

COUNCIL OF THE COUNTY OF MAUI  
**BUDGET AND FINANCE COMMITTEE**

November 2, 2001

**Committee**  
**Report No.**

01-205

Honorable Chair and Members  
of the County Council  
County of Maui  
Wailuku, Maui, Hawaii

Chair and Members:

Your Budget and Finance Committee, having met on October 16, 2001, makes reference to County Communication No. 01-261, from the Budget Director, transmitting a proposed bill entitled "A BILL FOR AN ORDINANCE AMENDING ORDINANCE NO. 2965 (2001), PERTAINING TO THE ISSUANCE OF GENERAL OBLIGATION BONDS OF THE COUNTY OF MAUI, FOR THE PURPOSE OF PROVIDING FUNDS TO PAY THE COST OF APPROPRIATIONS FOR THE WEST MAUI RESOURCE CENTER".

The purpose of the proposed bill is to recognize \$4,000,000 for the West Maui Resource Center ("project") in the Bond Ordinance.

By correspondence dated September 24, 2001, the Mayor provided comments on the project and requested that it be scheduled for the October 2, 2001 Committee meeting.

By correspondence dated October 9, 2001 to the Department of the Corporation Counsel, your Committee Chair requested that the Department contact the County's bond counsel and examine all issues pertaining to the issuance of a reimbursable revenue bond for the project.

By correspondence dated October 9, 2001 to the Director of Finance, your Committee Chair requested that the Director respond to various questions regarding the loan for the project.

At its meeting, your Committee met with the Director of Finance, the Director of Housing and Human Concerns, a Deputy Corporation Counsel, and Charles Ridings, Executive Director, Ka Hale A Ke Ola Homeless Resource Center.

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Your Committee received a written response dated October 15, 2001, from the Director of Finance regarding the loan for the project.

Your Committee received testimony from one member of the public, who expressed concern about a private organization being dependent upon the government for help.

The Director of Housing and Human Concerns stated that this project is time sensitive. She informed your Committee that the County funds are only a portion of the total project. There are also Federal and State funds designated for the project. The Director stated that the Homeless Task Force recognized in 1993, 1997, 1999, and 2000 that affordable, rental housing was needed on the West Side. She further stated that individuals, impacted by welfare reform, as well as the current unemployment crisis, will increase the current needs for housing.

The Director of Finance reviewed his response to questions submitted by your Committee Chair. He informed your Committee that several meetings had been held with Mr. Ridings to analyze the cash flows of the project. He stated that there had been some technical changes that eliminated a need for the five-year subsidy. He further explained that the County would not issue the bond until the project is completed. This will permit the project to postpone the bond debt until the bond is issued, which eliminates the need for the five-year subsidy.

Your Committee was informed that an appraiser had reviewed the project and indicated that the assumptions used for both occupancy and collections were conservative based upon the market and historical results at Hale Makana O Waiale, a similar project. The Director of Finance stated that the project's projections for cash flow are 95 percent compared to 98 percent that Hale Makana O Waiale has experienced. In addition, the collection default rate used is 3 percent for the project compared to .9 percent at Hale Makana O Waiale. The Director further stated that the project would support up to \$3.9 million in bond funds.

The Deputy Corporation Counsel provided your Committee with an overview of the difference between a General Obligation (G.O.) Bond and a Revenue Bond. He stated that Hawaii Revised Statutes (HRS), Chapter 47

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governs G.O. Bonds. He explained that the credit of the County and its taxing authority through real property taxes support a G.O. bond. If the property is not owned or operated by the Government, a level of control by the Government needs to be demonstrated in order to issue a G.O. bond. The Deputy Corporation Counsel informed your Committee that the project would meet the concerns of the Bond Counsel in that there would be sufficient control through the terms of the leasehold agreement (55-year lease). These terms are: (1) that the lessee cannot sublease, transfer, or sell the property; and (2) that the leasehold improvements will be transferred to the County at the end of the lease.

Your Committee was informed that HRS, Chapter 49, governs Revenue Bonds. The Deputy Corporation Counsel explained that a steady revenue stream from the rental income of the units would secure a Revenue Bond. He stated that Revenue Bonds pose an economic or market challenge because they rely on a continuing revenue stream and it is uncertain how investors will review it. Generally, Revenue Bonds carry a higher interest rate than G. O. Bonds.

Mr. Ridings informed your Committee that the 40 affordable rentals require that the income of the family is 50 percent or less than the median family income. In addition, the 32 transitional units have a residency requirement of no longer than two years. Mr. Ridings stated that, in practice, residents move from the transitional housing into affordable units. The affordable units allow the residents to stay indefinitely; however, they are encouraged to move on. He further explained that residents go through an income certification process. As their income increases, they attend a self-sufficiency program, which encourages them to look at other options, including purchasing a home.

Your Committee expressed serious concern that the County's affordable housing needs are still not being addressed. Your Committee noted that the State's past affordable housing policy, which required that 40 percent of the dwelling units in a residential development be set aside for affordable housing, jeopardized the financial feasibility of the development. Consequently, affordable housing construction came to a halt. However, your Committee recognized that the County's current affordable housing policy, that not less than 10 percent of the dwelling units in a residential development be set aside for affordable housing, is inadequate. Therefore, your Committee recommended that

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consideration be given to increasing the percentage of affordable housing units required of a residential development.

Your Committee voiced concerns about the project's zero tolerance policy. Your Committee noted that with drug, alcohol, and spousal abuse increasing, many families would not be able to qualify to reside at the project.

After considerable discussion, your Committee voted to recommend passage of the proposed bill on first reading and filing of the communication.

Your Budget and Finance Committee **RECOMMENDS** the following:

1. That Bill No. \_\_\_\_\_ (2001), attached hereto, entitled "A BILL FOR AN ORDINANCE AMENDING ORDINANCE NO. 2965 (2001), PERTAINING TO THE ISSUANCE OF GENERAL OBLIGATION BONDS OF THE COUNTY OF MAUI, FOR THE PURPOSE OF PROVIDING FUNDS TO PAY THE COST OF APPROPRIATIONS FOR THE WEST MAUI RESOURCE CENTER", PASS FIRST READING and BE ORDERED TO PRINT; and
2. That County Communication No. 01-261 be FILED.

Adoption of this report is respectfully requested.

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**G. RIKI HOKAMA** Chair

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**PATRICK S. KAWANO** Member

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**ALAN M. ARAKAWA** Member

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**MICHAEL J. MOLINA** Member

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**ROBERT CARROLL** Member

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**WAYNE K. NISHIKI** Member

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**JO ANNE JOHNSON** Member

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**CHARMAINE TAVARES** Member

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**DAIN P. KANE** Member