to ask them to refresh their budgets, and in a…in a preferable world, their budgets haven't changed since they were awarded, but we work with them as much as possible to help fill any gaps to make the projects go. We do not want to see any projects not go just because their budgets had unfortunate changes, you know, things out of their control, but we work with them as much as we can, while being the stewards of state money, to make sure that it's being spent efficiently and properly. Some key legislation from this past session that would be applicable to housing, first one is Act 35. So, this establishes what's called a bond recycling program. So, I mentioned how valuable those private activity bonds are and the huge demand on them. Now, if a project were to use a bond...get bonds and pay off...they use their bonds to finance a loan. And say that loan gets paid off, you know, during the construction period--it doesn't stay outstanding after construction--Section 142 of the Code allows these bonds to be what's called recycled, which means they can virtually be used on another project...you know, the same issuance, same monies, used on another project. Now, the catch is, you can't use it for the purposes of that 60 percent and below LIHTC program, but you can issue it on what's called 80/20 projects mostly. So, you have 20 percent of the units in a building at 50 percent and below, and you could have 80 percent at--it says market prices, but it's really anything. It can be any range you want to go up to, up to market. So, this is low-cost financing opportunities for true mixed-income and workforce housing.

MR. HIRAI: You can go back to the capital stack…the cap, yeah. And if we can…because we're getting into the legislation…because we're getting…we…because we're getting into the legislation, let me interrupt a little bit more. What we're talking about is a capital stack. You see where HMMF Bond number's initially 22,331 on the construction interim financing, and on the permanent it's 12,688,000, that 10 million paid on there is what we're talking about here for recycling. That…that 10 million, under the Internal Revenue Code, can be reissued, that's a tax-exempt bond without LIHTC credit. So…but that's…that's an example, that…that's almost precisely what we're talking.

MR. OI: Yeah. So, the opportunity there is, you know, you're using 10 million of tax-exempt financing, which, to the developer and to the borrower, translates into lower costs. Currently, their only alternatives to get such financing as that is to go to…to the market, you know, pay the high interest rates in the environment we're in now. So, in a lower-interest rate environment might not be such a difference between taxable debt and tax-exempted, but right now, with interest rates being what they are, you know, every penny really counts. So, having this as a tool, as another option for developers to use to finance projects, is very valuable.

MR. HIRAI: Okay. This Act…Act 30 has to do with the GET surcharge, and in this case, it really only applies to one county, the County of Maui. And what it says is, what…what this particular situation is…is that it…the GET surcharge here can only be used for housing infrastructure, not including roads. And what this bill…it does two things…one is, I guess, a technical correction, and it says that it can only be used for county-appropriated projects, and then...and then it can also…allows…includes…allows it to be used for debt servicing by amending the definition of housing infrastructure to include debt-servicing costs. So, with your county surcharge, you could issue…you could use it to issue bonds if you wanted to accelerate the amount of money available for capital improvement projects. Thirty-four…Act 34…Act 34 is actually state regional infrastructure, and it would include private…it includes…intended to include state lands, and it includes private lands where we could assess the improvements on the private lands, assuming that the statutory requirements are made…are met with due process and that sort of thing. But, originally, it was intended for development along the rail line in…on Oʻahu, but now it applies to housing statewide, and it might have some relevance in places like…region…a regional infrastructure in maybe West Maui, where you've got large state landowners like HHFDC and DHHL, and some private landowners interspersed there, both south…south of HHFDC…between HHFDC and DHHL, and north of DHHL. If some type of regional infrastructure plan was worked out, we could assess the private landowners for their share of the costs. Yeah. Every…everybody pays their share, but we could probably finance the private landowners' share, and it would be assessed against the land, and run with the land. And then there's Act 45, which allows the counties to do mixed-use development, before it was only low-, moderate-income housing. And

I guess...is that questions?

CHAIR SUGIMURA: Are you done? Okay. So, a lot of information. And Members, we'll take questions after...if we have public testimony first.

MR. PASCUAL: Chair, there's currently no individual signed up to testify on this item. Would you like me to do a last call?

CHAIR SUGIMURA: Yes, please.

MR. PASCUAL: This is the last call for oral testimony on this item. Please come up to the mic or...to the podium, or raise your hand on Teams if you would like to testify. The countdown is three, two, one. Seeing none, Chair, no one has indicated that they wish to testify.

CHAIR SUGIMURA: Great. Okay. Thank you. With your permission, I'm going to close public testimony on this item and receive written testimony.

COUNCILMEMBERS VOICED NO OBJECTIONS.

. . .CLOSE PUBLIC TESTIMONY (BFED-21(26)) . . .

CHAIR SUGIMURA: Thank you. Okay. That was a lot of information. Right now, we know enough so that we can actually do Department of Human...I mean Housing's job in terms of understanding how to...how to finance projects. So, appreciate that presentation. At this time then, Members, if you have questions, we'll do three minutes each, and at 10:30 we'll take a break if we get there. Go ahead, Vice-Chair Kama, if you have any questions, and we'll...

VICE-CHAIR KAMA: I do. Thank you, Chair. So, you know, I'm at the Hula Mae Multi-Family Bond Program, and you mentioned the word, that some states were oversubscribed. What did you mean when you said that?

MR. OI: So, oversubscribed is like Hawaiʻi, meaning that our...the demand for the...for the use of the bonds is greater than what's available. It kind of goes back to the ratio of the six-to-one that we currently have. Only a couple of years ago it was four-to-one, now it's six-to-one currently.

UNIDENTIFIED SPEAKER: . . .*(inaudible)*. . .

MR. OI: Yes.

VICE-CHAIR KAMA: Okay. So, you...so, for the...the developers that have gone to HHFDC, have...so, have we had the same developer that go...comes to you over, and over, and over, and over...do we have developers that do that? More than once, more than one project?

MR. OI: Yes. So, we tend to see the same developers, same group of developers--I would call them a group because it is a larger...it is...it's not a huge group, but it's not two or three, you know, it's...there is a develop--...affordable housing LIHTC developer community that does come in and repeatedly apply for financing annually. There are projects that apply for more than one project a year. But I think it is...I think it speaks to the fact that LIHTC, low-income housing tax credit development, is very unique, it's very complicated. It's different than doing for-sale development. And we don't want to restrict anyone, of course, you know, whenever somebody...I do get calls quite often from developers that have not worked in Hawai'i before, who say yeah, I want to come in and I want to do LIHTC, you know. And everyone is well-intentioned, you know, but I always refer people, I say you should find a consultant who does LIHTC and a consultant who's familiar with Hawai'i, you know, who has worked in Hawai'i, and is on the ground in Hawai'i in order to make your application successful when you do these. Because, you know, there is risk to a developer when they do these, but the risk is resources from the state and housing to the residents in the end that could...you know, that could not come through if an inexperienced developer were to come in and...and if it's...not succeed on a project...which we have been fortunate to not have in the very recent past, if I can remember.

VICE-CHAIR KAMA: So, you mentioned regarding the bond program, that it...we're always going to get...we basically get the same amount all the time, and we're probably not going to get any more than what they've already given us. Who determines how much each state gets, and based on what?

MR. OI: So, you know, it's pretty much been staying the same. It is based on state population, and Treasury determines the formula and the...and the per capita annually, and they announce the amounts annually to the states. So, it's determined by the Federal Government, but by Treasury.

VICE-CHAIR KAMA: But based only on population, not other variables, such as cost of living and just the amount of people?

MR. OI: No. It's only based on the per capita. But the HUD AMI calculations do have adjusters in them that account for different aspects, such as cost of living and other *. . .(timer sounds). . .* considerations that should be taken.

VICE-CHAIR KAMA: Okay. Last one. So, with the...with the exiting of many of the people from Hawai'i, and with more people moving in--I mean I think there was more people that left than actually moved in--so, how does that skew the numbers when you guys get your funding, the allocation?

MR. OI: Well, for the, it...it depends on the...how dramatic the exodus is. Because there...it's a per capita or a minimum amount, the...Hawaiʻi in recent times has never come...it's always qualified under the minimum amount because the per capita has always been...has always been lower than the...the per capita calculation has always been lower than the...than the designated minimum amounts. So, while it would theoretically have an effect down the road if there was a tremendous exodus, you know, we still acknowledge that there is too many people leaving Hawaiʻi because of a lack of affordability. But in terms of the resources, they are kind of locked in, and that's why we look for...we're looking towards other financing mechanisms to address the needs of that group that we see leaving.

VICE-CHAIR KAMA: Okay. Thank you, Chair. I heard the buzzer.

CHAIR SUGIMURA: Yeah. Thank you. Chair Lee.

COUNCILMEMBER LEE: Thank you. Thank you for your presentation. I…I have many, many questions, but one of the major ones is a need for an overarching policy not only with what you do, but what is actually needed to supplement what you do. So, one of the major things I saw in the past is that it's fine for us to provide housing for the low...the low end, yeah, but there's no incentive for them to move up, so they stay where they are. And when they stay where they are, we have to keep build...building more and more for that group of people who are not moving. They are not...they are not involved in upward mobility. And this is the reason why I...most of our funding before used to go directly to Ka Hale A Ke Ola, and Hale Makua, and Hale Mahaolu, that...that was the...the prime recipients. And so, are you also looking at other funding sources to supplement what you have so that you can provide housing to the...let's say, the 70, 80, 90 percent of median income? Because that way, those at 60, when they get, you know, a little better job, they can move up and make space for others coming in. So, if…if we had a continuum of prices, different prices available to people. And a lot of it is, is not only...it's a lot of things. But it's not only the price of housing, but hand-in-hand with that would be job training and incentives for employers to pay more so that everybody could...you know, to rise. So, are you working on that?

MR. HIRAI: I think David talked earlier about Tier II rental housing projects, which are targeted toward a higher-income group, maybe 60 to 100 percent AMI typically. And so, that's...that's on the rental side. We're...one of the downsides of the private activity bond 4 percent LIHTC program is that it...those private activity bonds, when I started with HHFDC, about two-thirds of them are used for mortgage credit certificates for first-time home buyers. And as it be--...as the demand for 4 percent LIHTC projects grew, basically all of what we get now is used for 4 percent LIHTC projects. Because it's a more efficient use, actually, of the private activity bonds because you get the *. . .(timer sounds). . .* 4 percent credits, and the LIHTC...the mortgage credit certificates, you get a dollar of credit for $3 of private activity bonds. So, it's not a very efficient use of the private activity bonds, but --

COUNCILMEMBER LEE: . . .*(inaudible)*. . . for the --

MR. HIRAI: -- the recovery --

COUNCILMEMBER LEE: -- the technical explanation.

