AFFORDABLE HOUSING COMMITTEE

Council of the County of Maui

M I N U T E S

November 29, 2021

Online via BlueJeans Link

CONVENE: 1:34 p.m.

PRESENT: VOTING MEMBERS:
Councilmember Gabe Johnson, Chair
Councilmember Michael J. Molina, Vice-Chair (in 3:17 p.m.)
Councilmember Kelly Takaya King (in 1:43 p.m.)
Councilmember Alice L. Lee
Councilmember Tamara Paltin
Councilmember Keani Rawlins-Fernandez
Councilmember Shane M. Sinenci
Councilmember Yuki Lei K. Sugimura

EXCUSED: Councilmember Tasha Kama

STAFF: David Raatz, Supervising Legislative Attorney
James Forrest, Legislative Attorney
Shelly Espeleta, Supervising Legislative Analyst
Alison Stewart, Legislative Analyst
Laksmi Abraham, Legislative Analyst
Keoni Shirota, Committee Secretary
Rayna Yap, Committee Secretary
Lenora Dineen, OCS Assistant Clerk

Autumn Ness, Executive Assistant for Councilmember Gabe Johnson
Axel Beers, Executive Assistant for Councilmember Kelly Takaya King
Evan Dust, Executive Assistant for Councilmember Tasha Kama
Davideane Sickels, Executive Assistant for Councilmember Tasha Kama
Kate Griffiths, Executive Assistant for Councilmember Gabe Johnson
Jordan Helle, Executive Assistant for Councilmember Yuki Lei Sugimura
Sarah Freistat Pajimola, Executive Assistant for Councilmember Keani Rawlins-Fernandez
Stacey Moniz, Executive Assistant for Councilmember Gabe Johnson
Lois Whitney, Executive Assistant for Councilmember Tasha Kama
Roxanne Morita, Lanai District Office

ADMIN.: Linda Munsell, Deputy Director, Department of Housing and Human Concerns (AH-14(6), AH-14(7))
Clyde (Buddy) Almeida, Housing Administrator, Department of Housing and Human Concerns (AH-14(6), AH-14(7))
Sananda Baz, Managing Director, Department of Management (AH-14(6), AH-14(7))
Scott Teruya, Director of Finance, Department of Finance (AH-14(7))
Mimi DesJardins, Deputy Corporation Counsel, Department of the Corporation Counsel (AH-14(6), AH-14(7))

OTHERS: Tera Paleka, Hawaii Financial Services (AH-14(6))
Jeff Gilbreath, Hawaiian Community Assets (AH-14(6), AH-14(7))
Craig Scully (AH-14(7))
Cassandra Abdul

PRESS: *Akakū Maui Community Television, Inc.*

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CHAIR JOHNSON: . . .*(gavel)*. . . Aloha. Will the Affordable Housing Committee meeting please come to order. I am Gabe Johnson, Committee Chair. Present with me is Kate Griffiths, my Legislative Analyst [*sic*], and I'm in my house on Lāna‘i. So as required by the Governor's most recent emergency proclamation, Members at non-public locations should state who, if anyone, is present with them. Members, joining us today are Council...no, they're not here. Councilmember Tamara Paltin is here today. I didn't get the morning greeting. Maybe you guys can update me on it.

COUNCILMEMBER PALTIN: Kushe, Chair.

CHAIR JOHNSON: Kushe.

COUNCILMEMBER PALTIN: I think that’s from Sierra Leone, but I'm not sure. And aloha ‘auinalā. I'm here broadcasting live and direct from the West Maui District Office with my EA, Angela, who's more than six feet away. And I just, you know, wanted to say bon voyage to such a great Committee Secretary that we had. This is probably her last Committee meeting, and we're going to miss you. And don't be a stranger, and come back if you want to. Aloha, Rayna Yap.

CHAIR JOHNSON: Right on. Shout out to Rayna Yap. And great...well said, Councilmember Paltin. Let's move on to Council Vice-Chair Keani Rawlins-Fernandez from Moloka‘i. Kushe to you.

COUNCILMEMBER RAWLINS-FERNANDEZ: Aloha ‘auinalā, Chair, mai Moloka‘i Nui Ahina. I'm here at the Moloka‘i District Office, alone on my side of the office. Please excuse my . . .*(inaudible)*. . .

CHAIR JOHNSON: Right when she was going to say it, she froze. I think this wind storm is really jamming up our internet services. So we might have a little bit of in and out with some of our Members. So public, I do apologize if that's…if that happens, but we're going to move on to Chair Lee right now. I saw her get on the…on the…on the call. So Chair Lee, kushe to you and good afternoon.

COUNCILMEMBER LEE: Kushe, Chair Johnson, and to all of my colleagues. I'm here alone in my home in my workspace, eager to start your meeting.

CHAIR JOHNSON: All right. And good to see you again, Chair Lee. Now, I saw that Councilmember Keani Rawlins-Fernandez is back on. So we'll give her another chance. Go ahead, Councilmember.

COUNCILMEMBER RAWLINS-FERNANDEZ: Mahalo, Chair. I don't know where I left off. I'll say kushe kākou just in case. I'm at the District Office--did that part get through--by my side…on this side of the office. And please forgive my connectivity. It demonstrated to you what it will likely be doing for this meeting. Mahalo, Chair.

CHAIR JOHNSON: Okay. Got you. I know. Boy, oh boy. Next, move on to…let's go to Councilmember Shane Sinenci. Kushe, Sinenci. How you doing?

COUNCILMEMBER SINENCI: Kushe, Chair. And aloha ʻauinalā kākou mai Maui Hikina, where we are experiencing some electrical outages, just as a warning. But for the record, I'm at home alone at the virtual hale.

CHAIR JOHNSON: Right on. Okay. And let's…finally, we got Councilmember Yuki Lei Sugimura. Kushe to you, Councilmember.

COUNCILMEMBER SUGIMURA: Kushe, and good seeing everybody. It is freezing cold up here in Kula, and I'm home alone. So looking forward to your meeting.

CHAIR JOHNSON: Okay. Yes, kushe to all of the Members. And of course, Tasha Kama is excused. Councilmember Molina is struggling with his internet, as well as Councilmember Kelly King. So we're going to ride this horse until we fall off of it. From the Administration, we have…oh, wait, we have something from Councilmember Keani Rawlins-Fernandez. Go ahead.

COUNCILMEMBER RAWLINS-FERNANDEZ: Mahalo, Chair. After your introductions, would you mind checking with like our attorneys on like how it will work with quorum? Because I do also have *Akakū* on TV, so I'm here. And it takes just like a…you know, just maybe about 20 seconds for me to get back on, but I'm here and I'm listening on *Akakū* television as well.

CHAIR JOHNSON: Right. Well, you know how unpredictable this is. Let's ask them right now because it could happen. And so do we have…let's see, we have…Forrest is on, or maybe Mr. Raatz, in regards to how does this apply. You know, we have to do…you know, how does it apply to Sunshine Law in regards to us coming in and out of the call?

MS. STEWART: Chair, if you…this is Alison. If you could hold on for a second, the attorneys…the OCS attorneys are conferring with each other.

CHAIR JOHNSON: Okay. I thought they were going to say they were having connectivity issues, but okay. We'll let them confirm. You know, that'll be fine. So in the meantime, I think it would allow us a chance to introduce the folks from the Administration. So we have Housing and Human Concerns Deputy Director Linda Munsell with us today; Housing Administrator Buddy Almeida; Deputy Corporation Counsel Mimi DesJardins; Deputy of Management will probably be Sandy Baz, and then…or the Department of Management should be Sandy Baz; and the Department of Finance should be Scott Teruya, Deputy…or Director Scott Teruya. Our Committee Staff is Legislative Analysts Alison Stewart and Laks Abraham; Committee Secretary Rayna Yap and Keoni Shirota--welcome to the team, Mr. Shirota; Legislative Analyst James Forrest; and Assistant Clerk Lei Dineen. Okay. So that's everybody. Before we get on to our agenda and our testimony, I want to see if the…if our OCS lawyers have come to any kind of decision. Mr. Raatz or Mr. Forrest, are…have you guys…oh, there's Mr. Forrest.

MR. FORREST: Hi, Chair Johnson. Sorry. I'm having issues myself. Can you repeat the question?

CHAIR JOHNSON: We just want to know in regards to us, the Members, coming in and out of connectivity…you know, we sometimes get dropped by the internet. Is that going to affect our ability to hold a meeting if it drops us below…like on screen per se…like Councilmember Keani Rawlins-Fernandez keeps, you know, coming in and out of the call. What if that drops us below quorum at that time? Even though she's still there, she's still…she still has *Akakū*, and the time delay is just a moment? Is that a…is that a concern?

MR. FORREST: I do think it's a…you know, it's a fact-specific question of what actual problem's happening. If she sort of just blinks on and off, I don't see it as a problem. If she's gone for a prolonged period, there is, in the…in the actual law itself, in the emergency proclamation, it relates to a good faith effort. And that also has to do with invalidating your actions. Like my easy answer for this actual meeting is that we're not taking any action today. So the ultimate remedy might not be, you know, relevant. But I can look into that issue a little bit more over the next five to ten minutes. My answer is…for right now, is that you're okay as long as someone has the ability to communicate and to hear you without the video at this point.

CHAIR JOHNSON: Okay.

MR. FORREST: So if she's able to hear you…

CHAIR JOHNSON: That would be on…yep, she's got her thumbs up. Yes. So that…that's…that…so we can move forward, is really what I'm asking for, Mr. Forrest. That's a go?

MR. FORREST: Yes, you can...you can count her as an in attendance.

CHAIR JOHNSON: Okay, great. I know just the different...okay, great. I'm glad. Thank you for that clarification. I know that Councilmember King is trying to get on. So she just is waiting for the moderator. So if Staff could let in...

COUNCILMEMBER KING: I'm here now. Thank you, Chair.

CHAIR JOHNSON: Okay.

COUNCILMEMBER KING: Finally got in.

CHAIR JOHNSON: All right. All right. So that kind of takes care of our quorum issue if whoever...if one Member did drop the call. So...all right. So without...let's address Councilmember King. Let me write...I got the word kushe to you, Councilmember King, and welcome.

COUNCILMEMBER KING: Kushe. And I am now back at my house. I should've stayed in my office because we're having problems with our connection at the house now, but...and my husband's in the next room. So all by myself in this room.

CHAIR JOHNSON: Okay, great. All right. So let's talk about our agenda today. It's AH-14(6) Comprehensive Affordable Housing Plan: Affordable Sales Price Guidelines, and AH(7)...14(7) Comprehensive Affordable Housing Plan: Expanding Affordable Housing Funding. Both items are priorities of the Comprehensive Affordable Housing Plan, and both items dovetail with the income group distribution bill that I will...that I presented at my last meeting. So let's begin with public testimony. Testifiers can join the BlueJeans meeting using the information on the agenda. Written testimony can be sent at any time using eComment at mauicounty.us/agendas. Public testimony is limited to three minutes per item. While waiting for your turn to testify, please turn off your microphone and video. When you are called upon, please unmute yourself, state your full name, and if you are testifying on behalf of an organization or a paid lobbyist. If you have joined this meeting on BlueJeans, Staff will add your name to the testifiers list. The link to the list will be posted in the chat. You may chat if you wish to be added or taken off the list. Chat should not be used to provide testimony or comments during the meeting. Once testimony has closed, you will be disconnected from BlueJeans. Please continue to view the meeting on *Akakū* 53, Facebook Live, or at mauicounty.us. Mahalo for your cooperation. Members, I would like to proceed with oral testimony, without any objections.

COUNCILMEMBERS: No objections.

COUNCILMEMBERS VOICED NO OBJECTIONS (Excused: MM, TK)

CHAIR JOHNSON: Okay. Seeing none, Ms. Stewart, will you call the first testifier?

. . .(BEGIN PUBLIC TESTIMONY). . .

MS. STEWART: Chair, there is one testifier on the list, and it's Cassandra Abdul.

CHAIR JOHNSON: Okay. Ms. Abdul, are you on the call? Would you like to testify?

MS. ABDUL: Yeah, sorry. I think we're all challenged with the internet today. Once again, I want to thank the Council and everyone that has been working so diligently on affordable housing, and working to include additional housing faster for our community that needs it so badly. I actually had a question. You know, there's a section where you talk about housing projects, and they list 16 different projects there. It's on page 1 of 2, on Chapter 3.32, Housing interim financing and buyback revolving fund. And this, of course, is Affordable Housing 14.7 [*sic*]. I was curious, none of the nonprofits are included in these projects. And we do a lot of, I guess, infill projects, and we do apply for affordable housing. How do projects that are not listed here move forward with affordable housing for our community? Because we would certainly like to be able to do that. And that basically was the only question I have at this point.

CHAIR JOHNSON: Okay. It sounds like maybe we could ask Deputy Director Linda Munsell when it comes...when we get on that point. But Members, do we have any clarifying questions for our testifier? Seeing none, thank you, Ms. Abdul. I really appreciate it. Thanks for your testimony.

MS. ABDUL: Thank you. I appreciate it.

CHAIR JOHNSON: Um-hum. Okay. So Ms. Stewart, do we have any other testifiers?

MS. STEWART: Chair, no, there are no other testifiers on the list.

CHAIR JOHNSON: Okay, last call. If you wish to testify, please unmute your audio and/or video and identify yourself. Okay. Seeing that there are no more individuals wishing to testify, without objection, I will now close oral testimony.

COUNCILMEMBERS: No objections.

COUNCILMEMBERS VOICED NO OBJECTIONS (Excused: MM, TK)

. . .(END PUBLIC TESTIMONY). . .

CHAIR JOHNSON: Okay. All right. So for the agenda today, we have AH-14(6) Affordable Sales Price Guidelines, and AH-14(7) Expanding the Affordable Housing Funding. As I mentioned, these items are priorities from the Comprehensive Affordable Housing Plan, and work in tandem with the proposed bill discussed on November 19th related to income group distribution for residential workforce housing units. My objective today is to discuss possible changes to the County's affordable sales price guidelines to ensure that sales prices are indeed affordable to our residents. I also intend to discuss expanding the uses of the Affordable Housing Fund and other available County funding sources to help subsidize truly affordable housing. While we recognize that residential workforce housing is needed at all AMI levels, our discussion today is on sales prices, and expanding funding will be highly applicable to below moderate and low income housing…low income households.

AH-14(6) COMPREHENSIVE AFFORDABLE HOUSING PLAN: AFFORDABLE SALES PRICE GUIDELINES

CHAIR JOHNSON: For the first agenda item, we have resource persons joining us today…include Jeff Gilbreath, Executive Director of Hawaiian Community Assets, which was the lead consultant for the Comprehensive Affordable Housing Plan; Kenna StormoGipson, Director of Housing Policy at the Hawai‘i Budget and Policy Center; and Tera Paleka, Certified Mortgage Planning Specialist and award-winning business owner of Hawai‘i Financial Services, who is also a Baldwin High graduate. Members, without objection, I would like to designate them as resource persons under Rule 18(A) of Rules of the Council.

COUNCILMEMBERS: No objections.

COUNCILMEMBERS VOICED NO OBJECTIONS (Excused: TK)

CHAIR JOHNSON: Okay. I'd like to start with a presentation from Jeff Gilbreath and Kenna StormoGipson, who will present their priority proposal and a possible solution from the Comprehensive Affordable Housing Plan. Let's see. Jeff is on the call. There he is. Jeff, aloha. The floor is yours.

