

SUMMARY - MEETING NO. 287
HAWAII COMMUNITY DEVELOPMENT AUTHORITY

State of Hawaii

September 1, 2004 – 9:00 a.m.

Hawaii Community Development Authority
677 Ala Moana Boulevard, Suite 1000, Conference Room
Honolulu, Hawaii 96813

ATTENDANCE

Members Present: Mark Anderson (for Theodore Liu); Michael Goshi; Rodney Haraga; Paul Kimura; James Kometani; Gary Kondo; Jonathan Lai; Russ Saito; and Stanley Shiraki (for Georgina K. Kawamura)

Kalaeloa Members: William Aila, Jr.; Eric Crispin; Evelyn Souza; and Maeda Timson

Others Present: Daniel Dinell; Melvin Nishimoto; Teney Takahashi; Cal Machida; Matthew Akamu; Neal Imada; Chris Kempner; Irene Iha; Marvin Uehara; Miko Dargitz-Hallett; Stanton Enomoto; Annette Kawasaki; Steve Miyamoto; and Jill Sugihara (also, see Meeting Attendance Record).

I. ROLL CALL

The meeting of the Hawaii Community Development Authority (HCDA) was called to order on September 1, 2004, by Chairperson James Kometani at 9:05 a.m. with the following roll call:

Chairperson Kometani	Present
Member Anderson	Present
Member Goshi	Present
Member Haraga	Present, Arrived at 9:07 a.m., Left at 9:50 a.m.
Member Kimura	Present
Member Kondo	Present
Member Lai	Present, Left at 11:15 a.m.
Member Saito	Present

Member Shiraki	Present, Arrived at 9:28 a.m.
Member Aila	Present, Left at 9:31 a.m.
Member Crispin	Present
Member Souza	Present, Left at 9:31 a.m.
Member Timson	Present, Arrived at 9:10 a.m., Left at 9:31 a.m.

MATERIALS DISTRIBUTED

1. Agenda for September 1, 2004 Meeting;
2. Summary Minutes of Regular Meeting of August 4, 2004;
3. Report of the Executive Director;
4. Kalaeloa Status Report;
5. Hawaii Community Development Authority Revised By-Laws;
6. Kamehameha Schools Proposal to Amend Master Plan; and
7. Approval of Improvement District 11 Assessment Methodology.

II. APPROVAL OF MINUTES

1. Regular Meeting of August 4, 2004

Chairperson Kometani asked if Members had any corrections to the minutes of the August 4, 2004 meeting. There were no corrections and it was moved by Member Anderson and seconded by Member Souza that the minutes of the regular meeting of August 4, 2004, be approved. The motion passed 12 to 0 with one excused (Member Shiraki).

III. REPORT OF THE EXECUTIVE DIRECTOR

Mr. Dinell noted that the Executive Director's report was enclosed in the packet distributed to the Authority Members and reported on the following additional items:

- Mr. Dinell reported that the clean-up of the Historic Pump Station located at the corner of Keawe Street and Ala Moana Boulevard took place on Saturday, August 21, 2004. He stated that the volunteer professionals from the Hawaii Architectural Foundation were so enthused that they discussed approaching the State Office of Historic Preservation for permission to demolish the non-historic cinder-block buildings on the site. In the long term, staff believes the Authority should lease the site to a party that would put it into active community people-oriented use. One approach being pursued is working with the Hawaii Architectural Foundation to secure grants to restore the buildings to a usable state.

HCDA has received support from the State Department of Health's EPA Brownfields funds to conduct a Phase I environmental review of the site. Staff recommendation in the future, would be to issue a Request for Qualification (RFQ) and/or combine it with the development potential of the 3.3 acre site located just Ewa of the Historic Pump Station site. Staff is also working closely with the Office of Hawaiian Affairs since the building is on ceded lands.

- Litigation regarding the American Brewery Building is awaiting a court ruling on a motion filed July 22, 2004, by HCDA's special outside legal counsel (Roeca, Louie and Hiraoka) to add several additional parties as defendants in the action. Mr. Dinell stated that after depositions are taken, staff may request that David Louie make a presentation to the Authority in Executive Session regarding the status of the litigation.
- Mr. Dinell participated in discussions with the High Technology Development Corporation (HTDC) regarding Townsend Capital's interest in privately financing construction of the already-permitted 190,000 square foot structure on the Phase II site of the John A. Burns School of Medicine (JABSOM). Since the University of Hawaii (UH) has a 57-year ground lease with HCDA, it will be UH's decision whether to entertain this approach to developing the site.

Townsend Capital has conceptually proposed to address JABSOM Phase II parking needs by locating a parking structure makai of the Phase II site that would occupy HCDA-owned land on the mauka edge of Kakaako Waterfront Park (KWP). This proposal is consistent with HCDA's makai concept plan which depicts switching location of the KWP parking lot with that of the existing amphitheater in order to create a continuous green space from Ala Moana Boulevard to the ocean. Since the existing landscaped mounds are over 40 feet high, Townsend Capital is proposing the top deck of the structure be landscaped and connected to the existing park thereby providing flat space which is in short supply at KWP. Townsend Capital has also proposed locating a second parking structure financed by UH to the Ewa side of the Phase II parking structure that would help to provide permanent parking for JABSOM.

Townsend Capital is scheduled to meet with the HTDC Board later in September and with the UH Board of Regents on October 22, 2004. It is anticipated that a presentation will be made to the Authority at the October or November meeting. Mr. Dinell acknowledged Kay Yamada from HTDC in the audience.