MR. HIRAI: No, but what I'm trying to say is, we need to refocus on first-time homebuyers because we didn't...

COUNCILMEMBER LEE: See, but we're --

MR. HIRAI: We're trying to find something to replace that.

COUNCILMEMBER LEE: Okay. What I'm saying is...without getting into details, what I'm saying is, if we stay with the current model, even though you're helping a little bit, you know, with the 70 and 80 percent, what's happening is the gap group is growing so wide. So, there's such a disparity. And that's the reason why you have the rich and the...and the not rich, you know. So, this is not something that we need, that we can continue to...to feed. We have to change that.

MR. HIRAI: Right. That's...I guess, you know, we're starting to look...want to examine more closely what, say, the County of Kaua'i is doing with single-family homes on 90- or 99-year leases of County land, things like that, maybe state land affordable homeownership for, you know, a slightly higher income group that starts maybe around --

COUNCILMEMBER LEE: Thanks. You know --

MR. HIRAI: -- 100 percent AMI.

COUNCILMEMBER LEE: -- we're out of time, you know. We're on a clock, and my time has expired.

MR. HIRAI: Oh.

CHAIR SUGIMURA: Okay. So, then I'll go next to Member Paltin, followed by Member Johnson. Three minutes.

COUNCILMEMBER PALTIN: Thank you, Chair. I was going to ask Member Lee's question in a different way, like do you think what we're doing is working, but I don't think I have time for that answer. So, if we could go back to the capital stack slide, I just wanted to clarify, you know, the one where it said 250,000 at the top, and all the other funding sources. So, you said like LIHTC and like that, you're not giving actual money, right, you're just giving tax credits. So, basically, they have to front that money out of their own pocket, or would it be a loan that they expect to repay quickly because of the tax credits?

MR. OI: Thank you, Councilmember. So, yes, for the LIHTC, it's really what the developer is going to do is they're going to sell those credits...sell...sell those credits to the...to investors. The investors will give that equity. So, anything that is labeled as LIHTC on that slide is money that an investor will pay the developer for the tax credits that they're going to get. So, that money makes the investors a part of the project. So, now the investor has a stake in seeing the project succeed. The HMMF funding is a loan that's usually financed by a bank based on the sale of the bonds, and the RHRF is a loan too. But...so, what the LIHTC does is yes, it is equity, it is cash put into the project, but it's by the investor, but it's also pressure on the developer to build the project, make it successful so the investor can get their return on their tax credits once the project is developed.

COUNCILMEMBER PALTIN: And at what point does the investor come in? Is it before breaking ground, or as soon as the developer can sell the LIHTC credit that they were awarded? Like at what point in the development does that occur?

MR. OI: Thank you. So, what happens is they...they are...they commit to providing the...purchasing the credits when the...before the project actually closes, but they don't get to collect those tax credits, like they don't see the benefits of it until after the project is completed and placed in service. So, the project has to be done before they can start getting the benefits back from the investment that they put in. So, the investor, you know...you know, has a stake in also making sure that the project is on schedule, and in service, and the same project that they bought into, you know, in a timely manner.

COUNCILMEMBER PALTIN: So like closing, you mean they got their permits, or they got their entitlements, or which?

MR. OI: Yeah. So, the closing is the financial closing. Sorry about that, Councilmember. Yeah. So, the closing is when all the documents are signed, all the loans are funded, and construction can begin.

COUNCILMEMBER PALTIN: Okay. *. . .(timer sounds). . .* And then...oh, shoot. Okay, my time's up. Thanks.

CHAIR SUGIMURA: Next round. Sorry about that. Member Johnson, followed by Member Cook.

COUNCILMEMBER JOHNSON: Thank you, Chair. Good morning, Mr. Oi and Mr. Hirai. Thank you for joining us and giving us that presentation, it was really informative. It's good to see what you folks are doing because you are...I...whenever we talk to developers, we talk about HHFDC. So, thank you for joining us today. Recently we...you probably heard about the Mayor's move to the Minatoya Act and what we plan to do with those units in our...in our Apartment 1, Apartment 2 districts. Some of those units were built for workforce housing originally, and they would probably seem very applicable to be turned into affordable housing units. You have a fund here, the Revolving Fund. Can that be spent on acquisition of those units so that the...of the original workforce units, and then turn them into afford--...convert them into affordable housing units with that fund?

MR. HIRAI: It wouldn't typically be the Rental Housing Revolving Fund that was being used for that...for the acquisition. And point of fact, an example, Front Street Apartments --

COUNCILMEMBER JOHNSON: Uh-huh. Front Street Apartments.

MR. HIRAI: -- we bought the lease fee interest, we actually used money from what we call the Dwelling Unit Revolving Fund. But yes, we've done it, that's an example of situation where we actually did something like that.

COUNCILMEMBER JOHNSON: So, you've done it in the past. Are you considering doing it if this bill moves forward, and if this happens?

MR. HIRAI: Quite frankly, we haven't considered it quite yet, but --

COUNCILMEMBER JOHNSON: Okay.

MR. HIRAI: -- we can look at, yeah.

COUNCILMEMBER JOHNSON: Great. I…I really like the…the explanation of the LIHTC funding. Now, I guess the…the…I'm going to give you the question up front is, how do we prioritize our residents who've lived here the longest when the developer takes federal funds? Because you can't...because of the commerce rules and this Constitution, we can't give a priority...some...to someone who's lived here a long time if they're taking federal funds. That's what I've always been told, and the LIHTC has been that federal fund. Can you respond to that?

MR. OI: Yeah. So, LIHTC is subject to the rules of fair housing, you know, that...that's very clear. In terms of preference on the units itself, as long as like the project is made available to the general public during the project's tenant selection plan that they put together, that is managed by the property manager, when the project opens, and it's part of what they apply with, they can give preference to groups of units as long as it doesn't violate fair housing. So, you can give preference to residents, you know, you can get...you know...you know, that's the group that you want to qualify. So, I think the lower-income residents that qualify under the AMI will service Hawaiʻi residents.

COUNCILMEMBER JOHNSON: I'm limited on time --

MR. OI: Yeah.

COUNCILMEMBER JOHNSON: -- so I'm going to jump in real quick.

MR. OI: Uh-huh.

COUNCILMEMBER JOHNSON: To become a resident, you can just live here one year and become a resident, right? That's...I...I'm trying to get the generational folks, the folks who worked here for many, many years, have the preference. Because when we talk about affordable housing, there's two things that we talk about. First off, the community says yeah, when you talk about affordable, what do you mean by affordable? What is affordable, right? And when you look at the units, they're very expensive, they shake their heads and say no, that's too expensive. And then I have to throw deed restriction on it maybe, it might not be worth it for those 140 percent AMI guys. Now, the other thing is, is they talk about the cost of them, the second thing they talk about is who's it really for and the preference *. . .(timer sounds). . .* because they see folks themselves not getting it. The folks from the mainland who've been here for a year...who lived here for a year have more--I know I'm out of time, so I'll just finish up and say it--more purchasing power, they have more...their ducks are in row more, they have better...better credit than main...that mainland guys have better credit than residents here. So, all that stuff. They get the houses before locals get the houses, that's...that's really where I was going.

MR. HIRAI: You're...you're talking about for sale or for rent?

COUNCILMEMBER JOHNSON: Both.

MR. HIRAI: Because they're...they're kind of different. I mean rental is really...you know, can mean...at the most could qualify residents or something like that. You can't discriminate because...against...because of the commerce clause. But on for-sale, that's again, one of the reasons why we're kind of looking at the possibility of 90-, 99-year leases --

COUNCILMEMBER JOHNSON: Yeah.

MR. HIRAI: -- and State, County land.

COUNCILMEMBER JOHNSON: I appreciate that. Thank you. Thank you, Chair.

CHAIR SUGIMURA: Thank you. And we have Member Rawlins-Fernandez who has joined us. So, good morning. Member Rawlins-Fernandez.

COUNCILMEMBER RAWLINS-FERNANDEZ: Oh, aloha kakahiaka kākou, e kala mai for my tardiness. I'm at the Molokai District Office, alone on my side of the office. Mahalo, Chair.

CHAIR SUGIMURA: Okay. Now, it's your turn to ask questions, if you have any. I guess you've been listening in also.

COUNCILMEMBER RAWLINS-FERNANDEZ: Yes. Mahalo. Member Paltin asked a question that I was thinking, but there are other parts to that question that I was also wanting to follow up on. So, aloha, and mahalo for joining us and answering our questions today. I...so, how...what do you...what does your agency define as success and meeting its goals, and how is that measured?

MR. OI: Well, for...for my depart--...for my section, where we're responsible for the financing and development of affordable rentals, success for us is seeing the funds that we award go into projects that can be placed under construction quickly, and then speaking within 18-months of an award. If we have projects that languish, or projects that have...keep coming back for additional requests and resources, or keep having delays for reasons that could have possibly been foreseen, I always see the problem as the affordable housing crisis doesn't stop every year, you're just...the...the...the need just continues to grow. And if you don't deliver units to help offset that or try to outpace it every year, then you're not solving the problem. So, I think readiness, and timeliness, and fiduciary responsibility of the funds that I do award is my measure of success, and it's only translated when we see units break ground and units open in a timely manner.

MR. HIRAI: And I think when I look at it from the agency standpoint, my former...the former chief planner once told me that the housing market in the state was in equilibrium about the year 2000, about the turn of the century, and that was the last time it was in equilibrium. So, I think as an agency, our goal would probably, when I look back on it, is try and achieve equilibrium again.

COUNCILMEMBER RAWLINS-FERNANDEZ: Okay. Mahalo. So, for...for Molokai, for many years there...there were energy projects that were being proposed that wasn't something that the community, you know, broadly supported. And so, in the past--was that the alarm? Oh, I heard a sound.

CHAIR SUGIMURA: No.

COUNCILMEMBER RAWLINS-FERNANDEZ: Oh, okay. And so, instead of waiting for, you know, investors and, you know, developers impose their projects on us, on our community, what we've done in the last few years is reverse-engineered the process to develop a plan of specific projects that the community has already supported in...at specific sites. And so, is…is this model *. . .(timer sounds). . .* something that HHFDC has ever discussed or entertained? And I heard the alarm, so if...Chair, if they can answer.

