

**HAWAII COMMUNITY
DEVELOPMENT AUTHORITY**



SMALL BUSINESS TASK FORCE

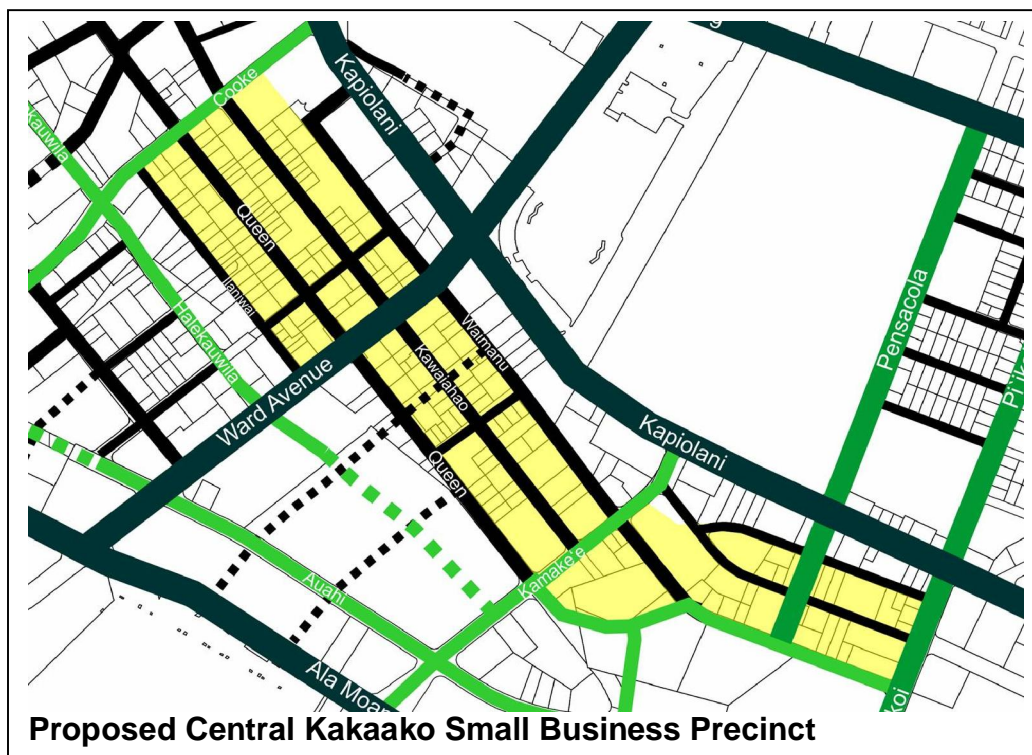
FINDINGS AND RECOMMENDATIONS

June 6, 2007

INTRODUCTION

In November 2006, the Hawaii Community Development Authority's (HCDA) Chairperson Michael Goshi created a Small Business Task Force, consisting of HCDA Members C. Scott Bradley, Amanda Chang, and Grady Chun, to study small lot development in Kakaako and provide recommendations that would enhance opportunities for redevelopment. The Task Force studied issues affecting small lot development, engaged in research on various relevant topics, convened a focus group consisting of landowners and business owners/tenants to discuss concerns, and tested various hypotheses.

The Task Force found that while there are numerous small lots throughout the Kakaako Community Development District, the Central Kakaako Service Business Precinct (CKSBP) has a particularly large number of small lots and therefore should be the focus of Authority action.



ISSUE/PROBLEM STATEMENT

The CKSBP is home to many small businesses, mainly on small size lots under disparate ownership. Most of the streets within the precinct are narrow and have potholes and lack sidewalks. The storm drainage system within the precinct is also inadequate. There is also very limited parking, forcing the business owners to use the public right-of-way and required front yards for parking. All these conditions combine to make the CKSBP a very unattractive and inhospitable place for pedestrians.