- Mr. Dinell reported that he and Teney Takahashi met with Andy Anderson and principals of the Anekona Hawaii Group who presented an unsolicited proposal to enter into an exclusive Master Development Agreement with the Authority for the Point Panic and Kewalo Basin waterfront commercial lands. Mr. Anderson was

informed that the Authority is in the midst of a 60-day review period of the KUD Point Panic proposal. Thus, HCDA could not discuss land control of the site at this time. Further, Messrs. Dinell and Takahashi explained that the Authority would likely choose to pursue an open, competitive RFQ process in the near future in order to expose the Kewalo Basin waterfront commercial opportunity to the broadest spectrum of developers possible. Anekona Hawaii Group requested a chance to make a presentation to the Authority on its proposal at a future meeting.

- Mr. Dinell noted that Project Manager Sandy Pfund has accepted a new position with the Aloha Tower Development Corporation. Ms. Pfund's professionalism and work will be recognized at the Hawaii Congress of Planning Officials Conference where she will be on a panel discussing Brownfields. Also, Asset Manager Marvin Uehara has tendered his resignation effective at the end of September. HCDA will be recruiting for both positions.
- Aloha Festivals was issued a three week right of entry for the vacant lot mauka of the Children's Discovery Center for the purpose of building floats for the Aloha Week Parade scheduled for September 11, 2004. Tents and temporary structures will be erected and removed a few days after the parade. Aloha Festivals has provided the necessary insurance and is assuming all liability coverage.
- Mr. Dinell represented HCDA at the groundbreaking ceremony of the Moana Pacific project. The development is a \$200 million investment in Kakaako and validates the work of the Authority. Mr. Dinell emphasized to the owners the need to enhance the Kapiolani Boulevard frontage in support of HCDA's pedestrian-oriented policies.
- Mr. Dinell will be participating in an informal real estate forum with the editors of Pacific Business News. He will focus on the momentum and interest in Kakaako development and pitch the opportunities at Kalaeloa. Mr. Dinell asked the Members if they had any input or points that should be emphasized.
- There will be a blessing and dedication of the Queen Street Extension on September 9, 2004, in which Governor Linda Lingle will participate. Mr. Dinell asked Members to RSVP if they had not already done so.

Chairperson Kometani asked if there were any questions for the Executive Director. There were none.

IV. ITEMS FOR INFORMATION

A. Kalaeloa Status Report

Director of Planning and Development for Kalaeloa Stanton Enomoto presented the status report.

Mr. Enomoto reported that his first week on the job has been focused on “getting up to speed.” He highlighted a few things from the status report that was distributed to the Members in the packet.

- Staff is moving forward on the Kalaeloa Framework that was presented at its April 2004 meeting and was approved by the Authority at its July 2004 meeting. Some of the items from the Framework will be incorporated into the Economic Development Agency (EDA) grant. Mr. Enomoto stated that he is refining the budget and expects it to be completed within the next few days.
- The City Department of Planning and Permitting approved a variance request by Fluor Hawaii (now Ford Island Properties) for four of its housing areas at Kalaeloa (On-Station, Orion Park, Makai and Orion Housing). These parcels will be conveyed in fee to Ford Island Properties by July 2006. The variance will allow for their upkeep and maintenance after conveyance when the zoning will change from an F-1 Federal Military designation to a P-2 General Preservation designation.
- Staff is continuing its review of assessments for the Kalaeloa land users.
- Regarding Federal Conservancy Legislation and the Heritage Park and Akoko parcels, staff is continuing its review of potential uses for these parcels, as well.
- The utility systems are still in the process of conveyance from the Navy.
- Staff has submitted two additional grant applications for Kalaeloa through the State Office of Planning, one to the U.S. Environmental Protection Agency (EPA) for its “Smart Growth” program, and the other to the U.S. Economic Development Agency as part of its “Comprehensive Economic Development Strategy.”
- On August 13, the guard shack at the Fort Barrette Gate was demolished by the State Department of Defense’s Hawaii Army National Guard. The

guard shack was heavily vandalized and an eyesore. Staff visited the site with Department of Transportation Director Rod Haraga on August 31. Staff will be working with DOT to remove the concrete pad and bollards that are still on site and also securing the adjacent security office and improving the Geiger Gate entrance. Kapolei High School has also been consulted to maintain median landscaping.

Chairperson Kometani asked if there any questions.

Member Timson thanked HCDA for coordinating the demolition of the guard shack as she has been concerned about it for some time. She also reported that she received a call that there was an electrical line near the Fort Barrette Gate that was hanging low and looked like it may have been illegally installed.

Mr. Enomoto responded that he would look into the matter.

Chairperson Kometani stated that there was no Navy Report this month; however, the Navy's Base Closure Coordinator Roger Au was in the audience, and if there were any questions or concerns, he would be able to answer. There were none.

V. ITEMS FOR ACTION

2. Adoption of Hawaii Community Development Authority Revised By-Laws

Executive Director Daniel Dinell presented the staff report.

Mr. Dinell stated that the Authority's statutes allow the agency to have by-laws and that the current by-laws were severely outdated. Since the by-laws were adopted over 20 years ago, they still contain references to department heads that no longer exist, and there is no reference to Kalaeloa. A proposed draft of the revised by-laws was sent to members for comments and was included in the exhibit attached in the packet as Exhibit A.

Mr. Dinell reported that the current practice of electing officers in July after new Authority Members are in place has been reflected in the revised by-laws. Corrections to the address, gender neutral language and changes in the State law to reflect the composition of the Authority were made as well.

Mr. Dinell also reported that the State Office of Information Practices encourages all boards and commissions to have a formal policy for the public to submit written testimony and provide oral testimony. Thus, a section has been added on this matter stating a time limit for oral testimony to be at the

discretion of the Chairperson for either three or five minutes depending on the amount of testifiers.

The old by-laws stated that the Authority may appoint, in the case of a vacancy in the job of the executive director, someone from the staff. This language was deleted and replaced to say that if there is a vacancy the Authority may appoint an interim executive director, thus broadening the language to allow appointment of anyone, including non-staff members.