CHAIR SUGIMURA: Yeah. Please answer.

COUNCILMEMBER RAWLINS-FERNANDEZ: Okay.

MR. HIRAI: I'm not quite sure. I mean we…we do say acquisitions and things like that are projects. You know, on rentals typically, we've been doing quite a number of in-fill projects in Honolulu, which are specific projects. And on acquisitions, we kind of do them on an ad hoc basis too. So, if that's what you're talking about, yeah, we've done things like that.

COUNCILMEMBER RAWLINS-FERNANDEZ: Okay. Mahalo. Mahalo, Chair.

CHAIR SUGIMURA: Thank you. Member Cook, followed by Member U'u-Hodgins.

COUNCILMEMBER COOK: Thank you, Chair. Thank you, gentlemen, both, for your presentation, it's very informative. Have…have you…or have you done, are you familiar with any studies measuring the cost of permit delays? Quite often during CIP projects and other Government expenditures, that comes up into play, and it's usually the Government that is doing the permitting.

MR. HIRAI: I can't say that I've seen any studies on it quantifying, you know, the cost of that. But just anecdotally, before I came back to HHFDC six months ago, I spent year at the City and County of Honolulu as part of the Department of Planning and Permitting, and I'm sure you're…you're aware of the situation and the delays there. I mean it…it's significant, yes.

COUNCILMEMBER COOK: Well, thank you. I'll have another question, but I just want to plant seeds with you folks because you are in a position of influence utilizing Government funds, servicing a very important public need, and to just encourage and support the improved...improvement to the process. And I'm not being critical of the people who are doing the reviews, I'm somewhat critical of the process not being analyzed and adapted to be more effective. How often do bonds get recycled, is that the recapture?

MR. HIRAI: We're just starting the program.

MR. OI: Yeah.

MR. HIRAI: So, legislation...that piece of legislation we were talking about is actually the start of the program. Other states have done it, and we're just starting to do it now.

COUNCILMEMBER COOK: Okay, a new program. Is...when developers come to you, is...do you assess their bonding capacity, and is that part of the...part of the competitive process, to assess the viability of their capacity to be able to fulfill the obligations of a project?

MR. OI: Yes, we do go...we do evaluate...during our competitive process, we evaluate their financials, we go based on their history. That is actually something we're looking at revising this year, is further weighing developer experience, and past performance, and their capacity. That brings up a...a great issue. Going back to Councilmember Kama's question, you know, you were talking about how many people come in and how big this developer community is. Part of the timeliness that I try to look for is based on how many projects do you have going on right now. And we do ask the question, and we do look at that because timeliness is critical. And their...you know, the developer's side, the investors' side, but more the residents' side...people who are going to be waiting for this housing, you know. Being short-staffed can't . . .*(timer sounds)*. . . be a reason for that.

COUNCILMEMBER COOK: Thank you, Chair. I'll save my next questions.

CHAIR SUGIMURA: Thank you. Member Uʻu-Hodgins.

COUNCILMEMBER UʻU-HODGINS: *(Audio interference)* Thank you, Chair, and thank you folks for being with us today. I'd like to ask, considering we are oversubscribed, and assuming if all the projects meet their bare minimum qualifications, on . . .*(inaudible*). . . with this morning's greeting, what is the je ne sais quoi for some of the projects? What makes other projects more attractive than others?

MR. OI: Thank you, Councilmember. One of the main focuses on our evaluation of allocating resource is readiness and efficiency of...of use of funds. That's really what the project has to demonstrate to us. And as recently as this round, you know, we are looking...because it's so competitive, we feel it's our job to every year, we got to be more...improve our evaluation process. So, a lot of it now is looking at project schedules, you know, not just having it, but how real is it. Councilmember Cook, you mentioned permits. You know, if I have a project that's giving me a schedule saying that they haven't even completed their drawings yet, but they say they're going to have permits in three months, you know, we're going to evaluate --

COUNCILMEMBER UʻU-HODGINS: Mm-hmm.

MR. OI: -- slightly different then we would, you know, on other projects. So, our staff...my staff is tremendous at looking into these projects and working directly with the applicants to answer these questions. But overall, it's mainly readiness because we don't want the funds sitting and not doing anything, and efficiency because we are stewards of the state's funds.

COUNCILMEMBER UʻU-HODGINS: Okay. Thank you. I appreciate that. And kind of what Chair Lee asked, and what some of the other Members asked as well, when they were discussing basically the Tier II criteria, and your answer was to refocus on first-time home buyers. So, what's your guy's plan to do that, and how can we, as County of Maui, partner better with you folks so we can help you folks do that for Maui County specifically?

MR. OI: Yeah. So, we're…we're looking mainly at…you know, with the Tier II, you know, I agree, there's a spectrum of people. People have to move up somewhere when we ask them to move up that continuum of housing. So, the Tier II is mainly --

COUNCILMEMBER UʻU-HODGINS: Uh-huh.

MR. OI: -- we would need support in funding that program so that our renters that enter that AMI have a place to aspire to move to. And then for a lot of residents, the ultimate goal is homeownership. So, after you're in the Tier II, what we're looking at doing is launching...relaunching our Hula Mae single-family mortgage program and our down payment assistance program statewide with lenders. So, that gives a low-cost, opens up doors for opportunities for people to be homeowners as well. So, we are looking at those methods to not only finance Tier II with, you know, recycled bonds perhaps, or...and/or RHRF, but also low-cost mortgages and very impactful down payment assistance to help those who want to afford a home. Because even within that . . .*(timer sounds)*. . . scope of people who want to own homes, you have residents who work two, three jobs that can service a mortgage, but to save money for a down payment, that's their challenge. So, we're trying to address groups within those tiers as well. So, that's our overall plan for the future as well.

COUNCILMEMBER UʻU-HODGINS: Okay. Thank you. I have one more question, Chair, but I'll save that for our next round. Thank you.

CHAIR SUGIMURA: Okay. Very good to hear that, that the state is looking at first-time homebuyer program and down payment assistance. So, I'm going to take my opportunity for questions. I just want to clarify that the...one of your slides on the county projects that are planned that HHFDC has helped fund is a Bigley project that was mentioned. And during our budget process we did buy the land, and we did put in--I think was 16 million and 3.1 to buy the land--so we are also in partnership with you on this project. I wanted to talk about the key legislation that was talked about in the end, which is Senate Bill 2133 House Draft 1, Senate Draft...Committee Draft 1, Act 34, which allows the county to create districts, and in those regional districts to do infrastructure projects. And Member

Rawlins-Fernandez's question made me think about, could the Island of Molokai be then designated for this regional area, and to look at the projects that she mentioned that they are doing as something that HHFDC would be able to utilize as...and the County of Maui with this Act 34? How does it work?

MR. HIRAI: I'm...I'm not familiar with the situation on Molokai. It depend...this...the State regional infrastructure under DURF is basically for development of...basically for the development of housing, but it usual...it usually involves public land...large public landown--...landowners, like the rail line on O'ahu or like West Maui. And then because the public landowners, you...I think...well, like Councilmember Kama said, it paid for themselves. It's...you know, we want to be able to assess the private landowners for their share of the regional infrastructure because by its very nature, infrastructure is regional. You know, if you're doing a wastewater plant, it's not just to serve the state projects on state lands, it's to serve everybody.

CHAIR SUGIMURA: Oh, great. So, we could look at West Maui, and we'd love to look at Upcountry to create regional plans, and to create master plans for water and wastewater. And then...the exciting thing then is private public parcels can be together in this plan, and they could benefit then from the water and wastewater plants.

MR. HIRAI: Yeah. Because under this provision, HHFDC has the ability to assess private landowners.

CHAIR SUGIMURA: Okay. Oh. So, maybe we can do this for West Maui as we go to rebuild and as well as, you know, the other areas that are impacted that needs water and wastewater, which is primarily our whole island.

MR. HIRAI: I mean there...there's a process for it, I mean you just can't do it. *. . .(timer sounds) . . .* There's some due process and, you know, got to be more or less agreeable to it. But if...if they're willing to do it, that...that's how we could help them finance it.

CHAIR SUGIMURA: Okay. Very good. So, Members, I'm at 10:21, round two for questions, anybody, raise your hand. And I wanted to recess at...okay, wanted to recess at...oh. Well, why don't we finish this then? Chair Lee, and then I saw Member Johnson. Anybody else have questions? And Member Cook, okay, and Member U'u-Hodgins. Looks like almost everybody. Go ahead, Chair Lee.

COUNCILMEMBER LEE: Thank you. Quick question on eligibility for your...your program. What if...do you fund a...let's say a portion of a project, the affordable portion of a project? So, in other words, the total project is mixed?

MR. HIRAI: That's...I haven't...it's possi--...I believe it's possible. I'm not sure we've ever done that before. What we have done is we've done mixed-use...we've done a couple of mixed-use projects on O'ahu, where there's a LIHTC...it's condominiumized, but there's a low-income housing tax credit condominium and typically a commercial --

COUNCILMEMBER LEE: Okay. So, it is possible then. Okay. The other question is the cost of private activity bonds versus GO bonds, what's…what's the difference? One you said, I think, is...the private activity bonds is around 7.1 percent. Is that what you said?

MR. OI: No. My...that was just showing the cost of tax-exempt financing.

COUNCILMEMBER LEE: Oh.

MR. OI: The savings that a that a borrower could realize if they were able to use tax-exempt financing for a loan, as opposed to market rate or a taxable loan. So, I apologize for my lack of clarity.

COUNCILMEMBER LEE: Well, no. Normally the private activity bonds are more expensive, right?

MR. HIRAI: The tax-exempt private activity bonds and the GO bonds are signif--...are relatively close is my recollection, but the...you know, they're both significantly less than the taxable bond, or mortgage...or mortgage fund...private mortgage financing.

COUNCILMEMBER LEE: If . . .*(indiscernible)*. . . my last question, it has to do with infrastructure. We…we all have problems with permitting, but if we continue to work independently of one another, then we'll never solve the major problems. If we don't partner with you, and you don't partner with CWRM and Depart--…you know, State Health Department, and all of the relevant departments, we're not going to make that much progress. On Maui, we have a terrible problem with water, and then, you know what? It's our fault. In fact, everything is our fault because we haven't kept up. And the...what has happened in the recent past is we try and push all the requirements onto the developer to save us money, but you know what? It ends up hurting the consumer. So, I mean, is do…do we have an overarching agency that looks at all of that, and brings everybody to the table, and…and says County, stop doing that?