MR. GILBREATH: Aloha, Councilmember and Councilmembers. It's great to…great to see all you folks, those of you who can keep the cameras on with your internet issues. So you know, first off, you know, based on the agenda, I wanted to present on the County sales price guidelines, per Chair's request. So I will share my screen.

COUNCILMEMBER KING: Chair? Just…

CHAIR JOHNSON: Go ahead. Go ahead…

COUNCILMEMBER KING: My internet keeps going on and off. And so I'm just going to…is it okay if I mute my screen? Am I still okay to count towards quorum?

CHAIR JOHNSON: Yeah. And just raise your…or just unmute yourself and let…you know, let us know that you're…if you have questions, yeah?

COUNCILMEMBER KING: Okay. I'm just going to mute my camera, just so I don't…

CHAIR JOHNSON: And you know, before you came in, we called up Mr. Forrest to speak on those quorum issues. So yeah, thanks for that.

COUNCILMEMBER KING: Okay, great. Okay. Okay, thanks. Sorry to interrupt.

CHAIR JOHNSON: Okay. No, that's fine. Go ahead, Mr. Gilbreath. The floor is yours.

MR. GILBREATH *(PowerPoint Presentation)*: You folks can see the screen okay?

CHAIR JOHNSON: Yep.

MR. GILBREATH: Okay, great. So I'll just mahalo you folks. Coming back and sharing some information out of the Comprehensive Affordable Housing Plan that we put together for the Council. I'll be talking about, in this section, just updating the County sales price guideline. So I put together a couple slides for you folks. So I'm going to run through the slides and not present on the Affordable Housing Fund until later, but I'll talk specifically about the sales price guidelines in this presentation. Don't mind me. So to discuss with you folks about the sales price guidelines, first off, what we had determined in the plan was that under the current affordable housing system, the County imposed the sales price guidelines that do not conform with mainstream mortgage standards. This leaves our local home buyers unable to use some of the most affordable mortgage financing that's out there, including FHA mortgages, Federal Housing Administration, that can have as low as a 3.5 percent down payment option. Before I get into this, though, I did want to just highlight for you folks the importance of the monthly payments that every homeowner makes, what they call PITI, and sometimes MI plus HOA. So the monthly mortgage payment that folks make includes four things, typically. It's the principal, interest, taxes, and insurance. If a homebuyer does provide less than 20 percent of the purchase price as down payment, they also have to pay mortgage insurance, or what you call MI. The monthly payment that is a percentage of the gross monthly income is called a front end ratio. And mortgage programs require homebuyers to meet a standard front end ratio to qualify for a mortgage. If there is an HOA fee, a homeowner association fee, it's often included in the maximum front end ratio. So why does this matter? Why does principal, interest, taxes, insurance, mortgage insurance, and HOA fees matter? It's because this is what lenders use to determine how much you're allowed to borrow in a mortgage. How much you can pay monthly, based on your gross monthly income as a maximum front end ratio, that's what determines the total mortgage you get qualified. In terms of mainstream mortgage standards, looking at the Federal Housing Administration, there is a maximum 31 percent front end ratio that includes principal, interest, taxes, insurance, mortgage insurance, and HOA fees. This is based on a homebuyer that has no compensating factors. So think about a homeowner or a homebuyer that's coming, and they're going to use all of their money that they have saved for down payment and closing costs, and has existing non-housing debt, maybe a car loan, maybe a credit card, right, maybe a personal loan. That under these mainstream standards, we can get down payments as low as 3.5 percent of the purchase price, and we can even allow those homebuyers who may not have a credit score, or who have credit scores below 580, still get approved. Although it's important to note that the lower the credit score, the higher the interest rate that homebuyers will have to pay. Nationally, one in two first time homebuyers use this FHA mortgage product to purchase their first home. So in our analysis, as we were looking at what the County...how the County imposed its sales price guidelines, we did note a couple things that I think it's important to share with you folks. First is that the County does limit principal and interest only to 30 percent of that monthly payment, of 30 percent of the gross monthly income. They cap it so the maximum is 30 percent principal and interest. Well, what happens is that this ends up in a 36 percent front end ratio, meaning that they may be capped at principal and interest of only 30 percent of their gross monthly income, but with taxes, insurance, mortgage insurance, and not even including HOA fees, their front end ratio can go as high as 36 percent, based on what we...what we see in the calculations, versus the 31 percent front end ratio that I shared with you folks is the standard for an FHA mortgage for a homeowner who has no compensating factors. So the County's current sales price guidelines do not include taxes, insurance, mortgage insurance, or HOA fees, which are typically considered part of the homebuyer's monthly payments, and used to calculate the mortgage qualifications I shared you. Also, based on this front end ratio, the standard that the County has set, they are assuming that the homebuyer has no other monthly debts; no car loan, no credit card, no personal loan. And in our analysis, we found that a lack of conformity to the mainstream mortgage standards ends up pushing out or unnecessarily excluding more of our local residents to be able to attain affordable homeownership. Because if we cap it at 31 percent front end ratio, as we do for FHA mortgage, this affordable financing will be available to far more families than are currently eligible. But if we continue the sales price guidelines as we have them, we are not conforming to that product, and therefore fewer families will be able to qualify. Let's give you an example of what this looks like. Under the current...under the current system, what we see...if you take a look at this chart, under the current system, you see the annual household income for an 80 percent area median income family, what's considered low income, four person household. Under the current system, they're looking at a sales price of $382,400. That's the maximum amount based on that household income, and it's assuming that 1,950, which is 30 percent of the gross monthly income, is adequate, right, will allow them to qualify for this purchase. But what they're not calculating are the additional taxes, insurance, and mortgage insurance, which ends up moving that cap of 30 percent of their gross monthly income to 36 percent. This alone does not allow the homebuyer who has no compensating factors to qualify for a mortgage at this amount. Again, this is assuming there's no other non-housing debts that the family has; car loan, student loan, personal loan. Under the standards of the Federal Housing Administration, what we see is that when we cap that monthly payment at 31 percent, the maximum front end ratio, what you see is that purchase price actually drops. This is what's affordable for a household at the same income, a low income homebuyer, if they're able to pay $2,015 in a monthly payment, which is 31 percent of their gross monthly income. This would qualify them, as a homebuyer with no compensating factors, to be qualified for a mortgage and move in. If instead we use this current system column, this same household would not be able to qualify. Essentially what this assumption on the far right says is that our households have debt. Even if you're low income and you're going to become a homebuyer, you likely have a car loan, you likely have a personal loan or a credit card, right? At the same time, it's also assuming that the family's going to use whatever savings that they have to be able to put down for down payment and closing cost. All of these sales prices have been assuming that there's a 30-year mortgage with 5 percent down payment and a 5 percent fixed APR or interest rate. So our recommendation, based on this, is that we're really looking for the County to update its sales price guidelines to limit the monthly payment of principal, interest, taxes, insurance, mortgage insurance, and HOA fees to 31 percent so we can conform to the standards of the FHA product, more low income families can qualify to purchase, and those are homebuyers who have no compensating factors; again, likely using all of their money for a down payment, closing costs, and have some type of other monthly debt. There is a second piece that we found with the sales price guidelines that we wanted to bring your folks' attention. And under the current affordable housing system, the County imposes separate sales price guidelines that are actually inequitable for folks in Hāna, Molokaʻi, and Lānaʻi. So our Hāna, Molokaʻi, and Lānaʻi families are limited to maximum annual household incomes that are over 50 percent of the maximum amounts allowed in other districts. So what does this mean, and what does this look like? So I just put together a small comparison here for you folks. So under the current system, same 80 percent AMI family, low income household with four persons making 78,000 a year will qualify for a sales price of 382,400 under the current system. But under the current sales price guidelines, it also states that if you're in Hāna, you're considered low income if you make 60,000 and less. But if you're that person making 61 or 62, your income is too high. You're disqualified from qualifying at that level. If you go down to Lānaʻi, you see the same, and down to Molokaʻi, you're looking at over 50 percent the difference between what is allowed as a maximum annual household for the folks on Maui as compared to Molokaʻi. So essentially what's happening is that we're limiting the maximum amount of allowable annual household income for low income homebuyers in Hāna, Lānaʻi, and Molokaʻi. This means that we're leaving those out, those folks who would be considered low income by HUD and would otherwise qualify for for-sale...affordable for-sale homes in Maui, would be disqualified if they live in Hāna, Lānaʻi, and Molokaʻi, simply by having the same annual household income as somebody in . . .*(inaudible)*. . . So we see this as an equity issue. And so our recommendation is really to apply the same maximum annual household income requirements across all Districts . . .*(inaudible)*. . . promote equity for all homebuyers, regardless of whether you live Maui, Lānaʻi, Hāna, or Molokaʻi. And so that's all I really have for our short presentation on this piece. I do have more information on updates for the Affordable Housing Fund, but I will stand by for any questions you folks may have.

CHAIR JOHNSON: Okay. Before we get into questions, we're going to do the next presenter. So we'll do the presenters, and then we'll go all around robin, if that's...if Members can just hold off just for a moment. Thank you, Mr. Gilbreath, for that presentation, and we'll have part two coming up after our next presenter. Second, I'd like to now hear from Tera Paleka, owner of Hawaiʻi Financial Services. From the lender's perspective, she will explain what it takes to get our residents into affordable housing, and how this applies to the current price guidelines and AMI brackets. Ms. Paleka, I saw you coming on. Let's see.

MS. PALEKA: Hi there. Can you guys hear me?

CHAIR JOHNSON: Aloha. Loud and clear. Please take it away.

MS. PALEKA: Aloha. Okay. Well, I was pleased to see Jeff. I haven't seen him in so many years. I remember him way back when he was just like an assistant there, and it's so great to see that he's leading the charge. I'm Tera Paleka, and yeah, I graduated from Baldwin High School, laughing at that. And don't judge me from the green hair. This is leftover remnants of Halloween. It hasn't washed out. I own Hawaiʻi Financial Services. It is a mortgage brokerage and direct lender for 19 years now. I've been in the business 30 years. I have gone through the fun meltdown, I've experienced the cyclical cycles, and I am here to help in any way, shape, or form that I can with affordable housing for Maui because I sit daily in the trenches, and try to help our local families attain housing. And watching some of the slides from Jeff, I agree with a bunch of it, and then there's some things that because of the way his operation is structured, he can't do what I can do. So I'm...without trying to confuse you folks, I'm going to explain that I...how I can do things different. But do we want to do it that way? No. So meaning his ratios he was explaining were the vanilla FHA loans, and I can definitely go higher with the debt to income ratio. And...but do we want to? No, because that leaves people eating saimin every single night and being freaked out if they're going to have to miss a car payment. They're living paycheck to paycheck. So the...I was going over the numbers before the meeting as far as income levels and the housing prices. And when we're talking about low income housing, or low income borrowers, we're not...we're not necessarily having that 3 and a half percent down. And they more lean towards doing 100 percent financing, and that is USDA. Now, some of you folks are...might be familiar with USDA, that you have to have certain areas of our islands that you can only lend on those certain areas. And believe it or not, USDA opened back up to what they consider rural areas. Where Kahului used to be completely off limits for USDA, it is now back on the table. We can finance 100 percent financing for USDA. The issue with USDA is that they are far more strict with the debt to income ratios than FHA, than the 3 and a half percent down. And I want to keep letting you know, FHA is 3 and a half percent down; USDA is 100 percent financing. Obviously, 100 percent financing is a higher risk, so they are stricter on debt to income. And that means less house to borrow for using the income, because nine times out of ten you've got people with a car loan, and they've got credit card debt, be it...let's say...I have families that come to me that are fantastic. They've utilized their credit to go ahead and get that fantastic credit score. I want to...you know that yes, FHA can go down to 580 credit score. Will I do a loan with a person that has a 580 credit score? Absolutely not. The reason being is I own my company 100 percent. If they were to default on that loan, Tera Paleka has to buy that loan back. I'm not a big corporation. I'm not about to finance a loan for somebody that's going to default. So that's 100 percent truth. And so I make sure that everybody I finance, they can afford these homes. What I'm running into is, going based off of the County's figures that I'm looking at and calculating, it does not work for USDA, the income limits. They...it just...it goes over the debt to income ratios, just like Jeff was explaining. And I'm keeping this in layman terms better because...and if you guys have direct questions to ask about, you know, ratios, I can bring that up, but it doesn't meet for USDA financing. And that's what we're running into when you have lower income families. They don't have that 3 and a half percent saved. So let's just say they get the County grant, and they can come up with that 3 and a half percent. They are on the higher spectrum, like Jeff was explaining, as far as debt to income ratios go, to where they...it...with his direct way that his company and other companies are built, they don't go over those ratios. I'm wholesale. I can go over those ratios. And like I was explaining, do we want to? No, because...and...we do though, because people are so desperate for housing, they end up triplicating their families. So I've got three generations coming on a loan, just so that they can buy a home because their landlord is selling the house they're in, and they're desperate. And maybe...let's...I'm just going to keep it real here, because that's what I do. Maybe they've got a side job, they're getting paid cash under the table, and I know that they've got this income. I do use that, but...I can't necessarily use it on paper, but I can go higher on the threshold for the debt to income ratios. But I can go all the way up to 51 percent on the back end. That's terrible. You don't want to be there because like I said, it's...that's 51 percent where they can barely afford...what happens if they get a flat tire, you know, and then they can't get to work, and then they can't make that money? So I'm just kind of giving an overall, and I...of how it works, but I do know, running the numbers, something's got to change here. And I think it's exactly true that the County didn't have the association dues and the MI factored in there, the mortgage insurance. So that's another thing that we probably need to look at and grasp to make it work. I'm trying to think of anything else. I just want to touch base on this one part of it, coming from...I come from a very low income family. I come from being a mother who was on HUD, who was on welfare, who had to go stay in a shelter, who had to sleep in her car before. This is back in the day. And I can attest to the desperation that one feels, not knowing where they're going to be able to live. And right now, in all these years I've been in this industry, it is very pretentious. People are desperate, and they are freaking out. When our median house price is $1.3 million, that is obscene. And I make a lot of money. I'm not even going to pretend. I make a lot of money. I would never purchase a home at that price, and I'm financing loans for local families at those prices. And how are they doing it? They're selling jewelry. They're selling their ʻōkoles [*sic*] to make it happen. It is horrible. And so I will do anything and everything I can to help. And I would love to just continue to be a resource for you folks. I'm going to just let you know that the desperation feeds into the alcoholism, the drug abuse, the spousal abuse, the child abuse. When you feel desperate and you have nothing to lose, that's where we're at. And housing is number one, that I just can't say enough about. So I'm going to quiet myself and just wait for any questions that I can help answer if anybody has any.

CHAIR JOHNSON: Yeah. Thank you for your powerful words, Ms. Paleka. I'm a member of what you speak of, so I appreciate that truth. Okay. So let's move on to the Department. We'll go back to...once we're all done, we'll come back for rounds of questions, Ms. Paleka. So please hold on while I call upon the Department of Housing and Human Concerns, present on the current price guidelines and explain how they came up with the current equation, and then present a new set of proposed price guidelines and their reasons and thoughts behind it. Appreciate their time and consideration on this matter. So I'd like to recognize Deputy Director Munsell.

MS. MUNSELL: Thank you, Chair, for that introduction. My name is Linda Munsell. I'm the Deputy Director for Department of Housing and Human Concerns. If I could share my screen here for just a minute?

CHAIR JOHNSON: Yeah, you can share screen.