Drainage Problem in CKSBP

To remain viable over the long-term as a small business neighborhood, the CKSBP will need to address these conditions. HCDA is under a legislative mandate to implement a District-Wide Improvement Program and in the past has done so by utilizing an improvement district program that assesses, pursuant to Section 206E-6, Hawaii Revised Statutes (HRS), a portion of the cost on landowners “specially benefiting” from such improvements. The timing of these improvements is urgent for the greater community while the current property owners do not see the same benefit. There is a conflict in

timing that will not likely change. If improvements are deferred for a long time, blight, deteriorating property values, and dangerous conditions will result that could displace existing businesses. (See Exhibit 1 – public health issues are present and real.)

Beyond improvement districts, small lots are also challenged by existing zoning regulations that encourage lot consolidation and make it difficult to redevelop. The complexity of zoning rules, lack of adequate infrastructure, as well as the difficulty in putting the financing together for development makes developing these lots a daunting task for the owners. On the other hand, rising property taxes because of development in surrounding areas within and outside of Kakaako make it difficult for owners to maintain a marginal use of the property. Increase in property taxes is a general issue on Oahu and is not unique to Kakaako (see Exhibit 2).

As noted above, parking is another challenge. Unfortunately, the cost of developing structured parking in Honolulu is becoming prohibitive and seemingly street parking, which is seen by many as cheap or even free, is neither cheap nor free. As professor Donald Shoup, FAICP, a professor of transportation studies at University of California Los Angeles, points out, we already pay a high price for parking; it’s just that we pay it indirectly “in our roles as consumers, investors, workers, residents and taxpayers.” Again, this is not an issue unique to Kakaako.

The existing improvement district system has encountered a great deal of community opposition, especially from small lot owners, yet without improvements, development cannot occur, unsafe conditions will continue, and ultimately blight will result. There are approximately 170 lots in the proposed CKSBP that are less than 10,000 square feet in area.¹ These lots are predominantly occupied by small businesses that have been part of the fabric of the



Poor Road Conditions in CKSBP

¹ The CKSBP exists in the existing Mauka Area Rules only, the draft Mauka Area Plan recommends enlarging the area into a “Central Kakaako Neighborhood”.

Kakaako community for many years. The Task Force acknowledges the economic and social value of these small businesses in the community and therefore urges the Authority to frame its future development policy in ways that will encourage small businesses to remain in Kakaako. The Task Force also notes that small businesses exist on other parcels in Kakaako, perhaps not small lots, but on larger parcels such as the 130,000 square foot Coral Commercial Center lot where there are over 20 small businesses as diverse as a charter school, high-tech clean room, and retail stores.

The 1982 Mauka Area Plan envisioned super blocks in Kakaako occupied by podium and tower structures and pedestrian connections at the podium level. This vision required consolidation of land, which largely has not occurred in the CKSBP. In the draft Mauka Area Plan, a shift away from this super block, podium/tower approach is proposed. The new draft plan is built on the concept of urban villages (live, work, learn, play), people-oriented places, and connectivity based on a multi-modal transportation framework. A street network with smaller blocks, and neighborhood-centered approach is an ideal environment for small businesses to prosper in. The Task Force also notes that a multi-modal² transportation system will require sidewalks and, depending on the street type, some pedestrian amenities and bike lanes and other features that have been largely absent in Kakaako.

OBJECTIVES

The legislative mandate of HCDA is to “facilitate timely redevelopment and renewal” of Kakaako. In achieving its mandate, HCDA’s stated mission is to “...*be sensitive to and support existing businesses and residents...*” of Kakaako.

Consistent with HCDA’s overall mission, Chairperson Goshi’s direction to the Task Force was to identify ways the Authority can support existing businesses and to evaluate prototype developments for small landowners. Chairperson Goshi also stressed that current businesses within the CKSBP may have a short “shelf life” because of external economic pressure and will need assistance to survive over the long-term. HCDA needs to



² A planning terminology that simply means allowing for and encouraging a variety of ways of moving around including walking, vehicles, bicycles, and mass transit.

support the small landowners and businesses by exploring and presenting development opportunities and providing assistance in a manner that fits their development schedules and needs.