MR. HIRAI: Well, I think part of our mission . . .*(timer sounds)*. . . is to try and coordinate what...exactly what you said then.

COUNCILMEMBER LEE: Yeah.

MR. HIRAI: You know, look at the possibility of some kind of master water agreement or master sewer agreement they say for West Maui along the lines of what they did in Honolulu in East Kapolei, where there's a master water agreement basically, a master sewer agreement among DHHL, UH West Oʻahu, and D.R. Horton, something like that. And…and that's what I'm saying, that there's a private party in there, like D.R. Horton, and they…you know, they…they're expected to pay their share too. Yeah. But we need…but we need to coordinate with the county because water and sewer are inherently county missions.

CHAIR SUGIMURA: Okay. Next question.

COUNCILMEMBER LEE: It…it's a good thing the council is not in charge of that because if it…Council were in charge of that, it would be done.

CHAIR SUGIMURA: So, we got to create the master water, wastewater agreements. Did…did Tamara have a question? And then I'll just go down the line, Gabe Johnson…Tamara, did you?

COUNCILMEMBER PALTIN: Yes, please. Thank you. I wanted to follow up on what Member Uʻu-Hodgins was talking about. You know, when you said that you're focusing more on the first-time homebuyers, I was wondering how that works when…when, you know, maybe a young person or a young couple are trying to get a first-time home, and they're going to just buy what they can afford, like say, a one-bedroom condo or whatever. And then next thing you know, they have a kid, and then next thing you know, they twins or triplets, and then they're no longer first-time homebuyers. And so, I was wondering if you had that addressed in your strategy of like focusing on first-time homebuyers, if there's a way for first-time homebuyers, when their needs…like maybe their mother-in-law needs to move in, addition to their twins and their one kid that they had before, so now it's a family of six. And they're in a one-bedroom condo, but they already blew their first-time homebuyer load. And so, I just was wondering if that's factored into your strategy?

MR. OI: Well, we…

COUNCILMEMBER PALTIN: Because that's like real life, right?

MR. OI: No, absolute--…I…I…I can relate to that problem, Councilmember. And I think it's…and I apologize, that's not a problem. that's just…that's the makeup of where we are.

COUNCILMEMBER PALTIN: You got twins too? I don't have.

MR. OI: Oh, I have…I have a lot of extended family. So, I think…you know, and I…I really…I…I believe that the opportunity is really to get persons into homeownership because once you get into the homeownership, you unlock the ability to use equity in that home to move yourself up. And if we provide opportunities enough--not just in housing, but overall--to, you know, allow people to make more money and gain more buying power and more equity, they can hopefully --

COUNCILMEMBER PALTIN: I guess --

MR. OI: -- upsize timely.

COUNCILMEMBER PALTIN: -- that's part of the problem that I'm seeing as well, is because as they gain equity, or they're trying to make that profit off of what we invested heavily on to be affordable housing in the first place, then it's no longer affordable housing. So, that affordable housing is lost forever. And I mean you can't have both, right? You can't have affordable housing for 10, 20, 45 years like how you're saying, and also give this small family another shot at the apple to be a first-time homeowner of something that now fits what their size is. Like can they relinquish their first-time homeowner award to get the first-time homeowner award of a growing family first-time homeowner, or something like that? Because however much millions and millions of LIHTC, HMMF, RHRF *. . .(timer sounds). . .* all the acronyms we give, if that first-time homeowner thing is blown in five years, then we're right back at the starting point. And it takes like five years to get the permitting sometimes, you know, or the entitlements, or whatever. So, we're losing affordable housing faster than we can build it by commodifying housing so that the first-time homebuyer has to sell what they got at affordable rate at a high rate to be able to accommodate their growing family.

CHAIR SUGIMURA: Your buzzer went off. When you come up with your first-time homebuyer plan, please share it with us is what we're saying. *. . .(laughing). . .* So, Members, we're at 10:30, and I really want...I'm...I'm very grateful to HHFDC. All your questions, if you could give it to Staff, and we'll send it to them and get it answered for you. And such a valuable contribution. So, I wanted to introduce them to the County of Maui, and for us to know that they are working really hard to help us with West Maui with the projects that they are doing that have burnt down, and as well as helping us finance. And we hear from developers who say the reason why we want to ask you for affordable housing money is because we want to get your LIHTC funds. So, we hear that often with projects that come before us. And I look forward to working with you as...to work on a master water and wastewater plan for our Upcountry, as well as for...well, the whole island needs it, but West Maui, just so that we can access funding through you and us, as well as Water as Chair Lee was mentioning, so that we can work as a unit and not work in silos. So, at this time, Members, I'm going to now thank HHFDC. It's 10:30, I'm going to take a ten-minute recess and call you back at 10:40, and then we'll have the rest of the studies, which is also very interesting. *. . .(gavel). . .*

RECESS: 10:30 a.m.

RECONVENE: 10:50 a.m.

CHAIR SUGIMURA: . . .(*gavel*). . . Welcome back to the Budget, Finance, Economic Development Committee. It is now 10:50, and we are back to our meeting.

ITEM 21(25): ANNUAL COMPREHENSIVE FINANCIAL REPORT, SINGLE AUDIT REPORT, AND DEPARTMENT OF WATER SUPPLY'S FINANCIAL AUDIT REPORTS (RULE 7(B))

CHAIR SUGIMURA The next item on the agenda, which is BFED 21(26) [*sic*], we're going to look at N&K reports about the condition of Maui County and the audits that were done. And as I started off, I announced to you that we have Acting Director Marcy Martin, she can introduce her Staff, as well as our Auditor, Lance Taguchi, who says he has no comments already, but we will see.

UNIDENTIFIED SPEAKER: . . .*(inaudible)*. . .

CHAIR SUGIMURA: Okay. So, we have designated those that are important to be our resource, which is from N&K. So, at this time, do we have N&K that wants to a presentation first, and then we can go to the Finance Department? So, we have Dwayne Takeno and Christian Hara from N&K. They're online, right? Mr. Takeno?

MR. TAKENO: Hello. Good morning.

CHAIR SUGIMURA: Thank you. Thank you for being with us.

MR. TAKENO: Oh, no problem. Thank you for having us. Are you guys ready for us?

CHAIR SUGIMURA: Yeah. We're ready.

MR. TAKENO: Sorry. I was in the other room, sorry. Oh, okay. Well, let me share my screen real quick. So, today we have a short presentation for you guys, basically the results of our audit for the fiscal year end June 30th, 2023. Pretty high level, but would like to open it up for questions at the end of the presentation. So, we just have a quick agenda for you today. Introduce the engagement team members for this year's audit, give you a summary of the auditor's results, go over some financial statements and federal award findings, and then open it up for questions. So, my name is Dwayne Takeno, I'm the audit principal on this engagement. I have here today with Christian Hara, he is a audit senior manager with us. We have been on this engagement for maybe about eight to ten years. And today Britney Delima was...is not able to attend this meeting, but she was also an audit manager that worked on the engagement this year. Kind of like the high level results of this year's audit is that we are pleased to report that we have an unmodified opinion on the financial statements. We also issued a report on internal control over financial reporting, and this year we have a material weakness reported, and no significant deficiencies. We'll go over the details of those...the material weaknesses in a...in a following slide. The other set of reports that we issue are reports over internal control over major federal programs. This year there were no material weaknesses identified, but there were some significant deficiencies identified. Our report on compliance for major programs was unmodified, which is great, but we will go over the findings in the next part of the presentation. This year we tested six...a total of six major programs, two of which were COVID-19-related, and the dollar threshold we used to distinguish between live programs and smaller programs was $2.4 million. The County of Maui is not considered a low-risk auditee for the current year. So, the next slide just summarizes the three financial statement-related findings. So, we had one to improve controls over financial reporting, the second one dealt with financed purchases, and the third one dealt with the Maui County TAT. Think you guys all have the details of the findings, not sure if you guys want had any questions on any of the financial statement findings?

CHAIR SUGIMURA: Oh, we'll do questions later, Mr. Takeno.

MR. TAKENO: Okay.

CHAIR SUGIMURA: Oh, Mr. Hara.

MR. TAKENO: Okay. So, the...the...second part of it is just the federal award findings, three findings there over two different major federal programs. Can open it up for questions if you would like.

CHAIR SUGIMURA: Okay. So, are you done?

MR. TAKENO: Yes. Thank you.

CHAIR SUGIMURA: So, Department of Finance, Acting Director Marcy Martin. Good to see you here, and please have any...introduce your...your Department, as well as any kind of presentation before we open it up for questions.

MS. MARTIN: Thank you, Chair. So, I am here today as Acting Director of Finance to listen to the discussion and answer any questions that you may have. And I have Mark Pigao here, who is our Assistant Administrator for our Accounts Division to assist us.

CHAIR SUGIMURA: Oh. That's...that's all? Oh, Mark Rao [*sic*], is that how you say your name? Did I get it right?

MR. PIGAO: Pigao, Chair.

CHAIR SUGIMURA: Okay. So, you work in the what? What is your title?

MR. PIGAO: Assistant Accounts Administrator.

CHAIR SUGIMURA: Assistant Account Administrator. Okay. Welcome, nice to see you here in the Chambers. Mr. Taguchi.

MR. TAGUCHI: Thank you, Chair. I'm here to answer any questions regarding the oversight aspects of third-party auditor Nishihama-Kishida. Nishihama-Kishida is currently working on the next audit with the Department of Finance.

CHAIR SUGIMURA: Okay. Thank you. N&K, can you stop your presentation? Thank you. Thank you. Okay. So, that was it, Mr. Taguchi. And we also have, from the Department of Water, Ortaine Acidera for another audit. Ortaine?

MS. ACIDERA: Yes. I'm here, Council, in case you folks have question for our Fiscal Year 2023 audit result.

CHAIR SUGIMURA: Okay. N&K, then, are you also presenting on Department of Water?

MR. TAKENO: The Department of Water is included in the annual comprehensive financial report as well, but we will be able to answer questions on that separate audit as well.

CHAIR SUGIMURA: Okay. So, the --

MR. TAKENO: Thank you, Chair.