MS. MUNSELL *(PowerPoint Presentation)*: Thank you. Can you see that?

CHAIR JOHNSON: We certainly can.

MS. MUNSELL: Great. Thank you. Thank you for an opportunity to talk about the price guidelines today. We really do appreciate this opportunity. I think originally there was a little confusion in the Comprehensive Housing Plan over the...how the sales price guidelines are used. I think that this has been cleared up, but just to make sure we're all still on the same page on...out the gate, here. First, the affordable sales price guidelines are used to set the maximum sales price that a developer can ask for a workforce unit. Of course, the developer can ask for a price that's lower if that makes sense for them, but this is the maximum price that they can charge. Sales price guidelines don't set limits on a family's mortgage or the percentage of income that they can pay for the housing costs. That's between that family and their mortgage lender. So the only thing the guidelines are intended to do is set a sales price that should be affordable for families at various income. So currently, the maximum sales prices are based on the following factors: $95,900 is the Maui County median family income, as established by HUD, where some families make more than 95.9 and some make less. The price that a family will pay is based on their actual family income. The County also assumes a 30-year fixed rate mortgage, and currently uses a 4 percent interest rate to calculate sales prices. The fact that we're using an interest rate that's slightly above what a homebuyer can obtain on the market actually works in favor of our buyers. As you'll see a little bit later, other Counties don't set an artificially high interest rate. I'm not going to actually cover the cause and effect of that in this presentation, but just so you know that our interest rate currently provides a positive cushion to our buyers. The County also expects that a family will pay 30 percent of gross monthly income for principal and interest, as you've heard, and that a family will have a 5 percent down payment. Currently, we do adjust prices for Hāna, Lāna‘i, and . . .*(inaudible)*. . . So as you've heard, Mr. Gilbreath and his team have talked about this. Currently, the Maui County sales price guidelines are calculated based on 30 percent of monthly income being used for principal and interest payments. And the recommendation in the housing plan is that maximum monthly payment would include principal, interest, taxes, insurance, lender's mortgage insurance or PMI, and HOA fees. And they recommend that payments be capped at 31 percent of the monthly income. This was a really interesting recommendation. It's not a model that the Administration had seen before. The resulting changes in the prices would be approximately 18 or 19 percent below the current sales prices, which of course, would be wonderful for homebuyers, but would have an unknown effect on the developers' ability to build at those prices without a subsidy. But of course, the subsidy is something that we've been talking about as well. I know that we've said this before in these meetings, but the Administration really does want our decisions to be data and fact driven, as well as fair and reasonable for all parties. So with that said, as we were not familiar with the model recommended in the plan, we did some research across the State to see how Maui County price guidelines and the recommended changes in the Housing Plan might differ from other Counties. So what we found is that Hawaiʻi County and HHFDC both use a 28 percent income limit for principal and interest payments. Kauaʻi does slightly better by adjusting their multi-family prices to include a $200 allowance for HOA fees. And as you can see here, HHFDC starts with a 28 percent monthly income for principal and interest, and then sets a cap of 38 percent for total payment of principal, interest, taxes, insurance, private mortgage insurance, and HOA fees. The 31 percent limit they use is far above the maximum 31 percent that's recommended in the housing plan proposed to conform with the FHA loans today. The one kind of outlier in all of this is Honolulu. And they set their limit at 33 percent for principal, interest, taxes, insurance, and HOA fees. Again, this doesn't include PMI, but it's still above the limits that are recommended in the plan. Just let me be really clear. I'm not suggesting that we should always follow what everyone else is doing, but what I am saying is that generally there's a reason that these things are consistent, and it's not to keep the buyers from being able to afford units. Economists, math people, PhDs, basically smart people who look at numbers all day long were involved in setting these parameters. And none of these models, with the exception of HHFDC, who sets a maximum limit of 38 percent, takes private mortgage insurance into consideration. I don't know why exactly, but I can tell you what our research on our own workforce housing sales appears to tell us in the next couple of slides. So private mortgage insurance, that is a seriously complicated thing to look at. Mr. Almeida, our Housing Administrator, tried to warn us about how complicated it was. Mr. Gilbreath's team was very kind and sent us a link to a mortgage calculator that also included a PMI calculator, and I spent many late nights looking at these calculators, far more than I would like to admit. Don't worry about reading these numbers. They don't really matter at this point, but this is just a kind of a sample of one of the calculations that we ran when we were doing research. And since PMI came up as a factor in the housing plan, the Administration wanted to make sure that we understood how PMI might factor into this. What we were able to see with these calculations was that the cost of PMI varies widely based on credit score--of course, higher credit score is good, a lower score is bad; the debt to income ratio, where low debt is good and high debt is bad; and the number of borrowers. Apparently two borrowers is better than one borrower. They're...that's considered less risky. To give you an example of the cost range by way of these charts, for one of our 100 percent AMI homebuyers, depending on their credit score, debt ratio, and the number of borrowers, their PMI payments could range from as low as $121 per month for two borrowers to $400 a month for one borrower who has high debt and only fair credit. And that's, frankly, a lot of money. So in our modeling, where prices are set at 30 percent of monthly income for principal and interest, as we have it now, we can confirm that...as Mr. Gilbreath indicated, that with only a fair credit score, a buyer would be paying between 36 and 37 percent of their income for principal, interest, taxes, insurance, and PMI. This is a lot, but it's still below the 38 percent threshold recommended by HHFDC for these expenses, and that was something that we found interesting. So I understand why this idea causes distress, but that also assumes that our buyers are paying private mortgage insurance. So remember, private mortgage insurance is required by a lender for buyers who have less than 20 percent equity in a home. Our model assumes that a buyer will have only a 5 percent down payment. So this should be everybody, but maybe not, as it turns out. The Housing Division receives a copy of the HUD-1 closing statement for every workforce housing purchased or refinanced, and mortgage insurance is one of the items that would be included on that statement. So the Department is able to verify that our workforce buyers are not paying PMI, or at least not very often. We still need to dig deeper into this, but right now, PMI is rarely a factor for our workforce buyers. Even so, if PMI is being paid at our current affordable sales rates, they would still be less than the HHFDC limit. This is our current buyer situation. What the Comprehensive Housing Plan is suggesting is that the County is squeezing out the buyers who want or need to use FHA or other low down payment loans because of the way our model is structured. And this may be true. Certainly, if mortgage insurance is required by that lender, and the cap…the total cap is 31 percent of income, they won't be able to qualify for that…for that kind of mortgage. The question is whether it makes sense for the County to adjust the entire sales…affordable sales price guidelines simply to accommodate these specific loans, and that really is a question. So the Department still feels like we need to consult with lenders and others on this issue, but just for today, PMI appears not to be a consideration other than for the very low down payment loans, such as FHA loans. But we're still working on it. We want to make sure that we understand all the implications before the Administration makes a final recommendation. Included in the recommendation from the Comprehensive Housing Plan not only was for us to consider PMI, but that we should also consider taxes and insurance in our calculations. So again, we ran models with estimated taxes and insurance costs, and thank God, it was much less complicated than PMI. And I apologize that this chart is still too small to read, but the bottom line is that if the Administration considered principal, interest, taxes, and insurance, or PITI, in the current sales price guideline calculations, the housing payment would average 32.3 percent of a family's monthly income. Now, that's really suggestive, and might be the reason why Big Island, HHFDC, and Kaua‘i all use a maximum of 28 percent of income for principal and interest only. So we ran that model. And using 28 percent for principal and interest, it would result in a 6.7 percent decrease in sales prices, and the total payment for principal, interest, taxes, and insurance for the buyer would be just over 30 percent of their monthly income, which was right in that kind of sweet spot that we keep looking at. The…and again, back to…the Department really does still need to seek consultation, but pending that process, this does seem like a very reasonable change that the Administration should consider for our single family price guidelines. Now, the multi-family units are a whole different challenge. And we ran a bazillion models, and I’m not going to bore you with all of those, but HOA fees were definitely a wildcard, as you will see. Like Kaua‘i, Maui County adjusts the multi-family prices to accommodate HOA fees. Currently, the calculation uses 90 percent of the single family price for that adjustment. After doing modeling to include taxes, insurance, and worst case HOA fees, we found that families are paying about 34 percent of their monthly income for housing. Just based on this, we anticipate that we would look at maybe making a couple changes here as well. Kind of to just show you where we…how we got here, I'm going to first share a little bit of the data that we gathered, and then how that affected our models. But I want to caution you again that we still need to do consultation to make sure that what we're doing is fair and reasonable. So nothing you see here is set in stone yet. Let's just start with HOA fees. We gathered homeowner association data from the most recent Maui condo book, and what we found is that for multi-family units built in the last 20 years, not including high end projects or projects that allow vacation or short-term rentals, HOA fees ranged from $241 a month up to a high of $1,156 per month. The average for these units was $482 a month for all units built in the last 20 years. For multi-family units built in the last five years, the HOA fees ranged from 303 a month up to about $414 a month, with an average of $359. New units, lower HOA, that seems to make sense. We ran all kinds of models for the multi-family units, but we still need to evaluate and discuss these results further. But just to give you an idea of the most extreme model that we have under consideration, I'm going to show...share the next slide. First, we assumed that the Administration will implement the change from 30 percent of monthly income for principal and interest down to 28 percent. Again, a final recommendation hasn't been made, but this would accommodate taxes and insurance, just like it would in the single family models we've talked about previously. This change seems fair and reasonable, but pending finalization, and so we're going to show it in this model. In this model, you're also going to see that we took a worst case HOA fee of $450 a month. Worst case actually may not be reasonable since the price guidelines are mostly used to set prices for new construction. The HOA fees in our final model may be...end up being more in the 350 or $400 range, which tracks better to the units that have been built in the last five years. However, 450 per month is in this model, and to accommodate 450 per month HOA fee, we adjusted the calculation to be 80 percent of the single family price. And I know that that's way too far in the weeds, but bear with me. Both of these changes results in a decrease in multi-family prices by about 17 percent, and results in an average total payment in this model of 29 percent of the monthly income for principal, interest, taxes, insurance, and worst case HOA. We're going to continue to look at this to make sure that it's reasonable and makes sense, but this is just one thing for you to take a look at. The reason the 29 percent here is below the 30 percent is, if you noticed, in this model we...the HOA is static. It doesn't change based on price. And we want to make sure that the lowest AMI folks can still afford to do a purchase here. So they're...the 80 percent AMI folks are at about 30.4 percent at the...in this model. So just to wrap this up, the Department is just beginning consultation on the proposals. We're going to be seeking some feedback from mortgage brokers and lenders, and would be happy to discuss this further with Mr. Gilbreath's team and with Committee. The affordable sales guidelines are adjusted every spring when HUD updates median family income data, so we anticipate that any changes made by the Administration would be made, at the earliest, in the spring of 2022 after we have completed consultations. Also keep in mind, as we said in the beginning, the sales price guidelines don't mean that a developer...doesn't mean that a developer can actually build at these prices, which is another discussion for another day. We're just trying to address affordability. Again, thank you for your time and patience in going through all of this material. I know that it was kind of a slog. So I really appreciate you bearing with us today.

CHAIR JOHNSON: Okay. First off, before we get started, I just want to commend you, Deputy Director Linda Munsell, for having a well-researched presentation. And I can see through your…the way you're presenting it that the Administration recognizes we can do better. So I…that's wonderful news to hear from you guys' end. All right. So would…let's see. Would the Department of Management like to offer any comments at this time? Do we have Sandy Baz on the…on the call? Does he like to speak to this? I saw him get on. I don't know if he's still here, or anybody from…

MR. BAZ: Yeah, Chair. Chair, I'm…

CHAIR JOHNSON: Go ahead, Mr. Baz. I can't hear you now if you're speaking.

MR. BAZ: I'll reserve any comments at this point. Thank you.

CHAIR JOHNSON: Okay.

MR. BAZ: We'll stand…yeah, we'll stand with the Deputy Director's presentation she did an excellent job on. Thank you.

CHAIR JOHNSON: Yeah, I concur. Okay. Thank you so much. Now, Members, I propose we do a first round of three minutes, followed by a second round of two minutes if any Members have any additional questions. So we're just going to go round robin, all right? I saw some hands up, but we'll eventually get to you, I try to keep track of everybody. So let's start with Councilmember King, followed by Chair Lee. For any of the three presenters, you can speak to them.

COUNCILMEMBER KING: Okay. Can you hear me?

CHAIR JOHNSON: Loud and clear.

COUNCILMEMBER KING: Okay, because I'm seeing on my screen poor network keeps flashing on and off on everybody's screen. But thank you so much for the presentations, Jeff and Linda. I really appreciated them. One of my questions has to do with the idea of the extra expenses. Can you explain what the taxes are and what the rates…what the average taxes per person percentage-wise, and also HOA fees? Because, you know, I was on one of the FMHA loans when we bought our house, and we didn't have any HOA fees, but it seems like they're like almost a given. So I'm just wondering why we have to have the HOA fees on affordable housing at all.

MS. MUNSELL: I can take part of…part of that, if you'd like, and then defer to Jeff. So the way that we calculated the homeowners taxes were based on our current rates for 2021 and the homeowner…the owner occupancy exemption, right. So it's a pretty reasonable and easy calculation to figure the taxes out. The insurance, I took…did some research online to see what insurance generally costs. They're different for single family and multi-family units, so we made that adjustment. As far as HOA fees, sometimes in a single family project you might have HOA fees to help cover the lights and the maintenance of the properties. Those tend to be…tend…in my experience have been minor, $100 or less typically. Obviously, we…if we get other data, we might have to accommodate that for single family. But in multi-family projects, it's a big deal. Those expenses can be very high because you…again, you're not paying for your roof or your exterior paint, things like that. So we do, I think, need to consider those. We have in the past considered them, it’s just…I think that we need to take a harder closer look at it with more…with the data that we've got now.

COUNCILMEMBER KING: So the maintenance of a single family home complex is a lot higher than…I mean a lot lower than a multi-family home complex?

MS. MUNSELL: Yeah.

COUNCILMEMBER KING: Because they're paying their…in a single family, you're painting your own house and you're taking care of your own house, but in a multi-family, all of that goes under HOA?

MS. MUNSELL: That's correct.

COUNCILMEMBER KING: So do you . . .*(inaudible)*. . . but you would have higher HO . . .*(inaudible)*. . . for the piece of property because I didn't like the HOA?

COUNCILMEMBER PALTIN: Maybe you can turn of your video because we can't hear you at all, Member King.

CHAIR JOHNSON: You're cutting in and out, Member King.

COUNCILMEMBER KING: . . .*(inaudible)*. . . You know, we were…we were paying like $600 . . .*(inaudible)*. . . okay. Can you hear me now? Is my…

CHAIR JOHNSON: It sounds a little bit better right now. Can you ask the question one more time? I'm sorry.

COUNCILMEMBER KING: Okay. So yeah, I was just…I was just saying that, you know, for most of the HOA for single families are usually because they're in gated communities and then they have, you know, like the gated fence and . . .*(inaudible)*. . .

CHAIR JOHNSON: Okay. I think I got the idea…or the question with that.

COUNCILMEMBER KING: -- it's like affordable housing.

CHAIR JOHNSON: Sorry.

COUNCILMEMBER KING: Yeah, it's just basically why we have…basically, I’m just questioning why we have, you know, these minimum $300 a month HOA fees . . .(*timer sounds*). . . for affordable housing projects.

CHAIR JOHNSON: Miss...Deputy Director Munsell, can you...can you...did you understand that question?