The Task Force has studied various options that would support existing businesses in CKSBP and allow for development in the intermediate term. Therefore, this Task Force report addresses key short-term impediments to small lot redevelopment such as the burden of the cost of improvement districts and zoning rules that make redevelopment more difficult.

RECOMMENDATIONS

1. The benefits of improvement district projects to the landowners are only theoretical if they do not wish to redevelop or sell, while the costs and other impacts are real and immediate. Therefore, based on the “specially benefiting” criteria as outlined in Section 206E-6, HRS, structure improvement district assessments for small lots (10,000 square feet or less) within the CKSBP in a manner that recognizes benefits to the larger community outside of the Kakaako Community Development District and not only to small landowners and businesses in the precinct. The assessment process should more fully take into consideration the impacts to small lot owners in the weighting of the portion of assessment applied to them.

The benefit of improvement district projects is not just limited to CKSBP. The larger community outside of the Kakaako Community Development District benefits as much, if not more, from improvement district projects in Kakaako. Improvement district projects such as street resurfacing and widening and new and upgraded sewer and water system benefit areas outside of Kakaako. Also, sewer capacity cannot be reserved for exclusive use by lot owners within the CKSBP. Sewer and water infrastructure capacity may not be available to lot owners within the CKSBP if redevelopment does not occur in a timely fashion from the completion of improvement district projects. Though improvement district projects do generally increase the development potential of an area, the increase in development potential of lots 10,000 square feet or less appears to be marginal at best. With increased density and height allowance, it may be possible to make the economics of development work for these lots. Therefore, even with improved infrastructure, owners of small lots find it difficult to develop these properties without additional inducements. Reducing the economic impact of improvement district assessments may actually provide an incentive to support the improvement projects whereby, with additional incentives in the form of higher density and off-site parking alternatives, small lot owners may be able to develop their properties. Therefore, consistent with Section 206E-6, HRS, assessment for improvement districts should consider benefits to communities outside of Kakaako and also the fact that some of the improved capacity may not be available to properties within the district if there is a long delay between the completion of improvement district projects and redevelopment. For properties that are marginally benefiting from improvement district projects, the assessment should also be marginal.

2. Increase allowable Floor Area Ratio (FAR) and building height for small lots within the CKSBP that have been subject to an improvement district. This may also include further density increases at Transit-Oriented Development (TOD) nodes at the time when a TOD overlay for the district may be proposed.

The current 1.5 FAR and height limit of 45 feet is not adequate to make development financially viable. To provide additional incentive HCDA should, as part of Mauka Area Plan and Rules amendment, increase the allowable FAR in the CKSBP to 3.5 and the height limit to 65 feet. These increases should only be available where improvement district projects have been completed because the existing infrastructure cannot sustain increased density. As improvement district projects are completed within the CKSBP, more small lot owners will be able to take advantage of the increased density and height limit to develop their properties.

3. Parking:

- a. Program and construct public parking facilities, particularly proximate to the CKSBP.



Lack of adequate parking presents a substantial problem in developing the CKSBP area. Owners of lots 10,000 square feet or less cannot readily accommodate adequate parking within their property to develop their lot to a higher use. Providing off-street parking on small lots is a physical as well as an economic challenge. Only a district-wide parking program initiated and supported by HCDA can begin to address the parking problem within the CKSBP. Without a district-wide parking program, owners of small lots will not be able to take advantage

of the increased density and height made possible by improvement district projects because they will not be able to provide the required parking on their lots. Therefore, if small lot owners are to take advantage of development incentives, HCDA needs to invest in public parking facilities where CKSBP property and business owners can lease parking space.

- b. Allow small lot developments (10,000 square feet or less) to provide off-site parking farther than the 400 feet in the current Mauka Area Plan and Rules.

HCDA should consider allowing off-site parking facilities that are further than 400 feet from the property. People, especially employees, can comfortably walk within a quarter mile (1,320 feet or the equivalent of one lap around a running track) radius of their destination.