CHAIR SUGIMURA: -- the . . .*(inaudible)*. . . encompasses all the different audits that you did...Water, the single audit, as well as then all into the comprehensive. Okay. I understand. All right, Members, with that--amazing how short those presentations were--I will...I would probably love to hear from Auditor Taguchi, who would probably have more to say, but at this time then I'm going to open it up for questions. Is there anything--open it up for testimony. Is there any testifiers?

MR. PASCUAL: Chair, there's currently no individuals signed up for this item. Would you like me to take last call?

CHAIR SUGIMURA: Yes, please.

MR. PASCUAL: This is the last call for oral testimony on this item, please come up to the podium or raise your hand on Teams if you would like to testify. The countdown is three, two, one. Seeing none. Chair, no one has indicated that they wish to testify.

CHAIR SUGIMURA: Okay. Very good. So, Members, I'm going to ask a...oh, thank you. Any objections, none. We will receive written testimony.

COUNCILMEMBERS VOICED NO OBJECTIONS.

. . .CLOSE PUBLIC TESTIMONY (BFED-21(25)) . . .

CHAIR SUGIMURA: So, Members, I'm going to ask some questions because our resources were pretty abbreviated unless...if you understand all the codes or whatever. And so, I'll have some questions that I wanted to ask about. And in…in the...I was looking at the…the short-term…the single audit. I'm looking at deficiencies in internal weaknesses, and material weaknesses, and significant deficiencies. And what was brought up for material weaknesses was the internal...improved internal controls for the finances...or financing, and...as well as 2023-002 was the JCI contract, which is of interest to us, right, which is a equipment loan, as well as the TAT software, which is of interest to us, which was brought to our attention from our Auditor. And significant deficiencies 2023-004 was the CARES Act, as well as 2023-005 was Department of Justice Crime Victim Assistance Program and the reporting of that to the Federal Government. But N&K or the...or the Department, do you have any comments regarding the material weaknesses, and what have you done about it?

MS. MARTIN: Thank you, Chair. I'll…I'll go through these one by one, material weaknesses?

CHAIR SUGIMURA: You can.

MS. MARTIN: Oh, okay.

CHAIR SUGIMURA: If you think it's necessary.

MS. MARTIN: Oh.

CHAIR SUGIMURA: There's five.

MS. MARTIN: I'll keep it very brief. So, for 001, improved controls over financial reporting. It was mentioned that the accounts division is…was short-staffed, and currently we are staffed, and we are taking measures to work on developing our internal staff-in-training. For material weakness 002, and that was the JCI, we are in the process of making procedures. The memo has not been sent to all of the departments, as we are working with all parties involved to ensure that the memo captures the needed communication while properly reflecting various processes that we already have in place. But we are working on that with our Corporation Counsel as well. And for 23-003, for the Transient Accommodation Tax, the TAT section is fully staffed now with four full-time employees and a manager. They have a long-term office space, so they are settled in, and the security protocols have all been taken care of for their space. And we're in the process of procuring an RFP for a long-term software solution to meet operational needs and to address the material weaknesses that were found. For material weakness 23-004, CDBG has just implemented their Neighborly Software, so it will be launched for this fiscal year. It was delayed because funds had to be redirected due to the wildfires, but for this fiscal year that will be in place so that all the reporting and notifications can be made. And for the material weakness 005 and 006 --

COUNCILMEMBER RAWLINS-FERNANDEZ: Point of information.

MS. MARTIN: Oh.

COUNCILMEMBER RAWLINS-FERNANDEZ: Sorry.

CHAIR SUGIMURA: Yes.

COUNCILMEMBER RAWLINS-FERNANDEZ: Chair, the 004, 5, and 6 are significant deficiencies, is what I'm seeing in the report and not material weakness...weaknesses, which I think is less than a year. So, I just wanted to make sure that we're reading that into the record correctly. If I'm seeing that wrong, please correct me.

MS. MARTIN: Yes, thank you. That is correct. 03 was a material weakness, and 4 --

CHAIR SUGIMURA: Five...*(inaudible)*...

MS. MARTIN: -- 5 and 6 are significant deficiencies. But the Department of the Prosecuting Attorney has addressed both 5 and 6 already.

CHAIR SUGIMURA: Okay. Is that the end?

MS. MARTIN: Yes. Thank you.

CHAIR SUGIMURA: Okay. So, I'm going to allow, you know, the Members to have more questions, three-minute each. Of course, one of the significant ones I think we've been talking about is the TAT collection. I'm glad to hear that you have staff. Is that fully staffed? And where is their office?

MS. MARTIN: Yes, Chair. So, they have...they're in Service Center [*sic*], and they now have been allocated a permanent…two offices within the Service Center [*sic*]. And because of the confidential nature of their business, the security for those offices --

CHAIR SUGIMURA: Okay.

MS. MARTIN: -- has been set up.

CHAIR SUGIMURA: Thank you. And I think one of the problems that we saw that this brought up was because we were understaffed, and we didn't have the software...which now you have a RFP out for one. So, when are the deadlines to getting that fulfilled?

MS. MARTIN: Chair.

CHAIR SUGIMURA: Uh-huh.

MS. MARTIN: So, the RFP is not out yet. We are working on creating the RFP, and it's…it's a top priority, but I do not have deadlines set yet, but I can get back to you with that?

CHAIR SUGIMURA: Okay. So, can you send a letter to Finance to ask for that? And as we heard during the audit from our in...our own Auditor were about uncollectibles because of our deficiency in personnel and our software. So, what is happening with that? Are you going after all of the taxes that is due to us, and not only those that mail checks in?

MS. MARTIN: Thank you, Chair. So, I do not have that information right now, but I ask that you please put this request in writing so that we can respond --

CHAIR SUGIMURA: Okay.

MS. MARTIN: -- properly and timely.

CHAIR SUGIMURA: Okay. Very good. Okay. I'm sorry, did I hear my bell go off? Was it three minutes already? Yeah, okay. Sorry for going over. All right, Members, so next, three minutes a piece. Vice-Chair Kama, then we'll go right down the line.

VICE-CHAIR KAMA: Thank you, Chair. So, my questions actually are related to...not sure, let me see. I'm trying to figure out in this auditor's report what actually were we auditing? I mean I know we're doing the TAT, and I know we were looking at some internal controls, looking at Johnson Controls. What actually were we looking at in terms of the specifics of these things?

CHAIR SUGIMURA: Department or is it N&K? N&K.

VICE-CHAIR KAMA: And what did we find?

CHAIR SUGIMURA: Mr. Takeno, would you like to answer that? Can't hear you.

MR. TAKENO: Sorry about that. We are engaged to audit the financial statements of the County of Maui, so that's the annual comprehensive financial report which includes all the funds of the County, and we're also engaged to audit the compliance over, I guess, the County of Maui's handling of federal awards. And so, as a by-product of our audit, there are certain findings that come out of the...as a result of the audit, and so those are what are disclosed in 2023-001 through 2023-006. And so, would relate...as it relates to those specific transactions, as we went through the audit process, certain errors were discovered on the financial reporting side that we now have to report to the Council.

VICE-CHAIR KAMA: So, where it says --

MR. TAKENO: *...(inaudible)...*

VICE-CHAIR KAMA: -- where it says significant deficiencies, what were those significant deficiencies?

MR. TAKENO: So, when there's...when there are errors or findings, we are required to classify those findings as either material weaknesses, significant deficiencies, or just internal control deficiencies. So, material weaknesses, as mentioned before, were the probably more serious ones, the other ones are less serious or significant deficiencies, and then internal control deficiencies are less than those. So, based on what we find as result of the audit, we have to classify them in those different buckets, and so the areas that we found deficiencies are 2023-001 through 2023-006.

VICE-CHAIR KAMA: Wait, what are they? Oh. So, 001 through 006, those are all the things that you audited. But what are they, and what did you find?

CHAIR SUGIMURA: Is your mic on?

VICE-CHAIR KAMA: Yeah. Oh, it's on. *. . .(timer sounds). . .*

MR. TAKENO: So...

VICE-CHAIR KAMA: So, I was asking the question as to what did you find?

CHAIR SUGIMURA: So, if you could, Mr. Takeno.

MR. TAKENO: Go ahead.

CHAIR SUGIMURA: You know --

MR. TAKENO: Yes.

CHAIR SUGIMURA: -- Members, just FYI, on…on the single audit that was done by N&K, on page 21, it lists exactly what the Director…Acting Director said in terms of 23…2023-001, and it just lists all of their findings. And I think that's what Director Marcy Martin was talking about. And there is remedy as part of the report, too. So, if…Mr. Takeno, so you basically said you look at the whole County of Maui, and these are the ones that were the most problem areas? Is that what you just…

MR. TAKENO: Correct.

CHAIR SUGIMURA: Okay.

MR. TAKENO: Correct.

CHAIR SUGIMURA: So, if you look at page 20…21 of the report, it starts off with exactly what improved controls over finance reporting, material weaknesses, and then it goes to two, three, four, five and six, it lists it…just make it easier for you. Thank you.

VICE-CHAIR KAMA: Thank you. You know, I think I was trying to ask the question, what does it mean? I mean improved controls of our financial reporting, what does that mean? Develop controls over…I mean what is it that they found out that they had to improve control over or develop control over? That's what I'm trying to find out.

CHAIR SUGIMURA: Okay. Sorry about that.

VICE-CHAIR KAMA: No…no.

CHAIR SUGIMURA: Start her clock over, I interrupted her.

MR. TAKENO: I…I think that is in the condition on page 21. So, that is actually what we found that was wrong.

VICE-CHAIR KAMA: I'm going to pass and then I'm going to come back because I feel like I'm not on the same page.

CHAIR SUGIMURA: Chair Lee.

COUNCILMEMBER LEE: Oh, all he had to say was something specific, otherwise we're just listening to categories. My…my question has to do with the TAT. Please don't refer me to any pages. Can you just tell me what you uncovered, and what remedy you recommended?

MR. TAKENO: So, as stated in the finding, I think there were lack of reconciliation of certain areas within the TAT. They did experience some lack of personnel, and so we recommended that they implement procedures to properly account for the TAT revenue.

COUNCILMEMBER LEE: And how did you classify that one?

MR. TAKENO: It was a material weakness.

COUNCILMEMBER LEE: That…okay. Now, that was a extraordinary significant material weakness, right? We're talking about…

MR. TAKENO: It's classified as a material weakness, yes.

COUNCILMEMBER LEE: Okay. Because this is has to do with a substantial lack of collecting money. So, we weren't able to collect millions of dollars. So, it's not a mild material weakness, it's…it's a major one, right?