Staff made a recommendation to adopt the revised by-laws as outlined in Exhibit A.

Member Haraga moved to adopt staff's recommendation and Member Anderson seconded the motion.

Member Haraga commended staff on inserting gender neutral language and encouraged all departments to do the same. He noted that "manholes" are now called "maintenance holes" and "man hours" are now called "staff hours" and reminded staff that it should be consistently gender-neutral.

There were no further questions or comments and a vote was taken to adopt staff's recommendation. The motion was carried unanimously, 13 to 0.

Member Crispin requested to give a brief update on Kalaeloa.

Member Crispin stated that the City has been working closely over the past six to eight months with DR Horton, formerly Schuler Homes, and with Campbell Estate on the rezoning of two fairly major parcels (approximately 170 and 190 acres) that would have a significant impact on Kalaeloa as a whole. The matter is expected to be heard by the City Council before the end of the year.

The makai portion is scheduled to be redeveloped by DR Horton for primary residential use and the City has been encouraging addition of mixed use on the northern edge of the parcel, closest to the City of Kapolei. Campbell Estate is also pursuing rezoning a block makai of the Kapolei Parkway roadway which would include mixed use developments as well as residential, office and retail uses.

The original drainage plan that Schuler and Campbell had proposed included a moat, a concrete lined channel 50 feet deep between 25 to 60 feet wide, and would have essentially separated Kalaeloa and Fluor's development from the rest of the City of Kapolei. The City worked with its engineers on a different approach to create a natural stream with a grass lined bottom that would be only 10 feet deep and 100 feet wide, but would essentially create a green beltway going east to west. This would

allow homes to be facing the green beltway which would include bike paths and pedestrian paths on the upper banks on a two to one slope.

Member Crispin also informed the Authority that the City has been working with developers on a draft Ewa Smart Growth Development Code that includes the roadway network. The significant impact of having a natural stream for drainage allows the integration of pedestrian paths. This creates the possibility of three to four pedestrian connections between Kapolei and the existing area from Kalaeloa, and another three connections for vehicular traffic which, with a concrete channel, would have required bridges. Member Crispin recommends that the developers make a presentation to the Authority in the future and promised to circulate more information with details.

Chairperson Kometani called a short recess to allow Kalaeloa members to depart, since the remaining agenda items pertained to Kakaako. Members Maeda Timson, Evelyn Souza and William Aila, Jr. departed at 9:31 a.m.

Chairperson Kometani reconvened the meeting at 9:35 a.m. and acknowledged that Members Shiraki and Haraga were in attendance.

VI. ITEMS FOR INFORMATION (CONTINUED)

B. Kamehameha School's Strategic Master Planning Efforts and Major Initiatives

Planning and Development Director Teney Takahashi introduced the subject matter.

Mr. Takahashi explained that in September 1994, HCDA approved the "Pauahi Place Master Plan," which included a Development Agreement for 53.8 acres of land owned by Kamehameha Schools on both sides of Ala Moana Boulevard.

The master plan option is available to landowners with assemblages of over 10 acres for the purpose of encouraging investment in new and timely development, reducing costs, improving quality, allowing for orderly planning of implementation of public and private development, and providing reasonable certainty in the approval process.

The Pauahi Place Master Plan includes commitments for affordable housing, parking, off-site infrastructure and other public improvements in exchange for greater flexibility and benefits for a specific period of time.

There are approximately 123,500 square feet of public facilities dedication credits that were granted to Kamehameha Schools (KS) in lieu of compensation for lands conveyed to HCDA for public use. CompUSA has been the only project developed under the Pauahi Place Master Plan to date, and it used only 2,952 credits, leaving a balance of 120,514 credits. The credits are payable in cash to KS in the event the Pauahi Place Master Plan is terminated or HCDA is dissolved.

Since the Pauahi Place Master Plan was approved by the Authority 10 years ago, HCDA has amended its Plans and Rules to allow greater flexibility. As a result, KS decided that it would be more advantageous to develop its Kakaako properties under the current rules rather than under its 1994 Master Plan. Thus, KS is requesting termination of its existing Master Plan Development Agreement and Permit, provided that it can retain the accumulated public facilities dedication credits. HCDA raised consideration of several additional issues that must be addressed to retain the public benefit.

The termination of the Pauahi Place Master Plan would require the formal approval of both parties and a public hearing.

Mr. Takahashi introduced Kamehameha Schools Project Manager Bob Oda and Director of Planning and Development Susan Todani to present Kamehameha Schools' vision and major initiatives.

Mr. Oda explained that the root word Kaka'a means "to evolve" and the word "ko" can mean "to fulfill." Kamehameha Schools' vision is to fulfill a legacy and vision for a revitalization that is consistent with the live, work and play concept advocated by HCDA.

Mr. Oda stated that recently there have been a lot of press reports and excitement about the Kakaako district with the development of the life sciences industry, Ward Villages and condominium projects in the area. The Pauahi Place Master Plan developed in 1994 is an entitlement plan based on a more restrictive regulatory environment that existed at that time. KS is now asking the Authority for consideration to obtain new entitlements which would allow KS to proceed with development opportunities on its lands on an equal basis.

Mr. Oda said the other issue is supporting the development of life sciences in and around KS lands. However, the limited track record of the life sciences industry raises concerns about whether it will be self-sustaining.

Mr. Oda stated that KS has commissioned a study to implement a viable development plan. This study is a road map which would identify the areas of life sciences with the greatest opportunities for success in Hawaii. This information will be shared with the public and with broad sectors that really need to know if there is a future for life sciences in Hawaii, in general, and, in Kakaako, specifically. Two catalyst projects would need approvals from HCDA to allow development of KS lands under current Kakaako district rules. KS has also engaged consultants to complete an application for a New Markets Tax Credit.