- c. Allow 100 percent compact size stalls for lots 10,000 square feet or less and encourage creativity in addressing on-site parking in non-traditional ways.

Providing off-street parking on small lots is problematic due to restrictive lot size and dimensions. Providing the option of utilizing smaller parking spaces will allow a greater number of parking spaces on-site. Businesses should also be encouraged to propose creative solutions such as theater-style parking, mechanical devices, and alternative layouts as long as the applicants can show they are reasonable, safe, and workable.



Mechanical Parking

4. Establish a Small Lot Development Resource Center

Develop an in-house HCDA resource center to assist small lot owners that are looking to develop their property. Typical, a small lot owner may find negotiating the development process fairly complex and daunting. An in-house HCDA small lot development resource center can provide technical and financial support to small lot owners. It is envisioned that the Center will:

- Provide assistance to landowners on evaluating development prototypes.
- Establish, subject to Authority approval, a grant program for small lot owners to obtain funds to hire professional services to explore development potential.
- Identify and maintain a list of participating consultants (architects, surveyors, engineers, etc.) familiar with HCDA regulations that may provide specialized services to landowners.
- Maintain and provide information on relocation assistance for displaced businesses.
- Identify and secure sites in the Kalaeloa Community Development District for current Kakaako businesses that wish to relocate.

CONCLUSION

The Task Force finds that a holistic approach is necessary to create opportunities for small lot redevelopment. Simply addressing improvement district assessments or changing zoning regulations in isolation will only meet the intermediate term development goals. Unless improvement district projects are undertaken to support long-term development opportunities, it is very likely that the CKSBP will deteriorate into a blighted area in the long run. Therefore, to meet the long-term development goals, HCDA together with the CKSBP community must develop a new approach to implement improvement district projects.

Since small landowners and businesses in the precinct cannot afford the assessment for improvement district projects, the challenge is to find other methods of funding for these projects. One approach is to request that the Legislature and the Honolulu City Council to fund all necessary improvement district projects by general funds. Another option would be for the Honolulu City Council to agree to utilize the Tax Increment Financing (TIF) mechanism that is provided for in Sections 46-101 through 46-113, HRS. TIF is a tool to finance necessary public infrastructure projects within a defined development district. TIF uses future tax revenue streams to finance the current improvements. When an improvement district project is carried out, there is an increase in the value of surrounding real estate, and often new investment (new or rehabilitated buildings, for example). This increased site value and investment creates more taxable property, which increases tax revenues. The increased tax revenues are the “tax increment.” TIF dedicates these increased revenues to finance debt issued to pay for the project. TIF creates funding for public projects that may otherwise be unaffordable to landowners and government. TIF is the most logical, cost effective, and proven mechanism that has been used for funding development in redevelopment districts throughout the U.S. mainland. Though typically property taxes are the basis for TIF, general excise tax could also be used in a TIF structure to implement necessary infrastructure improvements. To implement necessary infrastructure improvements, HCDA together with the CKSBP community needs to explore 100 percent public funding or alternatives such as TIF with the Legislature and the Honolulu City Council. Attractive and economically viable development on small lots can occur in Kakaako and the picture below is an example.



HCDA needs to work together closely with the small lot owners to make these types of developments a reality. As the Hawaiian saying goes, “*Pupukahi i holomua*”- by working together we make progress.

State hunting down mosquito

By Diana Leone
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Through the back alleys and storm drains of Kakaako, state Department of Health workers were on a search-and-destroy mission yesterday for mosquito larvae that could potentially carry the West Nile Virus.

As summer -- and mosquito breeding season -- wanes on the mainland, Hawaii is making a final two-week push to ensure that the disease hasn't traveled here on a mosquito or bird, its two carriers, said Shokufeh Ramirez, the department's West Nile Virus coordinator.

Though 47 states have reported at least one case of West Nile Virus in a human this summer, Hawaii, Alaska and Washington state remain West Nile free -- and that's how Ramirez wants to keep it.

"No news is good news in this situation," Ramirez said.