MS. MUNSELL: Yeah, I'll give...I'll give it a shot. So we didn't...in our model, we did not accommodate HOA fees for single family homes. We do understand --

COUNCILMEMBER KING: Okay.

MS. MUNSELL: -- that some affordable projects might have some HOA fees, but we think that those would be small amounts. It would be multi-family...

COUNCILMEMBER KING: Oh, okay. So we just have...

MS. MUNSELL: Yeah.

COUNCILMEMBER KING: Oh, okay. Thank you. Thank you, Chair. Thanks for bearing with my poor network here.

CHAIR JOHNSON: Okay. Yeah, yeah. Okay. Let's move on to Chair Lee.

COUNCILMEMBER KING: Thanks, Linda.

CHAIR JOHNSON: Thank you. Let's move on to Chair Lee, followed by Member Paltin.

COUNCILMEMBER LEE: Just wanted to add on HOA...yeah, HOA fees, even though they're affordable units, they could run up to $100, maybe even more. Waikapu Gardens, my understanding is $100 per month, but then again, they don't have County pickup as far as trash. So it depends on the project. It...the HOA fees will vary according to the project, even though it's an affordable project. Now, I wanted to ask Tera a question. Tera, are you there?

MS. PALEKA: Yes, I'm here.

COUNCILMEMBER LEE: Okay. Tera, since you're the only one on the resource list that has actual experience in assisting with loans, can you tell me if the very low income folks...I mean, how many homes have you been able to sell people who have low incomes?

MS. PALEKA: Well, I don't sell, I'm the mortgage. So I'm the bank. But as far as low income is concerned, how many? I couldn't count. I've been doing this for going on 30 years now. So I will say...

COUNCILMEMBER LEE: Okay, let me ask you a different question. Of those folks in the lower income category, what's the average sales price that they can afford?

MS. PALEKA: That is a very tricky question, and the reason why I say that is because nine times out of ten, the low income people who come to me, they're stacking generations.

So I mean, you've got the parents' low income and the kids' low income, and they stack together. And the norm is around 625 if you're doubling up on this income. And it all varies, you know, where they're able to afford. Right now, there's nothing. There is absolutely nothing. We're...I'm financing people that are purchasing studio units, and they have six people. It's disturbing at best right now. So it...as far as having an average, I'd have to do some research and I could get back to you, but I have...

COUNCILMEMBER LEE: Okay. My concern...my concern...I know that you're a realistic person. My concern is we're working on affordability in terms of people's income and affording a loan when there is no product for them to buy.

MS. PALEKA: Yes. That's...

COUNCILMEMBER LEE: Yeah. Would you agree to that?

MS. PALEKA: 100 percent. I can't even stress it enough. It is disturbing to the ultimate. It's been going on for years, as we all know, but it has...

COUNCILMEMBER LEE: Okay. So one last question, Tera. One last question. So how much do you think the County has to come up with a subsidy in order for people to be able to...in this, today's market, be able to afford a home? How much of a subsidy?

MS. PALEKA: That is, again, another loaded question because are we talking about developers? Because you know, if it's done to create these projects...because I'm in the trenches with them as well. You know, I...my friends are all contractors. I have...I've had to deal with them myself, and I've brought them to the table to explain how much it costs to build a home right now. There's that, but as far as a subsidy goes for just the general, you know, person who is a single mother who needs affordability to purchase a home, I don't know how I can answer your question because I don't know what the County is able to do, like as far as a subsidy goes.

COUNCILMEMBER LEE: Never mind what we're able to do. How much would it cost to subsidize? Pretend we had all the money in the world.

MS. PALEKA: Let's pretend we...well, you know, it's the housing, how much it costs to purchase. Like before this huge...it's crazy. So the pandemic happened . . .(*timer sounds*). . . and our entire industry, as far as the housing market goes, it exploded even more than we thought it was going to. You know, when the pandemic hit, I freaked out and went and applied for a PPP, not knowing if my livelihood is going to be gone. And then I turn around and I have more loans, you know, in one year than I could physically handle myself. I had to get more staff to assist me. So then --

COUNCILMEMBER LEE: Okay, thanks. Thank you, Tera.

MS. PALEKA: -- it drove up the prices. Yeah, sorry.

COUNCILMEMBER LEE: We ran out of...we ran out of time. Thank you.

MS. PALEKA: Sorry. I talk too much.

CHAIR JOHNSON: No, no, this is a great line of questioning. We want to know, what can we do to subsidize houses for those exact examples you gave us, Ms. Paleka. Okay. Let's move on to Councilmember Paltin, followed by Member Rawlins-Fernandez.

COUNCILMEMBER PALTIN: Thank you, Chair. Thank you, Ms. Paleka, Ms. Munsell, and Mr. Gilbreath. Can you guys hear me okay? Oh, okay. All right. I guess my first question would follow off of Member King's. Not all of the housing is 100 percent affordable. So when it's 25 percent affordable, is that when a lot of the HOAs come in to play? Like I know, Kahoma, the upper one by the channel, they have HOA fees. So is that because it's a mixture of workforce and affordable housing sometimes?

CHAIR JOHNSON: Deputy Director Munsell.

MS. MUNSELL: Yeah. Thank you for...thank you for the question. I mean, so every multi-family project is automatically going to have HOA fees, whether it's a workforce project or a market project of some sort. And the mixed...the fact that Kahoma's mixed use, they've got a lot of common areas. So I'm assuming that the more...

COUNCILMEMBER PALTIN: No, Kahoma...the up Kahoma, not Kahoma Villages, Kahoma Residential, I guess.

MS. MUNSELL: Oh, the residential. All right. Yeah, I don't know if they've got HOA fees.

COUNCILMEMBER PALTIN: They do.

MS. MUNSELL: Part of it would depend on whether they've got common areas, right? Oh, they do have them? Okay. Yeah.

COUNCILMEMBER PALTIN: Yeah, yeah. Okay. So then I guess my other question is on slide 8 of your presentation, Director Munsell. I'm not understanding how you didn't find the PMI in the HUD-1 statement. Is that meaning that the people that are doing these workforce housings are paying over 20 percent?

MS. MUNSELL: Oh, thank you. That is a great question. So when we were doing the research on this, what we found was...I mean, so on a HUD-1 statement, if they're paying PMI, it's going to be listed there as one of the expenses. So then when we started looking at it, Fannie Mae actually has a rule that says that you have to use the appraised value of a home as the loan to debt ratio in their calculation. And so because they're buying these homes at a lesser price, at less than market, right, even though they're only putting 5 percent down, the value of that home is more than 20 percent of the loan, right? So that's why they're not paying the PMI is because it's not...it's not needed. The mortgage...the...and there's some other factors in here, but yeah, they're not having to pay it because the way they're required to calculate whether PMI is required or not.

COUNCILMEMBER PALTIN: And by appraised value, you don't mean the value that the County appraises it or assesses it at? It's an independent appraisal by…or like who appraises it? Is it like when you buy the affordable housing, you…somebody appraises it, and then they pay the affordable price?

MS. MUNSELL: Yeah. So the sales price is set by our guidelines. And at closing, or before closing, they're actually required to provide the County with an appraisal of that property. And they…we use that appraisal later for other purposes, but they are required to get an appraisal. And so a mortgage broker, a lender, would actually have that appraisal in hand at the time of a purchase. And so they would know what the house is valued at versus what the mortgage loan that they're making on that home will be. And if it's less than 80 percent, there's no PMI.

CHAIR JOHNSON: Okay. Hold on one sec. I want to have Ms. Paleka speak on this, Ms. Paltin, because she will also answer that question as well. So we'll…this'll be kind of my taking away your time a little bit, and I'll reduce my time for your…so go ahead, Ms. Paleka.

MS. PALEKA: Okay, yeah. So to add on to what Linda was saying, when I'm doing an affordable housing, because I finance them, I have to order an appraisal myself, and if the appraisal comes in, which it has been, over your value of what you folks are selling the home for, we cannot…we have to take the lower of the two. So if the sales price is 400,000 and my appraisal comes in at 800,000, I can't take this 800,000. I have to take the lower of the two. You take the lower of the sales price or the lower of the appraised value. And so let's pretend you guys are selling it for 400,000 and the appraisal comes in at 300,000. We got to go with that 300,000. And either the borrowers come up with the extra $100,000, which they don't have, or you guys, as the seller, comes down to that. So that's where the negotiations happen. You can't just, because the appraised value came in at higher, use that. It's the either/or. You can't do that. So there's that.

CHAIR JOHNSON: Thanks for clarifying. So I'm removing myself. Go ahead, Councilmember Paltin. You have the floor.

COUNCILMEMBER PALTIN: And the other part that didn't make quite sense is even if the appraisal is higher than what they paid for it, there's usually some sort of deed restriction so they can't sell it at what the appraised value is at. So then, I guess…is it because the County would buy it back or something that they don't have to do the mortgage insurance? Like where…how…is it…is it not that they're paying 20 percent down? Or do they have outside funding sources like a rich uncle?

MS. MUNSELL: So I can share the Fannie Mae guidance on this specific issue. And on workforce housing, workforce units, they're very…they very clearly define that they're required to use the appraised value, not the sale price value, and I can share that with you. They also very clearly indicate that in the case where the County is removed, the…in the case of a foreclosure, the deed restriction is removed . . .(*timer sounds*). . . and that is the case with our County projects, then…and we don't buy it back. Then the…this will hold. So if you…and I'll…what I'll do is I'll share this information with the Council, and they can put this on Granicus and share this with you. So I'll just send this…I'll email this to Committee Staff.

COUNCILMEMBER PALTIN: Thank you. Thank you, Chair.

CHAIR JOHNSON: Okay. Thanks for that line of questioning. Let's move on to Councilmember Keani Rawlins-Fernandez. I know she's been having some internet issues, but let's hope and pray. There you go. Okay, it's all…the floor is yours, Councilmember.

COUNCILMEMBER RAWLINS-FERNANDEZ: Mahalo, Chair. Can you hear me okay?

CHAIR JOHNSON: Loud and clear.

COUNCILMEMBER RAWLINS-FERNANDEZ: Okay, great. Mahalo. Okay. Before I lose connection again, I'm going to try to state my question, and if I get disconnected, I'll put it in the chat. So my first question is regarding the determination of someone's…so I guess it's…like a lot of the…oh, shoot. Did I lose connection? Can you hear me?

CHAIR JOHNSON: No, we can…we can hear you loud and clear.

COUNCILMEMBER RAWLINS-FERNANDEZ: Okay, sorry. Okay. Determining someone's ability to afford a housing or rental…can you hear me?

CHAIR JOHNSON: Determining what for…that's one little garble there.

COUNCILMEMBER RAWLINS-FERNANDEZ: Okay. Can you hear me okay?

CHAIR JOHNSON: Yes.

COUNCILMEMBER RAWLINS-FERNANDEZ: Okay. The ability of…someone's ability to purchase or rent a home, and I think we're talking about for-sale right now only. And so in that case--I'm sorry if I missed it--it's looking at someone's income alone without incorporating the…someone's--what's it called--deficit…debt. So is that included in the formula, whoever wants to respond to that?

CHAIR JOHNSON: Okay. If you want to turn on your camera and respond to Councilmember Keani Rawlins-Fernandez. We got Deputy Director Linda Munsell. Go ahead.

MS. MUNSELL: Thank you. Thank you for the question. The County guidelines don't get involved in what the mortgage lender might need as far as the debt to income ratios.

So we're only setting the parameters of the sales price based on a 30 percent…well, currently, the 30 percent of annual income. And then it would be up to the mortgage broker or lender to determine whether the debt is too high or too low…the other debt is too high or too low.

CHAIR JOHNSON: Councilmember Keani…okay, here she comes.

COUNCILMEMBER RAWLINS-FERNANDEZ: Okay. Mahalo, Deputy Director Munsell. So if the debt is high and…but we're only looking at the income, then we're expecting someone with that income to be able to purchase that home? I guess you're saying that that's not our problem?

MS. MUNSELL: What I'm saying is that people who want to purchase homes should prepare themselves to purchase homes. That's one of the reasons that we're talking about doing homeownership classes. That's one of the requirements for workforce buyers, is that they prepare themselves to buy a home. And that would include lowering their debt.

COUNCILMEMBER RAWLINS-FERNANDEZ: Okay. Because student loans are really high now. I'm sure a lot of people can relate. I don't know if you can hear me.

CHAIR JOHNSON: We can hear you. We can hear you. Student loans are very high, that's what you said.

COUNCILMEMBER RAWLINS-FERNANDEZ: Okay. Thank you. This is stressing me out, sorry.

CHAIR JOHNSON: I'm sorry, yeah.

MS. PALEKA: Can I say something just really quick as far as student loans go? When it comes to FHA, that's the 3 and a half percent down, and USDA, that's the 100 percent, USDA allows us…if your student loan is deferred, it allows us to go ahead and use 1 percent of the overall due, and FHA is a half a percent. So even when your student loan debt is deferred, let's say you have a long deferral, we still have to count a percentage against you for the debt to income. So that's just another . . .(*timer sounds*). . . caveat that doesn't help, you know, as far as debt to income goes.

COUNCILMEMBER RAWLINS-FERNANDEZ: Mahalo. Mahalo, Chair.

CHAIR JOHNSON: Okay. Thank you, Councilmember Keani Rawlins-Fernandez. Let's move on to Councilmember Sinenci, followed by Councilmember Sugimura.

COUNCILMEMBER SINENCI: Thank you, Chair. And, yeah, I meant to just put my question in the chat if I…if I go out. So for Jeff, is setting the percentages under the County purview? We can still adjust that? It looks like Deputy Director had it at 28 percent, if you can expand on that.

MR. GILBREATH: Yeah, I think in terms of what we are recommending from the...from the plan side is that...to take a homeowner who has existing debt, and is likely going to use all their savings for a down payment. In order to get someone like that to qualify for a mortgage at the price point is that we need to be looking at a 31 percent front end ratio, which is less than the 36 percent the County currently uses. Now, if you do that, whatever the monthly payment is, is used to then determine what is the full mortgage for them to qualify for. So in our model, we're looking at it closer to 315,000 in comparison to the 384 that the County sees. Now, I am encouraged by what the County has done, and Linda and her team, in looking at different ways to calculate this, but this is the way to make sure that as many people as possible who can qualify for an FHA mortgage, which is used by 50 percent of first time homebuyers in the nation, have the ability to use it to actually make that purchase, and that the purchase price isn't over what they can actually qualify for.

COUNCILMEMBER SINENCI: So Jeff, does that mean that the County would have to subsidize the difference?

MR. GILBREATH: You guys have heard me already. I'm saying the County has got to subsidize the difference regardless.

COUNCILMEMBER SINENCI: Okay. All right. Thanks, Jeff. And then, Linda, I guess, is Ms. Abdul part of the Na Hale O Maui? I thought we had considered Na Hale O Maui. Was that her question this afternoon about receiving any affordable housing fund?

MS. MUNSELL: It was interesting that...thank you for the question. So what you're seeing is a list that comes out of 3.32, which is a ordinance that was used back in the day when the County used to actually do more development. And so I think that's a list of all the developments that the county has done, and those are old and past. I would have to do more research to confirm that, but Luana Gardens were two of those projects that I recognized out of that list. Na Hale O Maui does receive funding from the County, and you'll see that in the next presentation.

COUNCILMEMBER SINENCI: Oh, okay. Thank you. And then my last question, Chair, was for Ms. Paleka. So for those lower AMIs, the USDA grant would be best rather than the FHA loans, mortgage loans?