KS is supporting life sciences and mixed use development as well as other commercial retail activities in and around Kakaako because it is an asset for the live, work and play vision for the district.

KS plans to complete its strategic master plan within the next two months and by the end of the year have a Request for Qualification (RFQ) or Request for Proposal (RFP) process implemented. The intent is to have the development agreements for selected developers in place on, or around, the same time that JABSOM has its grand opening in March or April of 2005. KS would like to terminate its current development agreement and utilize HCDA's current rules and provisions.

Mr. Oda stated that there has been a change in leadership at Kamehameha Schools, and a project team is putting together a work product that will become a master plan. In its plan, Cooke Street has been identified as the main pedestrian thoroughfare in Kakaako. Initial plans call for softening the edges along Ala Moana Boulevard with landscape developments supportive of the vision of creating a green belt that would extend from mauka to makai through Kakaako all the way up to Mother Waldron Park, and creating street fronts that are similar to Santana Row in San Jose, California. There would be arcades, and areas that are pedestrian friendly.

Although Floor Area Ratios (FARs) allow for large buildings, KS' intent is not to maximize the density, but to maintain open space and create a sense of community in which people can live, work and play and not feel encumbered by a proliferation of high rises, because it would not be in the best interest of Kakaako in terms of New Urbanism.

Mr. Oda stated that it would be better to deal with one set of rules rather than to prepare RFPs with caveats on which rules to apply to which development proposals. He argued that dealing with the current set of rules versus the 1994 entitlements would kick-start development opportunities in Kakaako. He said it would allow initiating development momentum on KS properties and

capitalize on immediate interest in the life sciences development opportunities that are currently available in Kakaako.

Mr. Oda said the Pauahi Place Master Plan development agreement versus the current rules do not provide an advantageous environment for KS to proceed with development. Phasing, public facility credits, and reserved housing are issues that create difficulties for developers to look at KS lands objectively. He emphasized that, under the current rules, the industrial requirement is a bonus, and not a requirement as it is under the Pauahi Place Master Plan.

According to Mr. Oda, development and phasing is one of the major things that was incorporated in the original agreement. It would describe that non-planned developments would occur in KS lands through variances but would be restricted in terms of completing mauka development before makai. KS intends to address both mauka and makai in developing critical mass around Ala Moana Boulevard.

Public facilities dedication requirements under the old rules were seven percent for all projects and now the requirement has been reduced to three and four percent for commercial and residential projects, respectively.

Mr. Oda noted that the reserved housing fee moratorium is coming to an end. Although the reserved housing component is the right thing to do, it provides a specific penalty to any developer. KS would like to provide more housing in Kakaako. Current reserved housing requirements make that somewhat difficult. KS feels that to be successful any development in Kakaako has to have a viable residential component.

Ms. Todani further explained that the only thing that is a great benefit to KS under the current master plan is that the reserved housing cash in-lieu fee is two percent instead of four percent. Since the current rules have been relaxed, the old rules have a negative impact for development for KS. KS would like to use the current rules that are applicable to the rest of the owners/developers in Kakaako.

Mr. Oda stated that under the old rules, KS is at a disadvantage compared to other developers who have lands that are currently under the new rules which are more favorable in a lot of areas for developers.

Mr. Oda reported that the New Markets Tax Credit study will be completed in the middle of September and the complete report finished by the end of October. The study will create a tax credit application which is a federally funded program designed for new developments in areas that are deemed low

income areas. KS has taken the initiative to fund this endeavor to create this governing and advisory board with a cross-section of people within the State to provide input and guidance in a community development entity that would receive the award, should it be granted. An indication is expected by May 2005.

Mr. Oda said the impact to Kakaako would be to build steam and sustain momentum for development, maximizing the State's investment in infrastructure improvements, and supporting JABSOM in emerging life science development. New jobs and a new urban lifestyle where people can live, work and play, would be created.

Mr. Oda stated that the collaboration with HCDA staff has been very positive. There have been preliminary discussions on what would be required for KS to leave the old agreement and move forward under the current rules. There have been discussions about participating in the common area maintenance (CAM) association for the makai area. According to KS calculations, assuming a 3.5 percent public facility fee, the remaining 120,514 square feet of credits would enable up to 3.4 million square feet of building area. Under the most aggressive scenario, if KS were to build 300,000 square feet per year, Mr. Oda said it would take 10 years to use up all the credits and Mr. Dinell has suggested a time clock by which the credits must be used.

There have also been discussions about collaborating on shared parking facilities, because parking seems to be the main stumbling block in a lot of the makai area developments. KS is looking at a regional solution for parking that would address parking needs on both sides of Ala Moana Boulevard.

KS is committed to working in a coordinated fashion with HCDA staff regarding planning, development and a timetable which is fairly aggressive.

Mr. Oda believed that the goals of HCDA and KS as well as other developers in Kakaako are aligned to create a positive momentum in the area. KS seeks to eliminate the existing development agreement and adopt all current or revised mauka and makai rules. KS seeks HCDA's support and approval in an expedient process to adopt the KS proposal which would allow KS to proceed on its timetable with discussions with developers on the current rules for KS lands, and would simplify the process of preparing the final RFPs by the end of this year.

Chairperson Kometani thanked Mr. Oda and Ms. Todani and asked Members if they had any questions.

Member Crispin commended KS and HCDA staff on working together for an exciting and promising direction of development that KS is embarking upon. He stated that it was refreshing to see that both consultants that are being used are ones that understand the goals and objectives in trying to create a pedestrian-friendly place and that was reflected in the massing diagram. Although it was just massing, it gave a three-dimensional glimpse of KS' vision.