MR. TAKENO: Yes.

COUNCILMEMBER LEE: Okay. Oh, you seem to be very, I don't know, matter of fact about these things, and…and so I'm just wondering. You know, to us it's real serious, I guess you run across these things all the time. So…Chair, so to continue on, when do we…I get to ask Mr. Taguchi the same question?

CHAIR SUGIMURA: Oh, you just ask whoever --

COUNCILMEMBER LEE: Okay.

CHAIR SUGIMURA: -- resource.

COUNCILMEMBER LEE: Mr. Taguchi, since…since you were the one that brought this to our attention, do you have anything more to say on this subject?

MR. TAGUCHI: Okay. So, the direct answer to your specific question, the collection of the Maui County TAT is a serious matter. Millions of dollars wasn't collected. Going forward, the department needs to fix its accounts receivable and start collection efforts. But in order to start collection efforts, they need to have an accurate accounts receivable. So, it's not a matter of it's going to be fixed immediately, it's not a matter it's going to be fixed by just implementing a software, it's going to be a lot of work to be done. If you can imagine, you got to start collecting it properly going forward, and then you got to go back and clean up the misapplied payments and all of these things. So, there's a lot of work that is...that is required for it. I think the Auditor--just to let you know what his perspective is, his engagement is to look at our financial statements, and his primary mission is to say whether or not those statements present fairly in all...in material respects. So, he's not *. . .(timer sounds). . .* hired to fix problems within the Department, he's hired to issue an opinion that the overall financial statements present fairly. And that's why they don't really go into a lot of detail in terms of trying to fix it. The recommendations for the corrective action plan here is something that is presented by the department. All they do is insert that into these findings. That's it. They do not do any type of investigation or incorporation of it.

COUNCILMEMBER LEE: Well, that...my point was if you didn't pick it up, if you didn't delve into it, we wouldn't have known about it. I mean it's not like we can go through this entire report on our own. Do you normally do that, do you...you evaluate the audit? Is that what you do?

MR. TAGUCHI: Because of my role as the person that coordinates the audit, procures the audit, I do play some role in it in terms of if I look at what the statements are, the draft statements, or in the course of them doing work, we are in contact on a monthly basis through a report. If I see something that doesn't look right, or if I'm doing an...another audit that I know something isn't right, then I will engage the external auditor, as well as the department. In this case, we're doing a audit on the Maui County Transient Accommodations Tax, so we went in-depth into the situation. So, we knew more than the third-party auditor because we actually took a hard look at the data, at the accounts receivable, and we noted it, its weaknesses, and the failure of us to actually collect *. . .(inaudible). . .* delinquencies.

COUNCILMEMBER LEE: Okay. Thank you. I think I used up my time.

CHAIR SUGIMURA: Okay. Member Rawlins...oh, Member Paltin, sorry, then Member Johnson, Rawlins-Fernandez, Cook, and Uʻu Hodgins. Go ahead.

COUNCILMEMBER PALTIN: Thank you, Chair. This question is for whoever can answer it. My understanding is that we have a number of years to correct the deficiency with the MCTAT. Is that correct?

CHAIR SUGIMURA: Who will take that question? Is that...is that Finance Department? Ms. Martin?

MR. TAGUCHI: Thank you for the question. Okay, this is not something I stated in my report, but just is from general knowledge. Since I seem to be...my understanding is that when a return is filed, there is a three-year period that you can make adjustments to the return. Collection, however...once a return is filed and they don't pay the amount that was filed, I believe it's a 15-year window, but the reality is, over...it is very difficult to collect things once it goes maybe past a couple years. Businesses go out of business, they no longer are doing transient accommodations, so it's a lot more difficult. The older...like in any business, the older the...the receivable is, the more unlikely you're ever going to collect from it. So, there is a lot of time once the...if they filed. And if they didn't file, then it'll still run. But the bottom line is, the longer this goes, the harder it'll be to collect.

COUNCILMEMBER PALTIN: Thank you. And my next question was, has the County asked the State just for a listing of who they collect either GET or TAT from so that we might know all the operators in the County of Maui? I think when we asked, when it was Governor Ige, he refused to let us know that information, and knowing it would help us better crack down on illegal TVRs.

CHAIR SUGIMURA: Ms. Martin.

MS. MARTIN: Thank you, Chair. I do think I would appreciate, again, getting that question in writing. But I do think compliance is very important, and I think getting the list of transient accommodation taxpayers can be used across various departments. So, that...I would appreciate getting that question in writing so that we can respond --

CHAIR SUGIMURA: Okay.

MS. MARTIN: -- properly on our status with that. Thank you. *. . .(timer sounds). . .*

CHAIR SUGIMURA: Okay.

COUNCILMEMBER PALTIN: Chair, is that something that I would need to do, or that your staff...

CHAIR SUGIMURA: Yeah, we're...we're taking care of it. I hear James --

COUNCILMEMBER PALTIN: Okay.

CHAIR SUGIMURA: -- submitting the question.

COUNCILMEMBER PALTIN: Okay.

CHAIR SUGIMURA: Next, we have Member Johnson, then Member Rawlins-Fernandez, then Member Cook, Nohe...Nohe Uʻu-Hodgins last.

COUNCILMEMBER JOHNSON: Thank you, Chair. So, for the money that…I…I…I guess my question is, where is the TAT money? Is it…if it's not being collected, where does it stand right now?

CHAIR SUGIMURA: Finance.

MS. MARTIN: So, you're talking about the delinquent --

COUNCILMEMBER JOHNSON: Uh-huh.

MS. MARTIN: -- amounts then? So, that would be…we haven't --

COUNCILMEMBER JOHNSON: So, its…

MS. MARTIN: -- collected. We would have to probably notify the taxpayer and go through . . .*(inaudible)*. . .

COUNCILMEMBER JOHNSON: So, the taxpayer has it, you didn't collect it?

MS. MARTIN: Yes.

COUNCILMEMBER JOHNSON: I can't imagine how that jams up the Administration's system on how you do that. I don't know, is there a schedule for that, where you send out new letters, and what…what happens?

UNIDENTIFIED SPEAKER: Are you . . .*(inaudible)*. . .

CHAIR SUGIMURA: Department.

MS. MARTIN: Thank you. Well, I think that that's part of the internal controls --

COUNCILMEMBER JOHNSON: Uh-huh.

MS. MARTIN: -- the compliance and procedural processes that we need to develop, and that's part of what was found in…in the audits. So, it is a priority to get the software so that we can track the accounts, and then follow through with collection. I…I think the starting point with all of this really is to get a good software program so that things can be handled efficiently, and everything that we do will be --

COUNCILMEMBER JOHNSON: Yeah.

MS. MARTIN: -- documented.

COUNCILMEMBER JOHNSON: So, Mr. Taguchi was saying that three years is...it's...really, it gets harder as time goes on. Do you...are you confident, Acting Director Marcy, that we can get this done quickly within those...you know, within the year or two? Because the longer we wait, the more harder it gets, my understanding is.

CHAIR SUGIMURA: Go ahead.

MS. MARTIN: Chair. So, I agree with the statements from Lance. This is not like real property where we have a lien, where we have a property, and it goes with the property. So, with any type of income or point of sale taxes, it's a bit different --

COUNCILMEMBER JOHNSON: Yeah.

MS. MARTIN: -- more difficult tax collection process. So, I...I think being timely is important. And again, I think getting computerized, getting accounts for all of the taxpayers, will assist us in that matter. But yes, the longer time goes by, the more difficult it's . . .*(inaudible)*. . .

COUNCILMEMBER JOHNSON: You're confident, with...with the software, you can do it?

MS. MARTIN: Well, we haven't procured the software, but the other...I think some of the other counties have moving forward with this and, you know, with Real Property Taxes, that's how we all worked together, the four counties, to improve the process. And I think that TAT will be the same, that we'll all work together.

COUNCILMEMBER JOHNSON: You're not suggesting that we wait for the other counties to get their ducks in a row before we follow suit, we're...we're taking *. . .(timer sounds). . .* initiative, right?

CHAIR SUGIMURA: Go ahead.

MS. MARTIN: Chair. No, I am not --

COUNCILMEMBER JOHNSON: Okay.

MS. MARTIN: -- suggesting that. We need to move forward --

COUNCILMEMBER JOHNSON: Yeah.

MS. MARTIN: -- and take the initiative, yes.

CHAIR SUGIMURA: Okay. Thank you. Member Rawlins-Fernandez, then Member Cook.

COUNCILMEMBER RAWLINS-FERNANDEZ: Mahalo, Chair. I will continue on with the discussion on the TAT. So, under 3.47.110, assessment of tax for failure to file a return. Let's see. "Except as provided with [*sic*]...by this section, amount of taxes imposed by this chapter must be assessed or levied within three years after the annual return was filed…" So…so, Acting Director Martin, is…is that the section? Just want to make sure I'm reading that correctly. So, it's…it has been assessed or levied, that the amount that whatever business was supposed to pay in TAT?

CHAIR SUGIMURA: Director.

MS. MARTIN: Chair. Thank you. So, I don't know if the uncollectable amounts have been identified to a taxpayer. So, again, I would ask that that be put in writing so that we can respond properly.

COUNCILMEMBER RAWLINS-FERNANDEZ: In writing, okay.

MS. MARTIN: So, is that did I get the question correct though? That you're trying to see if we've identified the --

COUNCILMEMBER RAWLINS-FERNANDEZ: Yes.

MS. MARTIN: -- taxpayers that's delinquent? Okay. Thank you.

COUNCILMEMBER RAWLINS-FERNANDEZ: I wanted to read the code myself, and then understand what our law says so that I understand how to ask questions. I…I…I know that there was a dispute about, you know, that…that which is delinquent, and that which was...you know, like if reservations were made prior to us adopting the…the new County TAT. And so, there was a number of units that had reservations that we weren't going to be able to retroactively collect on TAT, and…and that's…it seems that that number has been conflated or combined. Is…is that your understanding?

CHAIR SUGIMURA: Director.

MS. MARTIN: It is my understanding that there are different scenarios, and one is people who had collected the…their lodging expense prior to the law taking effect. So, again, I would appreciate the questions in writing so that we can respond properly and timely. Thank you.