MS. PALEKA: I'm sorry, I don't understand the question.

COUNCILMEMBER SINENCI: You said USDA would pay the 100 percent, FHA 3.5 percent. For the lower income brackets, can they have a combination, or is...which one is better for the lower income brackets?

MS. PALEKA: So the USDA allows 100 percent financing so that someone doesn't have to put a down payment. The tradeoff for that is that the debt to income that they allow is far stricter. FHA goes way higher. So . . .(*timer sounds*). . . just as an example of what I finance daily, FHA goes all the way up to a front end of 47 percent, back end of 50...I can go up to 56 sometimes.

COUNCILMEMBER SINENCI: Oh, okay.

MS. PALEKA: Do you want somebody to have that high of a mortgage payment? No. But you can. I finance it all day long.

COUNCILMEMBER SINENCI: Okay.

MS. PALEKA: So that's the truth.

COUNCILMEMBER SINENCI: All right. Thank you. Thank you, Chair.

CHAIR JOHNSON: Wow, that's heavy, Ms. Paleka. Okay. Let's move on to Councilmember Sugimura. Are you on the call? I think she turned her phone off or her camera off for a bit.

COUNCILMEMBER SUGIMURA: I turned off my video because I've been having internet connection problems. So I had to turn off my video. But interesting, and I…I'm…of course you started off with Jeff and his presentation because it sounds like that's where you would like us to go towards. And I'm just…my question is…I understand what Jeff is saying. So in order for the County to change, or to get to that 31 percent front end ratio, how difficult is it--for Linda Munsell, I guess--from 36?

MS. MUNSELL: Thank you for the question. I think I ran a model. Let me…let me look through my bazillion models, and I'll come back if that's okay.

COUNCILMEMBER SUGIMURA: Okay.

MS. MUNSELL: So ask somebody else another question. Save your time.

CHAIR JOHNSON: Councilmember Yuki Lei Sugimura, do you have a question?

COUNCILMEMBER SUGIMURA: No. So…I mean, I can see where this discussion is going, right? And I think that money is always the issue, and how much are we talking about. And I'm just curious if…especially curious to hear what Sandy Baz had to say. And I guess it sounds like the Administration is wrapping their thoughts around what Linda Munsell presented. So I'm curious to see what steps are we going forward. And then thanks to alumni…my fellow alumni grad from Baldwin High School, Tera, for making loans all day long, you know, trying to help people, and probably giving us the perspective of the difficulty of this market, and then trying to help people find houses, right? So you presented us with these three options that we…you know, we heard from. Jeff Gilbreath was…you know, presented with, you know, what…the 31 percent, which is probably where we want to get to. So all I want to hear from Linda or the Administration is how we're going to get there. That's all. But thank you, Tera. Good…Baldwin High School Bear.

CHAIR JOHNSON: Okay. Deputy Director Linda Munsell.

MS. MUNSELL: Thank you. I actually…I went…I've gone through my…I didn't run one specific to that. I did run trying to accommodate PMIs. And when we did that, I mean, the price of homes dropped to…for single family, dropped 17 percent, at least…at least in this one model that I've got. Also, just to be really clear, we haven't made a decision as far as what we're going to do. These are…we still need to talk to the lending folks. We still need to talk to the folks that do the housing counseling. We want to make sure that what we are proposing is…makes sense. And I'm just not sure, again, that we should be, as a County, adapting our full sales price guidelines based on one mortgage instrument. I'm just not sure that that makes sense for us yet.

COUNCILMEMBER SUGIMURA: Okay. So you'll get back to us.

MS. MUNSELL: Yeah.

COUNCILMEMBER SUGIMURA: Okay, okay. Okay. So this is not any proposal that we're trying to morph to, I guess, it sounds like, to what Jeff Gilbreath said versus what we are currently doing. So thanks for that clarification, and I look forward to hearing more.

CHAIR JOHNSON: Okay. Well, I'm looking to morph to that, Councilmember. I guess…so I guess I'm the last person. So I'm going to ask real quick questions for Ms. Paleka. So if…I know I'm on a limited time, Ms. Paleka. So if I get an answer--I don't mean to be rude--I'll just move…I'll say thank you and move on to the next one, okay? So can a buyer in these income brackets qualify for a mortgage to buy one of these homes?

MS. PALEKA: They can, yes, depending on what loan program we're using. I would say FHA yes, USDA no.

CHAIR JOHNSON: Okay. All right. And then, as someone in the field, do you think it's important that the County amend its sales price guidelines and the formula that it uses to get those to conform with FHA and USDA loan rules to make it accessible to more of our buyers?

MS. PALEKA: 100 percent, yep.

CHAIR JOHNSON: I love these succinct answers. They get…I get more chance to ask more questions. So do you have any personal experience or perspective to share about this, your experience with having trouble qualifying folks, or seeing some deed restricted units end up being sold to market rate to off-island buyers because they couldn't find a local buyer who qualifies for these current prices?

MS. PALEKA: I'm glad you asked me that. I am beyond frustrated with the affordable housing projects and how they strong arm everyone. And I'm going to use that kind of language because that's exactly what happens. They force buyers to go to local stringent lenders --

CHAIR JOHNSON: Um-hum.

MS. PALEKA: -- who will not get them approved, qualified, when they could come to me or any other wholesale lender or broker and get qualified and purchase these properties, so that the developers can flip them on the open market. And Pailolo is one example. They had a unit that I ended up financing for a borrower of mine, and he didn't deserve to buy it, and I financed it because I had to do my due diligence because by law, I have to adhere to my own Federal regulations. And he didn't deserve to. He lives on the mainland, and that was just an investment property for him. And he said he was going to be owner occupied. I don't police that, but I know darn well that he was not owner occupied. And I had to do it. And it just went against my grain. And the excuse was that the developer couldn't find enough qualified borrowers using their bank. And the . . .*(inaudible)*. . . bank is far more strict, and at the same time, they don't know the guidelines backwards and forwards like I do. I live and breathe this, and I do nothing but this. So...and I don't get paid until my loan closes, unlike them. By law, they're paid a salary plus benefits.

CHAIR JOHNSON: Um-hum.

MS. PALEKA: So if I say I'm going to close a loan, I'm going to close a loan. You know, I don't work for free.

CHAIR JOHNSON: Right. Okay.

MS. PALEKA: So . . .(*timer sounds*). . . I make sure they qualify. Plus, keep in mind...I've got to say this 100 times over, I have to buy back the loan, not a corporation. I do, if it defaults.

CHAIR JOHNSON: Okay. So the last clarifying thing I wanted to ask you...and it's just real quick. The USDA for Kahului, you said it wasn't available, but now it is. And that's because we're considered rural; is that the reason?

MS. PALEKA: It's not that it's considered rural. It's because when the census came out, they...the USDA does their stuff based on the census, and I guess they opened up...and I don't know exactly what happened, but you guys are welcome to go Google USDA eligible areas, and you'll find the USDA website. And you can go punch in an address, and you'll see if it's USDA eligible to get a loan there for 100 percent financing. But they opened things up based on the census numbers and what the saturation was of peoples. I don't...I don't know. It was a couple years ago they did that.

CHAIR JOHNSON: Okay. Thank you for that. We're going to...I'm...we're right on our break, our afternoon break, but it's really up to the Members. You want to take a break now and do another round of questions, or you want to do the...do another round and then take a break?

COUNCILMEMBER RAWLINS-FERNANDEZ: Break now.

CHAIR JOHNSON: Okay. Let's take a break now. It's 3:05.

COUNCILMEMBER KING: Chair.

CHAIR JOHNSON: We'll take a ten-minute break. I thought I saw Kelly King. Did...

COUNCILMEMBER KING: Yeah. I've been here the whole time, but it's just every time I turn my video on, I start having network issues. So...

CHAIR JOHNSON: Yeah. Sorry about that. We'll take a ten...

COUNCILMEMBER KING: For the record, I've been here the entire time.

CHAIR JOHNSON: For the record, she's been here the whole time. So we'll take a ten-minute break, and we'll come back, and we'll do...we'll do another round of questions, okay, Members? So 3:06, the Affordable Housing Committee is in recess until 3:15, 11/29/2021. *. . .(gavel). . .*

RECESS: 3:06 p.m.

RECONVENE: 3:17 p.m.

CHAIR JOHNSON: *. . .(gavel). . .* Okay, will the Affordable Housing Committee reconvene. The time is now 3:17 on 11/29/2021. All right, Members. We're on our second round...oh, I want to introduce Council Vice-Chair Mike...or Committee Vice-Chair Mike Molina. His power's back on, and I already forgot the day...the word of the day. So you guys can help me.

VICE-CHAIR MOLINA: Okay. Thank you, Mr. Chair. Yeah, I forgot the word of the day too, but...

COUNCILMEMBER LEE: Kushe.

CHAIR JOHNSON: Kushe.

VICE-CHAIR MOLINA: Kushe to you--aloha--and everyone else tuning in. I had an unexpected power outage here in Makawao. I was told it was wind related. So now I'm all charged up, ready to go with your Affordable Housing Committee meeting. And for the record, I'm, again, transmitting from my residence here in Makawao, and my wife is in the other room. Aloha.

CHAIR JOHNSON: Aloha. Okay. So we're going to do our second round of questions. And I think what we'll do...it's on two minutes, and you can ask any of the presenters. And we'll just start with...if you want to raise your hand, we can do that, and then those who didn't raise your hand, we can do round robin. So anybody have burning questions, you want to raise your hand? Okay, we've got…it looks like Chair Lee, followed by Councilmember Paltin.

COUNCILMEMBER LEE: All right. I have some questions for Tera again. Tera, are you there?

MS. PALEKA: I am, yes.

COUNCILMEMBER LEE: Okay. Now, you mentioned USDA. So what's the maximum loan amount they're offering nowadays?

MS. PALEKA: So USDA does not have a maximum loan amount, but the caveat to that is they have a maximum income threshold. So depending on your family size, you have a maximum income threshold, which essentially makes a, you know, loan amount threshold. But it all just depends because there's…

COUNCILMEMBER LEE: Okay. So what's the maximum income threshold?

MS. PALEKA: So let me grab it. So for a…got to zoom in because I got old people eyes. So for a family of five up to eight people, right now it is 156,800 annually. And then from four people down to one person, it's 118,800 annually. So those are the income limits.

COUNCILMEMBER LEE: Oh, that's pretty good. Now, my understanding is the interest rates are going up. What are the…what's the interest rate today?

MS. PALEKA: Trick question. It depends on your FICO score, your debt to income, what type of property we're financing. Let's pretend you're a vanilla…you're a vanilla person with like a 780 FICO and we're going to put 20 percent down. I could probably get you at 2.99 percent with possible 1 and a half points. That's…

COUNCILMEMBER LEE: Okay, let's try the other ALICE.

MS. PALEKA: Okay.

COUNCILMEMBER LEE: The average person, how much would that be, not 2.99, but 3 something?

MS. PALEKA: It depends on the program we're doing. So let's pretend you're a first time homebuyer coming to me, and I will tell you nine times out of ten I'm going to do an FHA on you. FHA, right now, if you have a 680 FICO and you're putting 3 and a half percent down, and your debt to income falls in line, I can get you a 2.75, and I can get you a lender credit. That's today. That's because I’m wholesale and I'm not retail.

COUNCILMEMBER LEE: I see. Okay. So would that apply to like tiny homes?

MS. PALEKA: Yes and no. So I don't…that's not manufactured housing, and I think you guys are familiar with the…if that's what you're talking about. As far as tiny homes goes right now, I can't find an investor that'll come into Hawaiʻi and do them. That's still a brand new fresh type of product, and it's considered a very high risk. So a lot of people, including myself, I have told to go get personal loans to finance them, because I myself am doing a Tiny Home on one of my properties in Kahakuloa. So I'm financing that cash basically. So I tell people, go get personal loans if you can, if they have the luxury of being able to.

COUNCILMEMBER LEE: Okay. Thanks. Thank you very much.

MS. PALEKA: Um-hum.

CHAIR JOHNSON: Okay. Thank you, Chair. Let's move on to Councilmember Paltin, followed by Councilmember Kelly King.

COUNCILMEMBER PALTIN: Thank you, Chair. My question would be for Director Munsell to clarify, did you agree, or was it proposed to phase out the Hāna, Lānaʻi, and Molokaʻi special prices or incomes?

MS. MUNSELL: Thank you for the question. In talking to the Department, we don't know why those were implemented in the first place. So none of us...oh, Ms. Lee might know. So that's one of the things...before we move without having all of the information, we'd like to do the research. So we're not against phasing out, but we want to know why it was put in place and what damage we might be doing inadvertently if we do it without consideration.

COUNCILMEMBER PALTIN: Okay. And then from the HUD-1 statements, do you know what the workforce housing purchasers are putting down on average as a down payment?

CHAIR JOHNSON: Ms. Munsell.

MS. MUNSELL: Oh, great question. I don't know what that is at the moment, but I think we've got the...well, if we had the people, we could get you the data. So we can try. We can try to get information for you.

COUNCILMEMBER PALTIN: And that Fannie Mae program that you said that is being used instead of a FHA or USDA, what do they require in terms of down payment?

MS. MUNSELL: So Fannie Mae...and again, I'm not an expert. Maybe Mr. Almeida can help us out with this. They actually buy mortgages. So you know, you would be able to go to your lender and then...like I went to my credit union and my credit union is going to sell my mortgage, or whoever, right? But I think this...maybe I'll turn that over to Mr. Almeida.

CHAIR JOHNSON: Okay. Mr. Almeida.

MR. ALMEIDA: Yes, I'm here. I'm sorry, Member Paltin, if you could repeat the question, please.

COUNCILMEMBER PALTIN: Oh, I was wondering if the...we can't do the FHA and we can't do the USDA, whatever loaning mortgage instrument they use, what is the average down payment that folks have to come up with?

MR. ALMEIDA: As Ms. Paleka has mentioned, that would depend on the overall qualifications of the homebuyer; again, credit, debt, assets, reserves. So it's basically a lender would try to find the best program for you based on your qualifications. So there's...you know, there's lots of different options out there for potential homeowners to find lending. There's no one source. So it depends, again, on the strength of the applicant. That's what the lender would try to fit their strengths into the best possible loan program. Thank you.

COUNCILMEMBER PALTIN: So...but for now, for the workforce, FHA and USDA is off the table because of the . . .(*timer sounds*). . . front end ratio. So they got to come up with some other loaning instrument, mortgage instrument?

MR. ALMEIDA: No, not...the FHA and Fannie Mae, Freddie Mac, they're still options that our lenders use for workforce buyers...not completely, but I know that they're used at a very high rate, for first time homebuyers especially.

COUNCILMEMBER PALTIN: FHA and USDA?

MR. ALMEIDA: Yes. Not so much USDA, more so FHA.

COUNCILMEMBER PALTIN: In Maui County they can?

MR. ALMEIDA: Correct.

COUNCILMEMBER PALTIN: Okay. Thank you, thank you. My time's up.

MR. ALMEIDA: Um-hum.

CHAIR JOHNSON: Okay. So we've...next we've got Councilmember Molina.

VICE-CHAIR MOLINA: Thank you, Mister...sorry, Chair, can't hear you.

COUNCILMEMBER KING: Oh, you're on mute.

CHAIR JOHNSON: I beg your pardon, I beg your pardon. I had Councilmember King, followed by Councilmember Molina.