So for the next two weeks, Health Department teams will be working hard to monitor mosquito-breeding conditions within a two-mile radius of the Honolulu Airport and Barbers Point and Honolulu harbors.



DENNIS ODA / DODA@STARBULLETIN.COM

Jill Stensrud and Angel Ramos of the state Department of Health inspected standing water in Kakaako for larvae of mosquitoes, which can transmit the West Nile Virus. Inspectors said old discarded tires and drainage drains are risks for breeding areas.

One team will visit businesses and residences, asking to check for standing water, the breeding place of the mosquitoes that can carry the disease. There is no punishment if standing water is found, Ramirez said, just state workers' help to get rid of it.

A second team is putting a mosquito-larvae-killing bacteria into standing water in storm drains. The bacteria is approved as safe for people and other animals and plants, Ramirez said.

There have been 1,386 human cases of West Nile Virus reported to Centers for Disease Control on the mainland this year and 45 deaths, Ramirez said.

The virus is a sometimes-fatal disease that is spread by the bite of an infected mosquito. While it usually circulates between mosquitoes and birds, it can be transmitted to people by a bite from an infected mosquito.

Hawaii health and wildlife officials hope to keep the disease from coming here, because the state's climate could allow year-round transmission of the disease. In addition to its risk to people, West Nile Virus could have severe consequences for native birds.

Change in Property Value and Property Tax for Selected Land Parcels in Honolulu from 1995-2006

Location	TMK	Zoning	Lot Size	Assessed Land Value	Property Taxes (Land Portion Only)	Increase (Decrease) in Property Value	Increase (Decrease) in Property Tax
Kakaako	2-1-50: 19 848 Ilaniwai Street	MUZ-R (Industrial / Commercial / Residential)	5,000 s.f.	1995 - \$498,000 2000 - \$380,000 2005 - \$498,800 2006 - \$617,000	1995 - \$ 4,238 2000 - \$ 3,515 2005 - \$ 5,662 2006 - \$ 7,274	24%	72%
Kalihi	1-2- 9: 38 1917 Colburn Street	IMX-1 (Industrial / Commercial)	5,000 s.f.	1995 - \$450,000 2000 - \$315,000 2005 - \$425,000 2006 - \$475,000	1995 - \$ 3,830 2000 - \$ 2,914 2005 - \$ 4,832 2006 - \$ 5,600	5.5%	46%
Moilili / McCully	2-8-4: 55 2314 Young Street	BMX-3 (Industrial / Commercial / Residential)	5,000 s.f.	1995 - \$600,000 2000 - \$360,000 2005 - \$428,000 2006 - \$560,000	1995 - \$ 2,112 2000 - \$ 1,616 2005 - \$ 1,605 2006 - \$ 2,291	(7%)	8.5%
Kakaako	2-1-50: 42 (Portion of Hamada Store) 885 Queen Street	MUZ-R (Industrial / Commercial / Residential)	10,000 s.f.	1995 - \$1,200,000 2000 - \$800,000 2005 - \$1,050,000 2006 - \$1,300,000	1995 - \$ 10,212 2000 - \$ 7,400 2005 - \$ 11,939 2006 - \$ 15,327	8%	50%
Kalihi	1-2-5: 36 1807 N. Nimitz Hwy.	BMX -1 (Industrial / Commercial)	10,000 s.f.	1995 - \$970,000 2000 - \$519,000 2005 - \$660,000 2006 - \$950,000	1995 - \$ 8,257 2000 - \$ 4,808 2005 - \$ 7,504 2006 - \$ 10,201	(2%)	35%
Moilili / McCully	2-8-9: 74 2018 S. Beretania Street	BMX -3 (Industrial / Commercial / Residential)	10,000 s.f.	1995 - \$712,500 2000 - \$427,500 2005 - \$997,500 2006 - \$1,187,500	1995 - \$ 6,059 2000 - \$ 3,954 2005 - \$ 11,342 2006 - \$ 14,001	67%	131%

Source: City & County of Honolulu