COUNCILMEMBER RAWLINS-FERNANDEZ: Okay. I will stop with TAT questions, unless there's anyone that wants to respond to the questions that I asked. Okay, I don't see any hands. So, I…I wanted to thank the Department of Water Supply. I looked at their audit, and they addressed their significant deficiency. So

. . .(timer sounds). . . good job in completing that. And I heard the timer, so I do have a few more questions, but I guess I'll wait for round two.

CHAIR SUGIMURA: Okay. Thank you. Next, we have Member Cook, then Member U'u-Hodgins.

COUNCILMEMBER COOK: Thank you, Chair. My question, I guess, for our Auditor friend here. It sounds like a lot of forensics is involved in identifying what was not paid, what was not billed, the process to be able to identify the properties, and sort it all out. Is it considered at all to draw a line as far as the date and sort of a forgiveness of anything before that? Not for the benefit of the taxpayer, but for the benefit of the departments to be able to establish a...establish the protocol, establish the procedure, and to move forward since they're understaffed, and it's challenging...it's very complicated and challenging. I'm not an advocate of giving away taxpayer's monies, but just having had to do some backtracking on things. Is that considered at all, or is that like basically illegal and you can't do it?

CHAIR SUGIMURA: Who wants to answer?

MR. TAGUCHI: Thank you for the question. In regards to taxes, I understand the practicality of what you're saying, but that's...that's something you going to have to engage...the Department has to engage the Council, and possibly look at state law as well. But currently, from my understanding, there is no authority for the Director of Finance to forgive any of these taxes. I don't know if by passing an ordinance, the Council can allow her to do it, or he...he or her. State law also has a say in it because the...the...the just...the authority to impose this tax came from state, so you kind of have to take a look at that as well, and you got to look at the practicality of how many accounts are there. One...one of the hard things about Maui County, more so than Kaua'i or the Big Island, is that we have a lot more TAT taxpayers, way more than the other two smaller counties. Honolulu--we're comparable to Honolulu, but Honolulu had a lot more resources when they implemented, I mean...you know, for the department, they couldn't...although they had the money and everything for it, they couldn't have the staffing. So, when they implemented, you know, they did the best they could, but by doing so, you...you create these problems in terms of who's going to go after the delinquencies, have we communicated enough so that people know that they got to pay, and all this comes into play. So, the answer to your question is possibly, but I think you...there's got to be legislation if you're going to forgive. And you also got to consider, if you forgive, what about the other people that were paying? What are they going to say?

COUNCILMEMBER COOK: No, that's a good point, and I think that that's all part of the discussion. I guess my...the only reason *. . .(timer sounds). . .* I would even suggest that is it seems like it is a very deep, complicated, forensic --

COUNCILMEMBER PALTIN: [Background audio] Aloha mai kākou. Streaming live and...

COUNCILMEMBER COOK: -- to back up, and we're understaffed to start with. So, thank you very much.

CHAIR SUGIMURA: Thank you. Next, Member Uʻu-Hodgins.

COUNCILMEMBER UʻU-HODGINS: Thank you, Chair. Thank you, guys, for your presentation. I appreciate the neutrality in which everything is presented, it gives us the opportunity to decide what we like to address and what we need to do for ourselves to best protect ourselves. So, thank you for that. I have a question on...I think it's a single audit on page 24 where we are talking about CBD...CDB--rats, one day I'll get it, but not today. It says that four out of four instances we were late, and not submitted within the ten days after the quarter end. I'm wondering if you could tell us, about how late were we, if it's not ten days? And two, how does this affect our relationship getting money from the federal government going forward, as I assume we expect more money from them post-disaster? So, if we were late four out of four times, how are we going to be responsible to them when we get more money, and how does this affect us moving forward?

CHAIR SUGIMURA: Good question.

MS. MARTIN: Chair. Thank you. So, I had a discussion with CDBG yesterday --

COUNCILMEMBER UʻU HODGINS: *. . .(laughing). . .* Sorry.

MS. MARTIN: -- and they are, you know, ready to roll out their Neighborly Software, which will automatically generate reminder notifications. So, that is in the process for this fiscal year.

COUNCILMEMBER UʻU-HODGINS: Okay. I'm glad we have software for that. I mean I do have a calendar on my iPhone that tells me when I have something coming up in 30 minutes. So, I don't know how much money we're spending on software to just tell us that something is due when we were late four times. So, one time, okay; two times, let's get better; three, four times, that's not okay. How does this affect us moving forward when we expect...we're hoping for a large windfall post-disaster recovery? Are we going to be--and I...and I don't mean to be disrespectful, but are we going to be trusted to be able to report to them accurately, or should get somebody else to do our reporting for us?

CHAIR SUGIMURA: Department.

MS. MARTIN: The goal is to -- *(Audio interference)* sorry-- to correct the deficiency.

COUNCILMEMBER U'U-HODGINS: Thank you. I hope we do because I would like to still get funding from the federal government. And then for the Water...for the Water audit, on page 23... *. . .(timer sounds). . .* Oh, shucks. I can hold my questions for later, or I can send it in, Chair, if that was the bell.

CHAIR SUGIMURA: Thank you. Yeah, that was the bell. And so, next we will...I will...I will take my opportunity to ask a question. So, the comprehensive audit on page 60, it talks about the impact of the August 8th wildfire. And probably the most concerning thing is that preliminary is what is stated here on this...the auditor received this from the county. So, preliminary damages from the Hawai'i wildfire incident is estimated between 4 to 6 billion, and will take many years, perhaps a decade, for recovery efforts. Real Property Tax refunds of approximate...approximately 20 million were issued for damaged and destroyed parcels in Fiscal Year '24. Other impacts of the wildfire are currently being identified and assessed. And this is top of mind, N&K, as well as the...the council and everybody. So, what is your assessment in terms of your audit, and what we need to do as a county to look at these liabilities head-on? Auditor?

MR. TAKENO: Well, thank you for the question. So, we have been in discussions with Department of Finance, and I guess their process for coming up with the estimates for losses. And so, because we have not started officially the June 30th, 2024 audit, and I think they're still in the process of gathering that information, we're really not sure where they are with those...those estimates at this time. But we should have more information at the end of this year's audit.

CHAIR SUGIMURA: I see. So, these were just estimates, the billion --

MR. TAKENO: Yes.

CHAIR SUGIMURA: -- dollars of damages?

MR. TAKENO: Yes.

CHAIR SUGIMURA: And...

MR. TAKENO: -- and...and, you know, I think...sorry.

CHAIR SUGIMURA: Go ahead.

MR. TAKENO: Oh. I think since...since the report was issued, Department of Finance and the county has engaged other people to assist them with coming up with some of those estimates as well.

CHAIR SUGIMURA: Okay. I guess then you're saying that our next report, we will get solid numbers?

MR. TAKENO: Better estimates, I think.

CHAIR SUGIMURA: Okay. So, you know, I was looking at--as Member U'u-Hodgins brought up the Department of Water Supply audit, and basically can somebody summarize the pros and cons of the Water Department? Because if I look at it, talks about a lot of personnel things, which I didn't anticipate to see that. So, could you, auditors, explain that, or explain Department of Water Supply, the audit, and what you were looking for, and what is the outcome?

MR. TAKENO: I'm sorry. The…the Department of Water Supply 2023 report, is that what you're referring to?

CHAIR SUGIMURA: Yes.

MR. TAKENO: I mean is there a particular page? I'm sorry.

CHAIR SUGIMURA: No, I…I looked at *. . .(timer sounds). . .* your report. And because of the kind of--I don't want to use the word categories--but because of your explanation of…of your audit, I thought, interesting. What do you want to tell us about the Department of Water Supply is where I'm actually coming to? Because you talk about material weaknesses…

MR. TAKENO: The Department of Water Supply, or the Department of Finance?

CHAIR SUGIMURA: I'm sorry, that's the single audit report, wrong one. Department of Water Supply. So, could you just explain the Water Supply audit? But I…I…I used up my minutes, so maybe next round if there is time. Okay, Members, who has question? Member…Vice-Chair Kama, then we'll go Chair Lee, down the line.

VICE-CHAIR KAMA: Okay. Thank you, Chair. So, I'm on page 28, and--let me see. The Federal award findings and questions cost, it's a continuation. It says that 25 of the 25 instances that the county was unable to provide the FE form for the respective RFF. *. . .(inaudible). . .* testing will *. . .(inaudible). . .* allowable costs related to payroll, expenditures charged, we noted the following. And it says 16 of the 16 instances…instances accounts able to locate the RFF for payroll costs. What is that? What does that actually mean?

CHAIR SUGIMURA: Miss…or Mister…

VICE-CHAIR KAMA: Anybody? Whoever wrote the report.

CHAIR SUGIMURA: Mr. Takeno. So, are you looking at the…

VICE-CHAIR KAMA: It's the single audit.

CHAIR SUGIMURA: Single audit. Single audit, okay.

VICE-CHAIR KAMA: It's page 28.

CHAIR SUGIMURA: Okay.

VICE-CHAIR KAMA: Thank you.

MR. HARA: So...sorry, this is Christian, responding on behalf of N&K. So, the county has kind of required on...you know, at the department level, or who will receive federal awards, to have a proper system of internal control to ensure like the proper administration of the federal awards, and to provide reasonable assurance that the charges to the grant are accurate and allowable. So, these forms are mostly internal to carry out the program of their federal award basically. So, when we asked for some of these forms, they were missing, or they were unable to provide that certain documentation.

VICE-CHAIR KAMA: And so, when that doesn't happen, what happens if they can't produce it?

MR. TAKENO: The county is just not following their own internal procedures at that point.

MR. HARA: Yeah.

VICE-CHAIR KAMA: And so, then the...the...the recommendation now is oh, we going to now follow our own internal control process. Is that what that is?

MR. TAKENO: Correct.

VICE-CHAIR KAMA: Okay. Thank you. Thank you, Chair.

CHAIR SUGIMURA: Okay. Chair Lee.

COUNCILMEMBER LEE: To use technical terms, I have uku pile questions.

CHAIR SUGIMURA: *. . .(laughing). . .*

COUNCILMEMBER LEE: So, I'll just put it in writing, and it's primarily on the Water Department. And...but other than that, you know, I think we have a lot of questions, it's just that the auditors just kind of look at it with restricted lenses, and we're looking at the bigger picture and we...I don't how we handle that, you know. But...but one thing for sure is, Marcy, aren't you lucky you're the new

Finance Director? And…and we don't blame you for anything--or anybody, really--but we need to get to the bottom of the TAT issue, and as quickly as possible. Because we can't be leaking…we cannot be hemorrhaging money, you know, like this continually. So, that…that's my main concern and my…my message to you. Thank you.