COUNCILMEMBER KING: Yeah, I did, but you know, Councilmember Molina hasn't had a first round because he was out.

CHAIR JOHNSON: Okay.

COUNCILMEMBER KING: So I'm willing to yield to him.

CHAIR JOHNSON: Okay. Mr. Molina.

VICE-CHAIR MOLINA: Oh, okay. Thank you very much, Councilmember King. Just one question, I guess for Ms. Paleka or whoever else would like to respond. What options are there for veterans? I would assume a VA loan, but are there other options as well? I mean, theoretically, if I'm a vet, making 50,000 a year, for example, and my spouse makes about the same. So let's say $100,000 combined income. What kind of realistic options are out there for Maui County?

MS. PALEKA: The VA loan is one of my favorite loans of all time to do. They really care what the vet is purchasing. So they focus on the home. They allow your debt to income ratios to go extremely high, which I've always scratched my head at because I'm like if you're allowing...I've closed a VA loan with a back end of 58 percent, which is insane to me, but what matters is not me, is what Fannie Mae, Freddie Mac...when I pull the automated underwriting systems, that...what it spits back to me is what my underwriters must adhere to. So if it gets an approval, I'm closing that loan. I'm going on. So...and just to recap a little bit of what Linda was explaining about Fannie Mae and Freddie Mac, they are the secondary market that purchases the loans, that we target the loans to. They are the ones that create the guidelines that we must adhere to, all lenders. So if I'm brokering the loan or if I'm financing it on my warehouse, it doesn't matter. Anybody and everybody that is targeting to sell to Fannie Mae and Freddie Mac, we must adhere to those guidelines. They're the ones that create the debt to income ratio guidelines. They're the ones that create the loan to value guidelines. So that's how that works.

VICE-CHAIR MOLINA: Okay, great. Well, thank you very much.

MS. PALEKA: Um-hum.

VICE-CHAIR MOLINA: Thank you, Chair.

CHAIR JOHNSON: Okay. Okay, let's move on to Councilmember Kelly King.

COUNCILMEMBER KING: Okay. Thank you, Chair. Hopefully...can you see and hear me?

CHAIR JOHNSON: Loud and clear.

COUNCILMEMBER KING: We'll see how long this...see how long this lasts. My two minutes may be up by my network. So I guess my first question is...I don't know if it's for you, for Linda Munsell. So all of our percentages that we're talking about...this might be partially for Jeff too, but on the percentages that we're talking about and the ratios, does this...does it matter what size the home is or what the minimum price is? And I'll...and I'll tell you why I'm asking this is because, you know, earlier when we reviewed the plan, we were talking about 1,300 square feet. And to me that seems kind of excessive if we're trying to get somebody into their first home. When we were…back in the '80s when they were…when they had the FMHA loan, you…if you only had one to two people, you couldn't…you couldn't build more than a 790 square foot house. And if you went over 1,200, you couldn't get the loan. You know, you could only…and you know, incrementally you could build a bigger house if you had more people, but to…if we're just going 1,300 across the board, that just seems excessive to me. That seems like we're going to be…we're going to be…we could do more…if we're going to subsidize, we could do more with smaller homes. We could get more homes built rather than, you know, building such a large home for a first time…first time purchase or a first time homeowner. Maybe Jeff could answer that.

MR. GILBREATH: Councilmember, there's no limit on the size of the home. There are some rules related to mortgage programs that…like for example, I think USDA won't allow financing if you have a pool, certain things like this, right. So there's certain factors, but the 1,300 square foot that I put forward for you folks was just simply for the pro forma, to demonstrate the pro forma. That is not, by any means…

COUNCILMEMBER KING: Okay. So it's not set in stone.

MR. GILBREATH: Correct.

COUNCILMEMBER KING: We can make adjustments based on the size of the family and need --

MR. GILBREATH: And should.

COUNCILMEMBER KING: -- because I think we should do a lot more if we're going…I mean, I'm willing to subsidize, but I would like…but I…you know, when we first got our house, it was…you know, we were just happy to have a house. It's like a square box on a square piece of property, but you know, that's where you start. And you know, here we are 35 years later, and we're still in the same home. But we built up and we paid back all the subsidy that was ever put into the house. So that's kind of what I envision us trying to do if we're going to subsidize is that, you know, we're giving people a start. And on the tiny home thing, yeah, I guess…because we haven't really had that yet, and everyone's talked about it. I think we came close to trying to put something in over here, except that they were going to have to be made in China for the project that the developer was looking at. But have you seen the…those homes financed anywhere else…anywhere on the mainland? Like you know…you know, say a development of 20 or 40 or 50 of these tiny homes so people could buy something really, really cheap, I mean, just to get into it? . . .(*timer sounds*). . .

MR. GILBREATH: Tera, you want to take that one? I'm happy to jump in.

MS. PALEKA: Yeah, I actually…and I'm sure, Jeff, you can chime in. I have been seeing that there are some boutique lenders that are going ahead and financing them, and I'm very happy about that. They just haven't made their way to Hawai'i yet, and I can't wait for them to.

COUNCILMEMBER KING: Okay. But that would require us opening up to, you know, all lenders that could be options rather than having that strict list.

MR. GILBREATH: Could be options, and I've seen community development financial institutions come and take on that market because it's smaller. It's a smaller product, it's easier to manage.

COUNCILMEMBER KING: Okay.

MR. GILBREATH: Kind of almost like a personal property loan. But yeah, there's...to Tera's point, definitely boutique.

COUNCILMEMBER KING: Okay. All right. Thank you. Thank you, Chair.

CHAIR JOHNSON: Okay. Let's see. Anybody else have questions? I'm looking at the list. We...a few of you have been...don't have a second and final, but if you want to, now's your chance. Okay. Oh, we got one from Councilmember Sugimura. Go ahead.

COUNCILMEMBER SUGIMURA: This is not quite financing, but related to the last discussion. Just so you know, I'm still waiting for my legislation on tiny homes. It's still not legal, but it's...I'm still waiting for whatever the recommendations are. So when you have all these...I see tiny homes running through the community escorted and coming Upcountry, but I'm still waiting for the legislation on that.

CHAIR JOHNSON: Okay. I think we have a question from Councilmember Keani Rawlins-Fernandez in the chat. You want me to read it for you? I'm...okay, sorry. It's just been like that today with technology. So the question is: to clarify, the tiny home loan is to purchase or to construct? And I guess that's in regards to the boutiques and...go ahead, Jeff.

MR. GILBREATH: I've seen...I've seen one time closed, which means it's for construction and permit financing.

MS. PALEKA: Sorry. I too have seen that. I have been seeing where they're already constructed, but it's kind of like with manufactured housing. They have to have some sort of guarantee and workmanship that is inspected, but it's by no means a HUD home, like a manufactured home. But that's on the mainland and there's caveat. I can find out more about it because I myself have been interested, but it's kind of, from what I understand from my friends that do finance them on the mainland, they don't have any funds to come to Hawai'i . . .*(inaudible)*. . . and it's a logistics issue. Typically, it's because if, say they need to go and foreclose on this tiny home, God forbid, who do they have here to do such a thing, and how to get that tiny home? It's not feasible. So they...unless we find a local pool...and like Jeff explained, there are community developments that are financing them . . .*(inaudible)*. . .

CHAIR JOHNSON: Uh-oh. It's one of those days. Ms. Paleka, you froze. I don't know if you were...oh.

MS. PALEKA: Can you hear me?

COUNCILMEMBER LEE: Could you turn off your video?

MS. PALEKA: Sure. Sure. Sorry.

CHAIR JOHNSON: Yeah, yeah. Now it seems like you're back on. Sometimes it's in and out, but...sorry, if you want to finish your last few sentences?

MS. PALEKA: Where did...where did it stop? The...

CHAIR JOHNSON: . . .*(inaudible)*. . .

MS. PALEKA: Sorry. So yeah, just as far as a logistics problem, if there was a need to foreclose on a tiny home, the lenders don't have people in the State of Hawaiʻi to go and enforce the foreclosures. So it's about risk. So if we could come up with a community development that would finance that, that would be fantastic.

CHAIR JOHNSON: Okay. All right. That's...thank you for that answer. Councilmember Keani Rawlins-Fernandez, do you have any other questions you'd like to type in the chat? I don't see her writing anymore. So...okay. Okay. All right, Members. So I want to first thank all of the presenters. And I know we're going to have Jeff come and do a second round on our next item, but thank you, Ms. Paleka, and thank you for all the work that you do. It's really impressive. We got Chair Lee. Go ahead, Chair Lee.

COUNCILMEMBER LEE: I just wanted to...before I forgot. Someone brought up the question of why the Lānaʻi, Molokaʻi, and Hāna had lower income qualifications, and that was based on the census at...you know, at that time, probably in 1990, where it was quite obvious that those areas made a lot less than Maui Island. And it was Senator Kalani English who initiated that change when he was on the Council. Thank you.

CHAIR JOHNSON: Noted for the record, and very interesting history. Okay, Members. We...without...thank you for all the discussion, and without objection, I will defer this item.

COUNCILMEMBERS: No objections.

COUNCILMEMBERS VOICED NO OBJECTIONS (Excused: TK)

ACTION: DEFER PENDING FURTHER DISCUSSION.

AH-14(7) COMPREHENSIVE AFFORDABLE HOUSING PLAN: EXPANDING AFFORDABLE HOUSING FUNDING

CHAIR JOHNSON: All right. So now we're going to move on to our second item of the day, AH-14(7) Expanding Affordable Housing Funding. Our next agenda item is Expanding Affordable Housing Funding. The Committee is in receipt of information documents related to current available funding mechanisms: the Affordable Housing Fund under Chapter 3.35, Maui County Code; home acquisition and ownership programs revolving fund under Chapter 3.34; and housing interim financing and buyback revolving fund under Chapter 3.32. The housing market in Maui County is not going to serve the needs of our residents on its own. The issues we face are all well known, and the high cost of construction supplies, the low housing inventory for long-term residents, the high cost of living and relatively low wages, the end-stage capitalism, and the list goes on and on. To make homeownership, and also housing rentals, more affordable to our residents by changing price guidelines and AMI brackets, the County may have to provide subsidies to affordable housing developers, especially if they continue using the same building models, and increase financial assistance to homebuyers and renters. I've asked the Department of Housing and Human Concerns to provide feedback on recommendations in the Comprehensive Affordable Housing Plan to use the expand...to use or expand the Affordable Housing Fund and other funding provisions for the following: community servicing...community serving infrastructure; comprehensive infrastructure assessments for project areas; housing subsidies, grants, individual development accounts or IDAs, and loans to assist low income renters and homebuyers with upfront costs and gap financing; deferred payment mortgages; support for affordable housing projects; planning and design for County owned housing projects; cultural, health, and environmental impact assessments on County owned land; ‘ohana or ADU developments, including individual septic and wastewater systems and long-term financing; acquisition and/or rehabilitation of existing structures; and enabling bond sales. So that is...before we start, I'd like to...I'd like the Department to give a little history or...on the housing funds, after which I would like to go down the list and ask Deputy Director Munsell or Corporation Counsel Mimi DesJardins to please let us know if this already applies to 3.35 or 3.34 or 3.32, or if it needs to be added into the language you would...and the language you would recommend. So that's really...let's call upon the Department and talk about that list I just read. Again, Members, if you're unfamiliar with that list, remember, it's on the matrix, the housing matrix. And it's got that little box of what can we do with the...with the funds that we have, and can it address these issues. So I'll leave the floor to Deputy...Director Linda Munsell, and if you can speak on those points...and she's got her shared screen . . .*(inaudible)*. . . Go ahead. The floor is yours, Deputy Director.

MS. MUNSELL *(PowerPoint Presentation)*: Thank you for that. So there are obviously a number of uses listed here that are allowed with the Affordable Housing Fund. I mean, community serving infrastructure is one. Assessments for priority projects, depends on what you define assessments...what you're talking about for assessments. We have tried to do studies. For instance, we tried to do...fund the affordable...the Hawai‘i Housing Planning Study out of the Affordable Housing Fund, and was told that that was not an appropriate use. So you would need to look at this relatively carefully. Housing subsidies and grants, individual development accounts has typically been done out of the 3.34 rather than 3.35. So I think that you would need to...or to make it very clear that you need to make some amendments to 3.35. Deferred payment mortgages, typically 3.35 is used for construction of larger projects, and is...the ordinance has been designed around providing loans to these kinds of developers. So it's not actually targeted towards individual homebuyers. Generally, we would think that that would be in 3.34, but again, if you wanted to include it here, we...they can suggest some wording. Affordable housing projects, we already do that out of 3.35. Planning and design for County owned housing projects, yes, that would be an approved use of affordable housing funds. Cultural, health, and environmental impact assessments on County owned land for County owned projects; yes, that would be an allowed use. ʻOhana or ADU development, including individual septic and wastewater systems; again, that's not...had not been one of the anticipated uses when 3.35 was developed. So I think that for clarity, you would want to either include that under 3.34, or would need to add some clarifying language to 3.35. Acquisition or rehabilitation of existing structures, we do this already. And enabling bond sales is not my area of expertise, so I will defer that question to someone who knows more than I do. And I know Mimi DesJardins is on, and maybe she can touch base on these as well, just to confirm that I did not mislead the Committee in any way.

CHAIR JOHNSON: Okay. Let's call up Ms. DesJardins. Are you on the call?

MS. DESJARDINS: I am. Good afternoon. So I agree with Ms. Munsell's assessment of all of the bullet points. A better way for me to kind of approach it is to look at what do you want to use Affordable Housing funding for, because under the Charter, it's broad, the description, but it has to be enumerated in the Affordable Housing Fund itself. So if you wanted some of the things that you use 3.34 to do, which is the ones that are more pinpointed to individuals, like mortgage assistance, first time homebuyer loans, my suggestion would be to amend 3.35 or morph them together so that you can use 3.35 for those purposes as well. Because as long as it's being used for the provision, protection, and expansion of affordable housing and suitable living environments for persons of very low to gap income, which is what the Charter says, then you can use the Affordable Housing Fund for that. So 3.34 is really more directed towards like individual programs, but there's no reason why they can't be combined together and use those funds for all types of programs under...including putting the TAT, for example...I know there was some monies from the general fund from the TAT that recently were appropriated, I think 26, 27 million. That too could be put into the Affordable Housing Fund to put all...you could combine it all into one if you wanted to. It just depends on whether that works for DHHC's, you know, administration of those funds.

CHAIR JOHNSON: Okay. That's fascinating info. Thank you, Mimi DesJardins. Okay. We heard from the Department. We heard from Corporation Counsel. Now I want to call upon Jeff Gilbreath to finish up his second part of his presentation. After that, then we can do round robin with questions if the Members so choose. Okay. Mr. Gilbreath, you're on the call, the floor is yours.