Member Crispin questioned how the timing for KS (based on the aggressive schedule) jived with the discussions on the revision of the mauka area rules. His concern is ending up with a project that is based on today's rules but is not in line with the vision for the district. He stated that it should require some flexibility on the part of the Authority to recognize it as a living document. If the Authority were to tell KS to wait until the rules are in place that might be two or three years from now, and they would have lost out on an opportunity. He also expressed concerns of being in a legal battle when developers build according to the current rules and can't wait for the new rules.

Mr. Oda commented that KS is preparing the RFQ packages to set some guidelines for developers to respond, but still provide them enough flexibility in their planning. They will see who has the better idea and better solution that is consistent with the direction that HCDA mauka area revisions are going.

Mr. Dinell stated that, to maximize the land value, you need to plan not how to maximize revenues, but how all the pieces work together. KS has about 53 acres within in Kakaako; and it would be ill-advised to just parcel it out to anyone because it would dilute the value of the 53 acres as a whole. What KS is requesting is to vacate the Pauahi Place Master Plan that locked in rules that are now a disadvantage, and to allow them to play by the same current rules as other large land owners in Kakaako. For example, General Growth owns 60 acres, but doesn't have a master plan with HCDA, so General Growth comes in with a concept for approval for each project, but always considering how each development works as part of the whole puzzle.

Member Crispin expressed that in the example of General Growth, it has little more control because it develops the property itself. But, in the case of KS, it would be outside developers who would be coming in and sometimes playing hardball. The developer may say, "this is what I want to do, it may not fit your vision but it is perfectly legal." They may claim it is something that they are entitled to do according to the rules, and they might drag HCDA into a legal battle if they are not allowed to do it.

Member Goshi stated that in a perfect world HCDA would revise the rules but that takes time. Usually by the time it is done, times have already changed and rules are no longer in sync. He stated that not all the rules are bad, just a small percent.

Member Crispin said that he brought up the point based on his experience with Kapolei. Even though the design intent and rules were specifically oriented toward being pedestrian-friendly, the reality is it hasn't turned out that way. He is raising the flag to the Members to hold firm with the vision knowing that the rules aren't quite fully developed as they ideally would be in order to implement that vision.

He said the rules just need fine tuning, and suggested that perhaps a resolution adopted by the Authority can be agreed on to articulate the kinds of things to look for in projects, so when an RFP is issued, the message that is conveyed to the developers is that this is an official message coming from the Authority that says unless you have got these revisions implemented in your plans, HCDA is not going to consider them. Otherwise, Member Crispin said the public will end up with 40-foot concrete walls from one street to another.

Ms. Todani stated that KS has two projects that are front and center, namely Kakaako and the Royal Hawaiian Shopping Center. KS now has a development and planning group, which it never had before, and noted cooperation from HCDA which is positive for economic development. JABSOM, condominiums under construction and Victoria Ward projects are all positive to the market place. Many leases on KS properties are expiring; giving KS opportunities that it didn't have five or ten years ago. All these things factor into giving KS a chance to further revitalize Kakaako.

Mr. Oda stated that KS would like the Authority to resolve any outstanding issues to allow KS to vacate the Pauahi Place Master Plan and provide an expedited process for public hearings, which would be helpful in finalizing their RFQs.

KS is looking at Kakaako holistically because it is a very dynamic process. KS wants to be able to look back and say that there was a purpose here and that development was planned out properly, so KS is not looking at individual parcels as being stand alone projects, but, looking at the total area that KS controls.

Mr. Dinell stated that HCDA had some initial discussions with its Deputy Attorney General. Staff feels strongly that if HCDA allows KS to vacate its master plan, HCDA should get something in return since the State has

invested over \$100 million in improvement district work that benefits KS lands. Staff is in discussions with KS on the public facility credits and the possibility of KS joining the common area maintenance association to help pay for the upkeep of the parks and other amenities in the makai area. After it is all worked out, staff will package all of the issues and present an action item for the Authority.

Member Saito asked why HCDA doesn't replace the Pauahi Place Master Plan with a new plan set to the current rules.

Mr. Dinell responded that KS doesn't want another master plan because it doesn't want to be locked in again.

Member Crispin pointed out that new rules are going to change, and then become outdated. There have been talks about fine-tuning the rules to allow something that is even better and greater, which more closely resembles what the vision is. This concern is from a regulatory agency view that although projects want to do the right thing, they often can't without obtaining a variance. The Authority should provide them with the flexibility to do the right thing.

Mr. Oda said that KS understands it is a process that requires public review. The intent is to look at the best solution based upon the current rules, and knowing that subsequent phases will have the advantage of new rules which are going in the right direction. KS is confident that HCDA will implement a rules scenario that will be better for everyone. Then within the parameters of the rules, KS can make a better project with certain design elements knowing that subsequent phase will benefit from more relaxed rules that help address permanent New Urbanism.

Member Saito questioned the constraints on vacating the master plan agreement.

Deputy Attorney General Melvin Nishimoto responded that since there is a master plan in place, the Authority has the opportunity to negotiate with the land owner before terminating or adjusting the master plan.

Mr. Nishimoto added that with regard to the approval of new permits or master plans, the existing development rules must be followed by the Authority until those rules are changed.

Member Crispin said that a simplified way of doing it is to change the rules in a broad-brush way, with an agreement by the Authority saying that it will allow for case-by-case interpretation.

Member Saito stated that, to be consistent, there should be an interest in at least having the influence over what happens with the Master Plan. Since the rules change, substituting the current Master Plan for an evolving master plan that addresses the rules that happen to be in play at that time, as long as it is agreed that this is what will be allowed.

Mr. Dinell stated that if that's the direction the Authority wants to take, it probably would be better to amend the Pauahi Place Master Plan. But KS would still encumber all 53 acres together in some fashion and that's not what KS wants.