CHAIR SUGIMURA: Thank you, Chair Lee. And next we have Member Paltin, we'll go to Member Johnson.

COUNCILMEMBER PALTIN: I'll yield my time. Thank you, Chair.

CHAIR SUGIMURA: Thank you. Member Johnson.

COUNCILMEMBER JOHNSON: Chair…thank you, Chair. Very quickly, in regards to the prosecuting attorney's one, there was some discrepancies there, it doesn't seem that they reported on time. These…this just seems to be an ongoing thing in our own reports, that we're not…we're not reporting, and we're being late, and this is…it's ongoing. It…could it be said that this is just a product of being understaffed, number one? And number two, is all of these reports where we're delayed or…or late, does that jam us up when working with other law enforcement agencies, or is there any consequences of the . . .*(inaudible)*. . . all of these discrepancies for the persecuting…Prosecuting Attorney's office?

CHAIR SUGIMURA: Department.

MS. MARTIN: Thank you, Chair. So, the Department did respond on page 35 and 36. However, if you were wanting a more detailed response, I would ask again that you put it in writing so that we can get you the information that you need.

COUNCILMEMBER JOHNSON: Okay. Thank you so much. Thank you, Chair. No further questions.

CHAIR SUGIMURA: Thank you. Next, we have Member Rawlins-Fernandez, then Member Cook.

COUNCILMEMBER RAWLINS-FERNANDEZ: Mahalo. Okay. So, for the TAT, the County TAT, the recommendation is county management should prioritize its implementation of the MCTAT software program, and continue its efforts to recruit and hire additional staffing. And so, Acting Director…Acting Finance Director just told us that they did complete hiring of their staffing--if it's fully staffed now? I know you said four.

CHAIR SUGIMURA: Go ahead.

MS. MARTIN: Chair. It's five total, so it's four staff and a manager. And I'll go

. . .*(inaudible)*. . .

COUNCILMEMBER RAWLINS-FERNANDEZ: Okay. So, we've...okay. So, we've...so, we've followed that recommendation to hire additional staffing, which was the...okay. I guess my question for Mr. Takeno, in the recommendation where it says additional staffing, do you...does that mean to just fill the positions that we had established, or is the recommendation to create new positions?

MR. TAKENO: The recommendation is not to create new positions, but to just figure out the number of positions needed to address the concern. Because it does not seem like at this time, you know, the extent and magnitude of what needs to be done has been assessed.

COUNCILMEMBER RAWLINS-FERNANDEZ: Right. And it's a new program, we just, you know, started collecting on TAT. So, you know, like growing pains. And so, for the software, we purchased the software, and now we have to get staff trained up on using the software.

CHAIR SUGIMURA: Not yet.

COUNCILMEMBER RAWLINS-FERNANDEZ: Um...

CHAIR SUGIMURA: Go ahead.

COUNCILMEMBER RAWLINS-FERNANDEZ: I really appreciate these that we do annually. Oh, I'm sorry. Did someone want to say something?

MS. MARTIN: We haven't purchased the software yet, we need to procure it, but that is a priority.

COUNCILMEMBER RAWLINS-FERNANDEZ: Okay. Do you know when it...so, it's just a priority. Do we have like a...like a...like timing on when that will be acquired?

CHAIR SUGIMURA: Go ahead.

MS. MARTIN: I do not have timing, but I agree with you that we need a timetable and goal set.

COUNCILMEMBER RAWLINS-FERNANDEZ: Okay. Wonderful. All right. And then...yeah. So, as we're...we're talking, these audits allow us to, you know, assess our policies and procedures, the technology necessary to support us, and then, you know, like the staffing needs. And then, you know, because, you know, Government can change, and its, you know, reported in the Section with the CDBG where 100 percent of staffing was changed upon, you know, the new Administration, you know, operating the county. So, we...we notice a lot, you know. There…there's a lot of change over in County, especially after the fire. And so, I…I…I see a lot of the recommendations in the audit that are…are asking us to, you know, ensure that institutional knowledge is somehow transferrable as much as possible. So, you know, with these softwares to remind people…you know, if the person was there for ten years, they'll remember the deadlines. But when that person leaves, will the new person know the deadlines? And so, you know, it's important to…to have these policies and procedures in place. And whatever technology will support, you know, transitioning different staffers into the different positions, and the new kuleana of knowing what deadlines are, and making sure that we meet it. So, that…that…that was kind of my read on a lot of the recommendations. Mr. Takeno?

MR. TAKENO: Yeah, I think that's correct, and it's a fair statement. You know, I think when there's turnover, there is loss of knowledge. But, you know, to the extent possible, it's always best practice to have things written down as written policies and procedures so that there is some resource or something that somebody can take a look at stepping into a new position, knowing what the responsibilities are. And just getting all of that stuff documented does take time though, so...

COUNCILMEMBER RAWLINS-FERNANDEZ: Mahalo. And so, you know, I know that it was brought up with the prosecuting attorneys of subrecipient monitoring. We...our county, I think, you know, awards like some of the most grants probably in the pae ʻāina of the four counties. And…and so, I…I guess in reviewing the different grant programs under OED, DHHC, Water, et cetera, it…it…it seemed like there wasn't any other flags? Because I think that's really awesome, if…if that's true.

MR. TAKENO: So, in connection with our audit *. . .(timer sounds). . .* there is a methodology that is required by the single audit, or uniform guidance, that tells us, you know, or directs us and guides us to the number of programs that we need to test. Obviously, the County of Maui has many, many, many programs. We cannot test them all, we are doing a sample. So, this year we did six programs, and out of the six, there were only two that we had findings from, so...

COUNCILMEMBER RAWLINS-FERNANDEZ: Mahalo, Mr. Takeno. Mahalo, Chair.

CHAIR SUGIMURA: Thank you. Next, we have Member Cook, followed by Member Uʻu-Hodgins.

COUNCILMEMBER COOK: Thank you, Chair. We'll submit the question in writing. I'm just curious about if there was a audit for the water meter fund, or if eventually somebody could educate or share with me the water meter fund. My understanding is that it's for storage and transmission, and I just...I don't expect you to answer it now, I'm just saying that that's something I want to look into, and I'll ask about.

CHAIR SUGIMURA: I wonder if Department of Water Supply has that answer. Ortaine, are you there? I think I see you were online. Oh.

MS. ACIDERA: Yes, I'm here, Chair. I don't know the answer, it would be from engineering. But as far as I know, it hasn't been audited--the water development fee. So, if it's something that the council wanted to...for the auditor to look into the account for Fiscal Year 2024, we will be happy to assist with the audit.

CHAIR SUGIMURA: Okay.

MS. ACIDERA: Thank you.

COUNCILMEMBER COOK: Or Chair, we could just ask the Water Department for an update?

CHAIR SUGIMURA: Okay. So, we can send the question --

MS. ACIDERA: Yes.

CHAIR SUGIMURA: -- can send the question, and then...

COUNCILMEMBER COOK: Thank you, Chair.

CHAIR SUGIMURA: Thank you. Thank you very much. Member U'u-Hodgins.

COUNCILMEMBER U'U-HODGINS: Thank you, Chair. I know we're nearing the end of my time, so I'll send you folks some questions because I just have a few more. But, thank you.

CHAIR SUGIMURA: Okay. Thank you. Thank you very much. I really would like to...I will send more questions for the Water Supply. So, at this time, Members, if you have no further questions...okay. I'd like to thank N&K...oh, you have, Member U'u...Member Rawlins-Fernandez.

COUNCILMEMBER RAWLINS-FERNANDEZ: Just a quick one, since they're with us. Mr. Takeno, how...how are the programs that you sample chosen?

MR. TAKENO: There's a methodology. It considers dollar amounts of federal funding expended, it considers the most...the last time the program was audited. There's different criteria that we have to go through that's specified in the uniform guidance requirements, and there is also a requirement that, depending on whether or not the County is a low-risk or high-risk auditee. If they are a high-risk auditee, we have to test 40 percent of the total, and then low-risk auditees we test 20 percent. So, because of some of the findings that the County has had previously, they…they are considered a high-risk auditee. So, we end up testing more programs than we would need to if they were a low-risk auditee.

COUNCILMEMBER RAWLINS-FERNANDEZ: Mahalo for explaining that. Mahalo, Chair, for allowing me that last question.

CHAIR SUGIMURA: Great question. Thank you very much, Members. So, at this time, I need to do two things. I'm going to defer this item, and I will also defer the first item, I forgot to do that. So, with your permission, both.

COUNCILMEMBERS VOICED NO OBJECTIONS. (excused: SS)

ACTION: DEFER all items pending further discussion.

CHAIR SUGIMURA: Thank you very much. And also, questions...the staff has asked if anybody has questions for any of these, please send it to them by--what time today? By 4:00? End of day today. So, send it to James or the BFED Staff to forward to the departments. And appreciate N&K, we always talk about you when you're not here and wonder if you're doing this or you're doing that, and appreciate that you spent the time to educate us. We are going to bring JCI contract, which again, we'll be talking about your work. You don't necessarily have to be here, but we see where there were material weaknesses that were presented in your report that we would use on my next meeting for BFED, which we will talk about the Johnson Control, Inc. lease agreement--I guess we have to call it the right thing--but that…that contract that was presented to us, we still need more information. So, thank you very much, Members. So, Member...Auditor Taguchi, thank you for spending the time with us, and Acting Director Marcy Martin, and for Mark Ra…Rao [*sic*]--did I say your name correctly?—Rao [*sic*] yeah, Assistant Account Clerk, Account Manager…Manager, okay. Thank you, everybody, for being with us. And at this time, this meeting is now adjourned. *. . .(gavel). . .*

ADJOURN: 11:53 a.m.

APPROVED:

Yuki Lei K. Sugimura

YUKI LEI K. SUGIMURA, Chair
Budget, Finance, and Economic
Development Committee

bfed:min:240702:cvk Transcribed by: Cheryl von Kugler

CERTIFICATION

I, Cheryl von Kugler, hereby certify that pages 1 through 52 of the foregoing represents, to the best of my ability, a true and correct transcript of the proceedings. I further certify that I am not in any way concerned with the cause.

DATED the 5th day of August 2024, in Wailuku, Hawai'i

C von Kugler

Cheryl von Kugler