MR. GILBREATH *(PowerPoint Presentation)*: All right. Good to see you folks again. Here we go. I'll share my screen. I hope, anyway. Okay. So what I'm presenting to you folks now is just recommended updates for the Affordable Housing Fund that we included in the plan. And so overview, just going to show you folks, some analysis and recommended changes, essentially. So under the Affordable Housing Fund, what we know is--we took a look at the system, the current system--is that we know the current affordable housing system is outdated. And it is providing the type and price of homes exactly as it was set up to do, but it is missing the mark in helping those who are considered very low and extremely low income, typically renters, and those who are low and moderate income, to be homebuyers. And this is forcing folks to live in overcrowded situations...conditions and compete for a few affordable homes. The data from the Hawaiʻi Housing Planning Study suggests that one in five Maui households are living overcrowded or doubled up. We also noted under the current affordable housing system--and I think I've...think I've continued to kind of beat this drum--is that there's really two primary barriers standing in the way of unlocking 5,000 affordable opportunities for local families, and that is community serving infrastructure. So major regional infrastructure investments that need to be made to make sure we have adequate water, sewer, roads for our local communities, and then the investment in our local people to make sure there are...the rentals that are available and the homes purchased are affordable. Breakdown of these numbers are in the plan, but essentially we see significant need in road projects. Fortunately, there's a Federal infrastructure bill that we believe can help address this $200 million gap in some form or fashion, but you'll still have water projects, wastewater projects, and funding for planning, design, and management . . .*(inaudible)*. . . the Administration . . .*(inaudible)*. . . On the housing support side, significant monies toward subsidizing rentals for close to 2,700 very and extremely low income renters, and about 1,500 low and moderate income homebuyers. There is some monies for pilot and demonstration projects that we have identified, and again, planning, design, and . . .*(inaudible)*. . . But those are the two key barriers facing the County . . .*(inaudible)*. . . 5,000 affordable . . .*(inaudible)*. . . Under the current affordable housing system, we're also hearing...and there has been consistent calls about the concerns with the County's capacity to take action on affordable housing. On the flip side, from the community, in our engagement with the...with close to 1,600 residents of Maui County during the development of the plan, is that community members are wanting to step up and be part of the solution, want to be involved. They want to be engaged early on, and they want to help monitor progress. So the updates to the Affordable Housing Fund that we suggest are really these five points, and Councilmember Johnson brought that forward in his comments earlier, so I won't go deep into that here. But if I take each of these separately, that we are calling for the County to have sufficient resources to fund a $1.169 billion plan by making sure there's annual revenue of $58 million into the fund. We give some potential sources of what that funding might be. I know there's a debate whether or not there's significant...or enough resources to be able to fund this type of plan. In our estimation, when you have homes selling for 78 million, 45 million, and 38 million, just within the last couple months, I would hazard to say that there is an abundance of resources in the County of Maui. It is a matter now of how we are stewards of those resources, and if we will make those available to families who are extremely low income, very low income, and moderate income. This is just a comparison--I know you folks have seen this--the real property tax comparison with other Counties in the State. The potential of what this looks like with the plan that we put forward on a $1.5 million second home, third home, fourth home…really what we're asking folks is that…you know, if you're making about…if your home is valued about $3 million, it's a second, third, fourth, fifth home for you, maybe you pay 300 bucks more a month so that our local families can have one affordable home. And a $4 million home, what does that kind of look like in terms of, you know, some of the numbers that we're putting together with our projections? In this instance, you can see Maui County still stays below the rest of the Counties in that tax structure. The second and critical piece is enabling bond sales, and really looking to leverage this $58 million revenue at a…at a range of about 20 times to make sure we can address those two key barriers that are standing in the way. We have heard, and I have discussed with the Department of Finance, that it is possible to sell taxable and non-taxable bonds to borrow money in this way, and at historically low interest rates, as I think was demonstrated to you in the last presentation. This would allow for the County to make upfront investments in community serving infrastructure and our local residents that just hasn't happened in the last 50, 60 years, really making good on what we haven't done. So we pay that forward and then repay the bonds with the increased property taxes on those second, third, fourth homes and short-term vacation rentals, and with a fair reimbursement rate of market rate homes when they hook up to County services. Expanding eligible uses…so I do have a list of these here, and I know Councilmember Johnson had kind of shared, but I just point you to the different types of uses. It sounds like a lot of this is possible already, but what does it do in terms of impact? You know, down payment assistance grants, if they were increased and expanded up to $200,000 maximum, you're going to be looking at an increase of homes available for low and moderate income residents that just aren't being served right now in the current system. The rental housing gap financing money really could be used, yes, at the project level, we're calling, and I think I've talked about this at about $175,000 per local renter that's very or extremely low. You would serve folks that aren't being served. But you might be able to do that on an individual homeowner basis, giving $175,000, you know, to homeowners who need to build an accessory dwelling unit or ʻohana unit. It could be a way to get more community members and to gain large projects. Besides that, I think the rest is pretty self-explanatory. I would just say that the bottom point, the health, cultural, and environmental impact statements, this is a big concern of community. They want to make sure for County owned lands and County owned projects, as well as all projects, that we're making sure we're identifying and preserving important health, cultural, and environmental resources. And we thought this might be one way to do that. Additional changes that were noted really talk to addressing capacity at the County, and positioning projects for other public and private funds, because you folks can't be the only ones in the game, right? So we are calling for an addition of a qualified resident definition which is consistent with Bill 111, which would just allow…make sure you're aligning your affordable housing list that you created with that bill with the kind of subsidies that would be available and supported by HUD housing counseling. We really encourage to allow for the Department of Housing and Human

Concerns to be able to contract third-party assistance to administer grants and loans. That will just improve capacity and make sure that we have public-private partnerships that are helping get this work done if the…if the County doesn't have the capacity at the time. Besides that, something that I would really point out is moving County financing to a subordinate position. Currently, the County requires a first position on that financing. Typically, that first position is taken by private entities that have investors that they're beholden to, that the terms might be a higher interest rate. If we move the County funding to a subordinate position, meaning second, third position, it would assist builders to be able to leverage more of these additional private funds, private capital, and public capital. Because if I'm a private…if I'm a private lender and I've got first position the County and I'm in second position, I'm less likely to make that loan to that rental project. We call on reducing the interest rates and deferring payments. I think I talked at a rental project where you have low income housing tax credit, we're encouraging a 0 percent interest loan, deferred payment, no payments on it as long as those units are affordable, and a homeownership down payment assistance grant that we're actually calling for that to be deferred payment as well, no payments as long as that stays in the hands . . .*(inaudible)*. . . And then again, just the bottom, encourage the Department to establish a fair reimbursement rate for an offsite infrastructure for market rate homes to be able to recoup some of those costs from the bond sales. And then last, and pretty important I would say, to increase community engagement and involvement in this process. We did identify, under the Department of Housing and Human Concerns, managing the community oversight board. This board would be responsible for developing, implementing, and monitoring the Affordable Housing Fund annual plan because you're talking about $58 million a year, significant amount of money going out the door. I think it behooves us to be able to put community oversight on that, but also make sure we have proper skills in place. So the board we are proposing would consist of nine members; a third private sector representatives, a third community members, and a third public, all with skills related to affordable housing. On the public side, we are encouraging the Affordable Housing Coordinator in the Mayor's cabinet, potentially the Chair of the Affordable Housing Committee, to be a part of this. Board members would serve five-year terms, and they would be responsible for reviewing, scoring, and recommending grant and loan applications made to the fund. Rather than doing this one time a year, we would see this happening every month is the difference here, to be able to meet projects where they're at, move them along as they're going through the entitlement process, and make sure the funds are committed so that there's more certainty for the builders. Besides that, I think that's all pretty straight…pretty straightforward. The folks would have responsibility in assisting with that annual plan and the oversight. So I'll leave it at that. Sorry I took so much time on this, but…

CHAIR JOHNSON: Okay. Members, if you want…it is up on Granicus to look at his presentation. Before we go to the questions for Mr. Gilbreath, I want to call on Deputy Director Linda Munsell and see if she wanted to add to the history. You…I thought we were going to have you speak on…a little bit on the history of the Affordable Housing Fund.

MS. MUNSELL: Certainly. I mean, history is...in the interest of time, if you would like to see that. But essentially, historically, the projects have been construction projects. Let me just pull this up real fast. So I mean, we're going to go through ineligible uses, so I'm not going to go through that. Our process...I guess there's been some discussion about the process not being transparent. We actually do RFP these funds, you know, once a year. That's a public process. The applications are scored and reviewed by a number of people inside and outside the Department. We would be happy to have additional scorers. Sometimes it's very difficult to get people to participate. And then any project that is scored and referred to the Mayor and approved by the Mayor is then reviewed by both the Affordable Housing Committee and the Budget Committee. So that's...those are all public processes. So as I said, the projects are scored based on a number of criteria. They are based on community need, which is straight out of the Hawai'i Housing Planning Study. Also, it's based on the applicant information and experience. We certainly want individuals who can make sure that they can execute these projects. We also are looking for projects that are ready or going to be ready soon. We don't want the funds to be just languishing. And then we are looking very much for leveraged projects. We want to bring as much outside funding to the County as possible to make efficient use of the affordable housing funds. I think that Jeff is suggesting that this will probably change. We'll be doing...spending more funds...affordable housing funds or more County funds as a ratio to the leveraged funds out there. Let's see. Let's see. So historically, just to give you an idea, in the last five years, we've done three senior projects, with a total of 236 units. The County has invested a total of about $12.3 million in affordable housing funds. We've leveraged $95 million. Total cost for all of these projects was $107.7 million. Again, last five years, there were five family rental units with a total of 444 units in them. Cost to the County was 17.3 million. $250 million was leveraged from outside sources, with a total funding of $267.4 million. So between the senior projects and the family rental projects over the past five years, we had about $345 million leveraged that come to the County through the strategic use of our affordable housing funds. Our average investment in a multi-family project is $67,000 per unit. So that's a pretty good ratio for us. Our investment is $67,000 versus the rest of the funding coming from other sources. We also invest money in single family homes. So we've done four projects over the last five years, single family homes. These are...there are 52 new units that have been built at a cost of $9.5 million from the affordable housing funds. And our average investment per single family home is currently 183 million...or sorry, $183,000 per unit. We also invest in renovation projects. So that was one of the questions that has come up. We've done a couple of those in recent years. We have also invested in acquisition projects. So there's three acquisition projects on the books currently. And we would encourage the judicious use of affordable housing funds to do more of these kinds of projects. So historically, our emphasis has been on creation and preservation of units. Obviously, as discussed, the use can be expanded. We do suggest some caution. And I know that you're going to go forward with this with your eyes wide open, but the Affordable Housing Fund seems to have caught everyone's eye as a windfall source of funds, and everybody wants a piece of that pie. One of the questions that came up is what do you mean by this? It's...remember, when we go to 201H projects and 2.97 projects, those projects come to the County and ask for exemptions from various things. Sometimes they want to be exempt from curbs and gutters, sometimes sidewalks. Those are all things that we want to have in our projects. As a County, those make good, livable projects. Eventually, if we do exempt a project from doing curbs and gutters and sidewalks, Public Works is going to have to come back in at a later date and do that. They would use general funds for that. They have seen the affordable housing fund as an opportunity to reimburse themselves for those kinds of projects. And so just keep an eye out on what kind of infrastructure we want to be funding with the affordable housing funds. And in comparison to the 3.34, which is the home acquisition and ownership program's revolving fund, which is where we would normally do these smaller individual projects to people rather than developers, this...that program doesn't have a steady stream of funding, which I think is why we're talking about folding it into 3.35. Historically, we haven't done the individual projects, in...out of the Affordable Housing Fund. So that's all I had, and that was very simple, just to give you the background on us.

CHAIR JOHNSON: Okay. Thank you so much, lot of data there. I want to see if the Department of Finance is on the call and if they can speak to all this discussion. We invited them. Is Scott Teruya here?

MR. TERUYA: Good afternoon, Chair.

CHAIR JOHNSON: Okay. Good afternoon, Director. Would you like to speak to what we've been talking about, all of these funds?

MR. TERUYA: Yeah, I'll give you some general comments. When this item was discussed with our Bond Counsel and our Municipal Advisor a while ago, it's pretty clear the two most common forms of financing for affordable housing either include the GO bond, general obligation bonds, or revenue bonds. The GO bonds, as you may know, are backed by the full faith and credit of the County, which brings the lowest borrowing rates available to the County due to the strong bond rating. The County also must consider maybe the credit and administrative implications of expanding its own GO program to cover a broad range of uses. So therefore, another alternative could be to consider a bond program with a specific pledge of revenues, I guess, so to speak. Revenue bonds are generally lower credit quality than the County GO bond program, so will definitely...well, not definitely, but we will have a higher interest rate. I want to recognize on the call, we have our Bond Counsel that's on the East Coast. So it's 9:00 thereabouts his time. So I was hoping to give him an opportunity to provide a little bit more color regarding financing options and possible pros and cons on the various ways to fund an affordable project. So if you don't mind, Chair, we have Mr. Craig Scully from Katten on the call.

CHAIR JOHNSON: Well, let me...let me ask the body. Do you mind if we make him a resource? Everybody's thumbs up, no objections to Rules of the Council?

COUNCILMEMBERS: No objections.

COUNCILMEMBERS VOICED NO OBJECTIONS (Excused: TK)

CHAIR JOHNSON: Okay. All right. Got that out of the way. Go ahead. Sorry about that.

MR. TERUYA: Craig, did you unmute yourself?

CHAIR JOHNSON: No, we’re not hearing you, Mr. Scully. I…we see you unmuted on our end, I think. Ms. Stewart, will you make sure he's unmuted?

MS. STEWART: Yes, Chair, he's unmuted on our end.

CHAIR JOHNSON: Thank you so much. If you…if…there's a little microphone button. If that's not working, you can always call in, but…I don't know.

MR. TERUYA: Yeah, Chair, I tried texting him.

CHAIR JOHNSON: Okay.

MR. TERUYA: I don't know if he's having problems with his audio.

CHAIR JOHNSON: And if you push the letter M on your keyboard, sometimes you might be muted. Say something there, Mister...oh, now you're muted. So…I didn't hear anything, but you got to speak when you unmute yourself so we can find out. Try push M one more time, and then if not, we'll…just call into the call. No, it's not working. Okay. The number is in the chat, if you want to just call. I'm really sorry.

MR. TERUYA: Chair.

CHAIR JOHNSON: Yeah.

MR. TERUYA: He just texted me that he'll call in.

CHAIR JOHNSON: Okay, wonderful.

MR. TERUYA: Thank you.

CHAIR JOHNSON: Sorry. This technology has been a real bear on our backs this meeting. All right. Okay, Staff, when he calls in, just make sure you invite him, and you know, give him all the privileges so he can speak.

MR. TERUYA: Chair, if maybe you could have Staff either email me the number, and then I can probably forward it in case he's fumbling with it. Then, in the meantime, I can maybe take questions from the Members until he logs in.

CHAIR JOHNSON: Sure. We have questions for you, Director Teruya. And…but I'll just say this on the record because maybe Scully…Mr. Scully can hear us. To call, you do 1-408-915-6290, and the meeting code is 798-867-277. It's in our chat. So with that being said, Councilmember Paltin, you have questions?

COUNCILMEMBER PALTIN: Thank you. Actually, my question was for Mr. Gilbreath. We just had a traffic impact speed study today, and would your recommendation then be to use affordable housing funds to cover the traffic impact fee for affordable housings? Because the single family homes, depending on which category it is, they might...it might add on like, you know, like 300 to $1,400 to the cost per home for the road development.

MR. GILBREATH: Yeah, I haven't seen that study, Councilmember. It'd be interesting to see it. I do think a huge opportunity with the Federal infrastructure bill to try and align as many dollars that'll be coming to the State as possible to address those road needs and leverage, as Linda kind of said, really keep that...keep that ratio of leverage that they have right now in tune. But yeah, I'd be interested in seeing that study. I'm not real sure about that.

COUNCILMEMBER PALTIN: Yeah, I'll email you the draft. There might be some tweaks we still need to make though. Thank you, Chair.