Ms. Todani stated that KS is asking that the Pauahi Place Master Plan be eliminated in exchange for some other kind of agreement or concessions and that KS be allowed to use the current rules like everyone else.

Member Crispin sees it as two separate issues, vacating the master plan and whatever development agreements have occurred, and revising the rules to allow and encourage development, not just for KS but for everyone else. It doesn't make sense to force them to stick to a plan that we wouldn't want to see implemented.

Chairperson Kometani stated that comments were duly noted and asked staff to work on what needs to be done.

C. KUD International LLC Presentation of Project Master Plan

Chairperson Kometani announced that the Authority received a letter from KUD on Friday, August 27, 2004, after the meeting agenda had been filed, requesting its Project Master Plan presentation be postponed. Thus, the item was postponed and will be placed on the agenda at a future meeting.

V. ITEMS FOR ACTION (CONTINUED)

3. Approval of Improvement District 11 Assessment Methodology

Chairperson Kometani stated for the record that the Executive Director received an inquiry as to whether Member Kimura had a conflict of interest in

regard to discussion and decision making on the Improvement District 11 (ID-11) matter since he is a property owner on Queen Street. Deputy Attorney General Mel Nishimoto checked with the State Ethics Commission and was advised that there didn't appear to be any conflict for Member Kimura to participate in discussions and decision making on matters concerning ID-11 because his Queen Street property is not a part of the proposed ID-11 project.

HCDA Project Management Engineer Steve Miyamoto presented the staff report.

Mr. Miyamoto reported that the Improvement District 11 Project would construct road and utility improvements on Queen Street between Kamakee Street and Ward Avenue.

At the August 4, 2004 Authority meeting, staff presented four alternative assessment methods for consideration. The assessments were calculated using Kiewit Pacific's bid amount of \$10,838,305 plus a seven percent contingency factor for a total of \$11,596,987. At that meeting, the Authority deferred action on Staff's recommendation of Method C or the Central Kakaako Service Business Precinct (CKSBP) Adjustment Method as the final assessment method and requested further evaluation of assessment methods.

Mr. Miyamoto recapped the four alternatives that were presented.

Method A is the "Original Method" of assessment that has been used in every previous improvement district project for the past 20 years. Using this method, properties are assessed for only those system improvements that they benefit from, and assessments are based on frontage length, drainage area and potential allowable floor area.

Under the Original Method, HCDA would pay for improvements that would benefit the general public and areas outside ID-11 such as: 1) portion of the drain system that serves the public outside of ID-11; 2) fifty percent of the street lighting cost; 3) a major portion of road pavement; 4) all intersection and traffic control systems work; 5) a portion of the utility system cost; 6) a major portion of the project design cost (utility companies pay for the balance); 7) all administrative and land acquisition costs; and 8) all assessments to exempt properties.

The benefiting properties are assessed for special benefits, which are defined as the portion of the improvements that specially benefit the properties within ID-11. The public utility companies would pay for a portion of the design and construction of the new utility systems.

The frontage length of a property is used to determine the assessable cost of curbs, gutters, sidewalks and street lights. The assessment for a property's driveway is based on the size of the driveway area for the property. The drainage area of a property is used to determine its share of the cost of the drainage system. The assessable costs for the road pavement, sewer, water, electrical and communication systems are determined in accordance with the property's allowable floor area potential. The rationale for using the potential floor area to calculate these assessments is that the larger properties would have potentially a greater demand for the use of these systems and thus, should pay a larger share of the construction costs.

Method B is the Flat Rate Method in which properties would be assessed a flat rate. Based on past improvement district projects, the average amount assessed to the benefiting properties was calculated at 26.85 percent of the total project construction cost. When this percentage is applied to the ID-11 construction cost, the result is \$3,113,786, which is then divided by the total area of ID-11, resulting in the flat rate of \$8.0439 per square foot. In this option, there would be no deferred assessments and only properties with frontage on Queen Street would be assessed.

Method C takes into consideration that the ID-11 properties are located within a subdistrict of Kakaako called the Central Kakaako Service Business Precinct (CKSBP). The area has a high concentration of small businesses and properties within its boundaries (Waimanu, Cooke, Ilaniwai and Kamakee Streets). This designation was created in 1994 by amendments to the Mauka Area Rules and provides more lenient rules for the smaller properties in this subdistrict to help facilitate their redevelopment.

The assessments for properties within the subdistrict would be initially determined using the "Original Method." The assessments would then be reduced up to a maximum of 73.15 percent for properties that are 10,000 square feet or less. This percentage decreases on a sliding scale for properties larger than 10,000 square feet but less than 80,000 square feet. For properties that are equal to or greater than 80,000 square feet, assessments would not be reduced. The 73.15 percent was derived by reviewing past project data in the Mauka and Makai areas. On the average, 26.85 percent of construction costs had been assessed to properties in past projects. The remaining portion, or 73.15 percent, has been borne mainly by government and to a smaller extent, the public utility companies.

Method D, the No Road Improvement Assessment Method was calculated using the Original Method but excluded the cost of the construction of the

road improvements. The road improvements include excavation, paving, sidewalks, driveways, and street lighting. This method was evaluated in response to the Authority's suggestion at its April meeting, that since Queen Street is heavily used as a major public thoroughfare, the cost of the road improvements should not be assessed to the properties.

In response to the Authority's request at the August meeting, staff came up with an additional assessment method, Method E (Assessments Within CKSBP Not to Exceed 28 percent of Construction Cost). In reviewing past projects within the Mauka Area only, an average of 28 percent of the construction cost has been assessed to benefiting properties.

This method proposes that the properties in the CKSBP would be entitled to an adjustment in their assessments if the total of all assessments exceeded 28 percent of the improvement district construction cost. Initial assessments would be calculated using the Original Method. If the total assessment amount does not exceed 28 percent, then no adjustment would be made.