CHAIR JOHNSON: Okay. Members, we'll leave the floor open to any questions for any of our presenters. So anybody have questions for our presenters right now? We have...we got one from Councilmember Kelly King. Go ahead.

COUNCILMEMBER KING: Well, thank you, Chair. Actually, I was kind of hoping that...to get a review of Linda Munsell of the slides for recommended additional changes to see what their...I don't want to...I think that's more than I can...I don't know, did you get a chance to see those slides and have any thoughts on those changes...recommendations?

MS. MUNSELL: Yeah. Thank you for that question. So yeah, I have seen those. And it certainly is an expanded use of the funds. I have maybe just two comments that you might consider. The first one is on his first slide where he's expanding uses, he talks about rental housing gap financing, and he suggests that we should do a 0 interest loans for rental projects, at about 175,000 per local renter. And I'm assuming that he's looking to lower the AMIs that are served by that investment. Currently, our investment is about $67,000 per door for multi-family projects. If you're looking to drive the AMI down on these projects, providing them with additional funding...financing, funding, may not be the answer that you need. Typically, getting the houses built is not the issue. Usually the issue is...if you're serving the lower AMI, is the ongoing management of those units. So you might want to talk to a number of developers about whether that's actually the right place to put the funding. And you may actually need to be looking at providing monthly subsidies, so a tenant based...or a project based subsidy to subsidize the rents. Because they won't be able to maintain the property and keep the project up if they don't have enough rent coming in every month. So that's just my first comment on that. And then on the second page that he's talking...he mentions reducing the interest rate on the affordable housing fund financing to 0 to 2 percent and 0 to 3 percent on homeownership units and defer the payments. My recommendation is that you should...that maybe we should consider tying the interest rate to a…some market rate of some sort with an overall cap. And what that does is that allows us to avoid a situation where someone is being overcharged, or someone is being…you know, gets a windfall from us. And again, I'm not a financing expert, but when I see these things, I see them usually tied to some market rate of some sort and, you know, it eliminates some of these issues. So those would be my two comments on those…on his expanded uses.

COUNCILMEMBER KING: Okay. Thank you. And then just real quickly, Jeff, if you're there, can you speak to…you know, we saw the slides that Ms. Munsell provided on the leveraged funds. So was your plan assuming that same level of leveraged funds, or a lower level of leveraged funds? Are we replacing leveraged funds with County funds?

MR. GILBREATH: I think you would see a lower leverage amount, but you would be seeing affordability for longer periods, even potentially in perpetuity, for folks who are extremely and very low income, which currently our system is not . . .*(inaudible)*. . . So you're trading leverage for the fact that you're actually meeting the greatest need that's in your community, and potentially in perpetuity.

COUNCILMEMBER KING: Okay. And then maybe part of that too, I was thinking might be to try to get this plan out the door quickly, rather than waiting for some of those leveraged funds to come in. Is that part of the…you know, the…

MR. GILBREATH: Projects will bring leverage funds in. If you folks are putting these kinds of dollars on the table to target those lower income levels, our assessment is that builders will come.

COUNCILMEMBER KING: Okay. Did you get a chance, just by the way, to talk to Doug Bigley at Ikaika Ohana on how he was able to do the level of very low income rentals that he's doing?

MR. GILBREATH: I haven’t.

COUNCILMEMBER KING: Okay. Because he would probably be a really good resource for you. You know, we're…the Kaiwahine Village, which opened up in the…during the pandemic, in 2020, and I think that started at two-bedroom apartments for $511. So they're addressing the very lowest income. And he's got pretty good leverage in there. So you know, I would advise you maybe to speak to him. He's got another project being started that's going to be very similar in Central Kīhei. And then they did one in Lāhainā, same…kind of the same model. All right. Thank you, Chair. Thanks, Jeff. Thank you, Linda.

CHAIR JOHNSON: Okay. Before we go around…to do more round robins with questions, I want to reach out to Mr. Scully. I know it's 9:00 p.m. on his time, and I think he got on the call. Let's…I kind of want to respect his time. I mean, that's pretty late. So Mr. Scully, if you can.

MR. SCULLY: Thank you, Chair, and hello to everybody. I hope everybody had a wonderful Thanksgiving. You know, just a couple comments. The Director of Finance did a wonderful job, you know, describing the difference between general obligation bonds and revenue bonds. And you know, if he keeps that up, he's going to make me superfluous. But I guess the question I have for Mr. Gilbreath is, you know, when he talks about the 58 million per year, I wasn't sure what that represented, you know, if that...and where...you know, what kind of bonds he was...he was referring to, or you know, where the revenues were going to come, you know, to support the Affordable Housing Fund, you know, the billion dollars. You know, was that an issuance of debt or was that a leverage of the 58 million that was to be collected as revenue?

CHAIR JOHNSON: Well, I think I can answer that. I think it's tax and...you know, the transient accommodations tax as well as our property taxes. So there's revenues for that. But you know, I'm kind of getting...I want to get to the idea of how do we use bonds to increase our affordable housing? I mean, how do we use that money to solve that problem?

MR. SCULLY: Yeah, and that's...okay, great, Chair. And that's exactly to my point. So there's two...as the Director of Finance was pointing out, there are two...there are basically two ways of dealing with bonds. There are the general obligation bonds, which is the full faith and credit of the...you know, all the property owners of the County. So everybody would be on the hook. There's also revenue bonds, and that could be secured by a specific source of revenue. So for example, if the 58 million was a specific source of identified revenue, you could securitize that amount of money. So you'd say, okay, 58 million a year, or whatever that amount is, that would...that would afford you to pay debt service on some much greater amount of money. So it would allow you to issue debt today, secured by that 58 million, you know, per year going in the future. And so that...rather than wait every year to get 58 million, you would....you would present value of 58 million over, say 20 years, and say okay, that would allow us to raise X dollars today, which would be a significantly greater amount. And that amount then would be able to go into your Affordable Housing Fund and to be used, you know, to...you know, to...you know, for this wonderful idea of, you know, helping, you know, residents that need...you know, need help for affordable housing.

CHAIR JOHNSON: Okay. Thank you, Mr. Scully, for that wonderful information. We do have just...if you don't mind staying on the call in case the Members have any questions, but I do have a question from Councilmember Keani Rawlins-Fernandez for Mr. Gilbreath. So she's struggling with technology issues like many of us today, so I'll just read it for Mr. Gilbreath for the record. For the Build Back Better Plan infrastructure funds, did you read in the bill that municipalities with the capability to leverage more of its own funds for those Federal fund increases our likelihood of accessing and increasing the amount of funds Maui County would get?

MR. GILBREATH: I apologize, Councilmember. I'm not sure. That is how infrastructure money has worked in the past. I'm assuming that's what's in there now, but I don't have that answer. But I could...I could search that for you.

CHAIR JOHNSON: Okay. Thank you. All right. So we also have a question from Chair Lee. Chair Lee, the floor is yours.

COUNCILMEMBER LEE: Jeff, could you repeat how much money we need? You...I saw the two graphs. I thought one was 300 million and the other one was 500 million.

MR. GILBREATH: So our estimates were at 389 million for...I believe 389 million for community serving infrastructure and...or sorry, 350 million for community serving infrastructure, 789 million for all of the additional housing supports other than that community serving . . .*(inaudible)*. . .

COUNCILMEMBER LEE: Did you say 700 million?

MR. GILBREATH: 789 million.

COUNCILMEMBER LEE: Total, or in addition to the 350?

MR. GILBREATH: In addition to the 350.

COUNCILMEMBER LEE: And so I think the tax person was thinking that we needed $58 million a year. Is that...is that what you break down, that 350 and the 700 plus million, to $58 million a year? Whereas he was...

MR. GILBREATH: To service the...to service the bond financing, as was mentioned by Mr. Scully.

COUNCILMEMBER LEE: To service the bond financing.

MR. GILBREATH: Yeah.

COUNCILMEMBER LEE: I see. So in other words, real property taxes will be servicing the bond financing, right?

MR. GILBREATH: That was one of the recommendations that was put forward, yes.

COUNCILMEMBER LEE: Yeah. Because what you're talking about...the second homes are also local families. A lot of local families have second homes, not only outsiders. And then there is a...in the wind, what's being contemplated is a phasing out of transient accommodation units. So that will be reduced. That area of income is going to be reduced, probably, over time. It's not...it's not a secure source of income. Do you have a Plan B?

MR. GILBREATH: I mean, I would recommend to go forward with the idea that you tax second, third, fourth, fifth homes that are valued at $3 million up. You ask those folks to pay about $300 more a month, you ask short-term vacation rental folks to pay $3 more a day, and that gets you most of the way there. And that would be...you know, could be where I would stand on that. When we put the plan forward, we did not have...transient accommodation tax wasn't even on the table when we put our proposal forward.

COUNCILMEMBER LEE: I know. Yeah. Well, that's kind of a stretch. I think there's going to be a lot of competition for the TAT, and not used exclusively for housing. There are many, many other demands by the public for the public. Okay, thank you. I'd really like to ask that person on the mainland again. I think he misunderstood. I think he was thinking $58 million for a couple times, and not to pay off a billion dollars.

CHAIR JOHNSON: You want to ask that to Mr. Scully?

COUNCILMEMBER LEE: If he's still on the line, please.

CHAIR JOHNSON: Mr. Scully, could you respond?

MR. SCULLY: Yeah, yes, I am still on the line. And that's...that was the concern I was...I was trying to raise. I agree. So if you're going to borrow, you would need a steady stream of income to pay off the debt. And in the plan, it only showed the 58 million for a five-year period. It would be difficult to, say, raise, you know, bonds on the 20-year maturity if you only have five years' worth of revenue. So I agree.

CHAIR JOHNSON: All right.

COUNCILMEMBER LEE: Thank you, Chair.

CHAIR JOHNSON: Okay. Thanks for that clarification. Let's move on to Councilmember Molina.

VICE-CHAIR MOLINA: Thank you very much, Mr. Chairman. I just had a question for Mr. Gilbreath. First, can you just define mainstream mortgage standards? And then in your conclusion slide, you mentioned to update County sales price guidelines to limit maximum monthly payments to 31 percent of the homebuyer's gross monthly income. Can you tell us what like studies or research was conducted to help you draw this calculations conclusion, I guess? Those would be my two questions.

CHAIR JOHNSON: Mr. Gilbreath.

MR. GILBREATH: I'm okay to address that, right? Okay. So with regards to mainstream mortgage standards, what we were talking about was the Federal Housing Administration loan, Councilmember. So this is a product that's used by about 50 percent of first time homebuyers across the nation. It has the most relaxed requirements in terms of being able to get qualified, but in that, they require that the monthly payment of principal, interest, taxes, insurance, mortgage insurance, and HOA fees doesn't go above 31 percent of the gross monthly income. So we were showing that, hey, if we conform to the FHA product, doesn't mean that folks above and who are purchasing the affordable homes already couldn't do it, we're just trying to open up so more families that are lower income, need that affordable sorts of financing, can also purchase a home. And then updating the sales price guidelines, so with regard to Hāna, Molokaʻi, and Lānaʻi, those districts have a maximum allowable income that is far less than the other districts in Maui. So what that means is that if someone, say for example, on Molokaʻi makes over $34,000, they would not be considered a low income homebuyer and may be disqualified from even being able to purchase a home, even though, if they're living somewhere else, maybe on Maui, they could have $78,000 of annual income and be able to purchase.

VICE-CHAIR MOLINA: Okay. Thank you for clarifying those questions. Thank you, Mr. Chairman.

CHAIR JOHNSON: Okay. Members, it's 4:26. I kind of want to respect everyone's time. So if anybody has any more questions…we do have one from Councilmember Paltin, but anybody who hasn't gone? Otherwise, go ahead, Ms. Paltin.

COUNCILMEMBER PALTIN: Thank you, Chair. This question was for Mr. Scully if he's still on the phone.

MR. SCULLY: I am still on.

COUNCILMEMBER PALTIN: Thank you, Mr. Scully. Just wondering if the bond funds, whatever mechanism of bond funds we do, can it be used for down payment assistance and loans to individuals?

MR. SCULLY: Yes. You do have flexibility…you have flexibility under both…under both the law and Maui ordinance, so there is flexibility as to the use of the…of the proceeds of the bonds. You know, the…going back, the bigger question is, how do you repay the bonds?

COUNCILMEMBER PALTIN: So it's not limited to County projects or infrastructure, it's just we got to know how we're going to pay it back?

MR. SCULLY: Well, you do have limitations under State law and under the Maui ordinance, but they're pretty broad.

COUNCILMEMBER PALTIN: Oh, okay.

MR. SCULLY: But as far as…you know, as far as the payment or the repayment of the bonds, yes, that would be the issue, is that once you issue the debt and then you loan the money out, how are you going to get money to repay the bonds, you know, the principal and interest on the bonds that you issued.

COUNCILMEMBER PALTIN: So it might be better to use the bonds for the County needed infrastructure, and use other sources of Affordable Housing Fund income for the loans and the down payment. Because the County funded infrastructure…or community serving infrastructure will get paid back a portion from market rate developers?

MR. SCULLY: Yes. And that is typically what you…you know, that's more along the lines of what general obligation bonds are used for, you know, for capital infrastructure of the County.

COUNCILMEMBER PALTIN: Regardless of who's paying for that?

MR. SCULLY: The infrastructure, that would…that's typically…would be…you could use that out of your GO bonds. That would be a typical, you know, use for GO…for GO proceeds, general obligation proceeds.

COUNCILMEMBER PALTIN: Okay. Thank you. Thank you, Chair.

MR. SCULLY: Sure.

CHAIR JOHNSON: Okay. I think we had a great discussion, Members. And any final thoughts anybody has? You got a minute or two. Go ahead, Chair Lee.

COUNCILMEMBER LEE: Really fast, Scott, I was always told that GO bonds could be used only for items that have an economic life of at least five years. Does that apply to a down payment? Just checking.

MR. TERUYA: Chair, I'll defer that question to Bond Counsel for now.

MR. SCULLY: Yeah, it would…it…that's precisely right, but it would be on a down payment of the house. So the house, theoretically, would have a…you know, a longer than a five-year useful life.

COUNCILMEMBER LEE: Okay. Thank you.

CHAIR JOHNSON: Okay. All right. It's 4:30 now, Members. I think we had a great discussion. There's going to be legislation will come…will…down the pipe, but I wanted to start this, you know, let everybody be informed and say, you know, this is what we're doing now, how we can make this better. We…you know, we all fought hard during campaign for helping out affordable housing folk. Well, now we're talking the money side of it. So are we going to put our money…our mouth where the money is, right, or something like that? But I just want to say thanks for all that. I think we're going to have stuff down the pike. And I'm going to defer this item for now. So Members, it's 4:39 [*sic*]. Without your…without any objection, I'll defer this item right now.

COUNCILMEMBERS: No objections.

COUNCILMEMBERS VOICED NO OBJECTIONS (Excused: TK)

ACTION: DEFER PENDING FURTHER DISCUSSION.

CHAIR JOHNSON: Okay. So that takes us to the end of our agenda, and I want to thank you for your time. The time is now 4:30, and the Affordable Housing Committee meeting is now adjourned. . . .*(gavel)*. . .

ADJOURN: 4:30 p.m.

APPROVED BY:

GABE JOHNSON, Chair
Affordable Housing Committee

ah:min:211129:bc

Transcribed by: Brenda Clark

CERTIFICATION

I, Brenda Clark, 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 6th day of January 2022, in Wailuku, Hawai'i

Brenda Clark