If the total assessment amount exceeds 28 percent, a reduction for individual assessments would be utilized in a fashion identical to Method C depending on property size. Properties of 10,000 square feet or less would be entitled to maximum reduction and large properties of 80,000 square feet or more would not be entitled to any reduction. Properties in between 10,000 and 80,000 square feet would have their assessment adjusted on a sliding scale.

The assessments calculated using the Original Method are about 44 percent of the construction cost. Therefore, the property assessments would be reduced, according to size, such that the total of all assessments would be approximately 28 percent of the construction cost or approximately \$3,247,156.

Staff determined that the individual ID-11 property assessments would have to be reduced on a sliding scale, up to a maximum of 58 percent, to reach the 28 percent amount. The actual total assessment amount is approximately \$3,227,285 or 27.83 percent including deferred assessments.

Staff made a recommendation that ID-11 assessments be determined in accordance with Method E, in which the total assessment amount for properties within the Central Kakaako Service Business Precinct shall be limited to a maximum of 28 percent of the project construction cost.

Member Kondo moved to adopt staff's recommendation. Member Anderson seconded the motion. Discussion ensued.

Member Kimura asked what would be the assessment for an average 5,000 square foot lot under method E.

Mr. Dinell responded it would be \$50,722, and if it was financed over 20 years at a 6.5 percent interest rate, it would be about \$4,400 a year.

Member Kimura asked if, based on a flat rate method for a 5,000 square foot lot at a rate of \$8.04 per square foot, the assessment would be only \$40,000, which is 25 percent cheaper.

Mr. Miyamoto responded that with the flat rate method, the properties would be assessed even though they didn't receive any improvements. Some properties on Queen Street do not benefit from sewer improvement but with the flat rate method, all the properties would be assessed. With Method E, only the properties that benefit, would it be assessed.

Mr. Dinell added that another factor in the flat rate method is that there is no deferred assessment. The actual assessments sent that would be payable six months after ID-11 construction is completed under Method E would be \$2.9 million. The actual assessments that would be sent under Method B (flat rate) would be \$3.1 million because the deferrals aren't captured in the flat rate method. On a cash flow basis, landowners would be better off with Method E.

Member Shiraki asked why properties would not benefit from the sewer system.

Mr. Miyamoto responded that eventually they would benefit from the sewer system but they wouldn't be assessed because their sewer system is tied into another system. They would be assessed for the sewer when improvements on Kawaihao Street are made.

Member Saito questioned based on the five methods, how Authority Members would determine the best method, the measure of success, and what it is the Authority wants to achieve. He asked whether the State is trying to help the economy or businesses. He said Method C would be the more advantageous to businesses than Method E.

Mr. Miyamoto responded that at the first public hearing, the assessments were calculated using the original method. The concern then was that the assessments were too high, so the Authority asked staff to devise a way to mitigate the impact on the smaller properties. At the August Authority

meeting, staff recommended Method C but there was a concern that it might provide too large a subsidy.

Mr. Dinell further explained that the Method E advantage is, within the Central Kakaako Service Business Precinct (CKSBP), locking into a formula of 28 percent of the construction cost, which is an average over the last two decades of ID projects in the mauka area. If the assessments were based on Method C as was proposed in August, it would be locking into a permanent adjustment in that CKSBP. In future ID districts, if HCDA goes out to bid and the assessment cost would be 20 percent to the private property owners, they would be assessed under the original method of 20 percent. He said Method E is just keeping future assessments within the past averages, which seems to be the fairest method.

Member Anderson asked if under Method E, the largest landowner would get any adjustment.

Mr. Dinell responded that any land owner over 80,000 square feet would get no adjustment.

Member Anderson commented that this method mostly helps the 5,000 square foot lot owners.

Mr. Dinell replied that any property less than 10,000 square feet would get the same maximum adjustment. However, if a future improvement district percentage cost is 30 percent, the adjustment would be reflected to match the 28 percent which is the average.

Member Lai wanted a clarification on the flat rate method. He asked if the flat rate method for the smaller owner with the deferrals would still be more expensive than Method E.

Mr. Dinell replied that it would depend on the square footage of each particular lot. A different method might be better for a particular property owner over another but the assessment methods were based on the rationale for making an adjustment that would benefit everyone equally.

Member Crispin asked how Method E compares with the way the city assesses improvement districts.

Mr. Miyamoto responded that the City's method is based on the total construction cost. The city will assume 100 percent of certain costs. For the remainder of costs, or the net cost, the City assumes another 50 percent and

then assesses the rest to the properties according to the area. So essentially, the City uses a flat rate and assesses according to property size.

Member Kimura commented that with ID-11 there are some special circumstances that need to be taken into consideration because there is one big property owner (General Growth) and there are very few remaining property owners who have to share the load. The assessment process should reflect the fact that there are fewer businesses to divide the 28 percent amongst them and provide a method that is a bit more affordable.

Chairperson Kometani commented that this was the method that was presented as Method C at the August Authority meeting. However, the consensus of the Authority was to authorize staff to look for alternative method because this method was too much of a burden for the State. Also staff is aware that the timing of the bid solicitation occurred at a time in which the City and State had issued a lot of contracts, and that drove up the bid price.

Member Shiraki asked how many property owners are over 80,000 square feet and what the significance of that figure is.

Mr. Dinell replied that there is only one property owner with over 80,000 square feet, but that it includes two or three parcels. He explained that, with 80,000 square feet the property owners can get the maximum development potential of the parcel through application for a planned development. He also clarified the decision making of the vote. The vote would simply direct staff on the assessment methodology; the next step would be to go back to the consultant to confirm the methodology. Then the consultant develops what is called a final assessment roll, and then the final assessments would be mailed out to each property owner, along with a notice of a public hearing. HCDA provides 30 days notice for a public hearing. At the public hearing, individuals have an opportunity for individuals to testify before the Authority to express their thoughts on the matter. Additionally, within that 30 day period, staff will have public informational meetings where property owners can come and discuss more specifically what their assessment would be and how it was derived. So the vote really is directing staff on how to develop the final roll.

Member Lai asked about how the voting would be taken, if it would be voted on each methodology.

Chairperson Kometani responded that staff is recommending that the Authority approve Method E. If Members do not want to go with Method E, then the vote would be to deny the staff's recommendation and then it would

be open to discussion again on which methodology would be the preferred choice.

Member Saito asked how much feedback was received from the people that would be assessed and what methodology would be the fairest.

Mr. Dinell responded that in April the Authority received a lot of feedback from the people which is what prompted staff to develop alternatives and look at mitigating the assessment amounts. An example of a median assessment under the original method would be \$113,000, now under method E, it would be \$50,000.

Member Goshi commented that the increase in property value in the long term is a benefit and that we should be careful not to start adjusting everyone because it would jeopardize the system and then everybody loses. It is difficult because property owners don't want to pay and construction is particularly busy now so the cost is high but a delay could cost more.

Member Crispin stated that it should be based on fairness, researched historically and be consistent.

Mr. Dinell responded that the original method is tried and true and has worked throughout the district. However, this is a unique area of the district as it has a multitude of very small land owners. There are already certain rules in this area that are little more liberal in recognition of the unique characteristics of the six block area.

Mr. Dinell recapped all the methods. Method A, the original method isn't quite appropriate for this area. There are problems with Method B the flat rate method. Method C is fine but it locks the adjustment percentage into the future, no matter what the construction cost is the reduction for properties less than 10,000 square feet would be 74%. Method D, the no road improvement, is unfair to those property owners in ID-1 and ID-2 where Queen Street was improved and property owners were assessed but properties in ID-11 wouldn't be charged for roadway improvements because Queen Street is considered a major thoroughfare. Method E recognizes that in this special precinct, which has already been recognized for over a decade, improvement district assessments are going to be no higher than the historical average. The historical average in the Mauka area is 28 percent and will be adjusted to meet that 28 percent and if another improvement district is done in this area and the assessed cost is say, 20 percent of construction, there is no adjustment to be made.

Member Kimura commented that the CKSBP was created because it had the biggest concentration of small businesses in Kakaako. The Executive Director at that time, Rex Johnson, tried to figure out how to consolidate all the small businesses, and that is why the area was created. Member Kimura stated that he didn't see any problem with helping out the small businesses in that area because there is a need. He stated that a lot of the small businesses cannot take reduced income for two years, in addition to a loss of parking.

Chairperson Kometani stated that all the Members came away from that public hearing fully committed to help the people. In past meetings, staff has come with different proposals and at the last meeting the Authority expressed that, the proposed subsidy was too much, hence the staff had to go back to rework the figures. This is a combination of a series of meetings that staff has had and it is fair to recognize the unique nature of that particular part of Kakaako.

Mr. Dinell commented that staff also looked at financing for 30 years instead of 20 years. The rules allow it but staff didn't think it was appropriate because most commercial financing is done over 20 years and HCDA would end up carrying the cost for the extra 10 years.

Member Saito asked what would happen if it goes to hearing and it turns out that the responses are, "you are going to drive us out of business." He asked what would take to reduce the assessments so that the people in the area can afford it.

Chairperson Kometani stated that after the public hearing, the Authority could defer the action item.

Mr. Dinell stated that it comes down to a fundamental decision on the Authority's part. There is nothing more staff can do from an assessment point of view. It becomes a question of whether the Authority wants the improvement district or not.

Chairperson Kometani reminded the Members that a motion was on the table and second to adopt staff's recommendation. There being no further questions, a vote was taken and the motion was approved unanimously, 8 to 0 with 1 excused (Member Haraga).

V. EXECUTIVE SESSIONS

Chairperson Kometani announced that Member Lai will recuse himself, as he has in the past, from discussions relating to KUD International as his law firm has been retained by KUD; and Member Anderson will recuse himself, as he has in the past, on discussions related to Honuakaha as he owns a unit in the complex.

Chairperson Kometani stated that the first Executive Session item is the update on Honuakaha Housing Complex and Na Lei Hulu Kupuna, pursuant to Section 92-5(a)(4), Hawaii Revised Statutes. The second Executive Session item is the discussion on KUD International, LLC's Project, Pursuant to Sections 92-5(a)(3) and 92-5(a)(4), Hawaii Revised Statutes.

Chairperson Kometani requested that Deputy Attorney General Melvin Nishimoto, Executive Director Daniel Dinell and Planning and Development Director Teney Takahashi join the Authority in Executive Session.

It was moved by Member Kondo and seconded by Member Lai to enter into Executive Session. The motion carried unanimously, 8 to 0 with 1 excused (Member Haraga).

The Hawaii Community Development Authority entered into Executive Session at 11:10 a.m.

Member Anderson recused himself and left the room during discussions relating to the Honuakaha Housing Complex at 11:10 a.m.

Member Lai recused himself and left the room when the discussion relating to KUD International was held at 11:15 a.m. Member Anderson rejoined the Members in Executive Session at this time.

It was moved by Member Saito and seconded by Member Goshi to reconvene the regular meeting at 11:27 a.m. The motion passed 7 to 0 with 2 excused (Members Lai and Haraga).

VII. ADJOURNMENT

Chairperson Kometani asked whether there were any other matters to be brought to the attention of the Authority Members.

There being no further business, it was moved by Member Anderson and seconded by Member Kimura to adjourn the meeting at 11:27 a.m. The motion passed 7 to 0 with 2 excused (Members Lai and Haraga).

Respectfully submitted,

/s/

Paul Kimura
Secretary