

EXHIBIT A

RESERVED HOUSING POLICY ISSUES AS DISCUSSED BY THE HOUSING TASK FORCE

1. **Issue:** *Jurisdiction for the Mauka and Makai Areas was delegated to HCDA in separate increments. Also, until September 2005, residential use was not permitted in the Makai Area, and HCDA still owns most of the Makai Area lands. However, there is no good reason for maintaining two separate zoning areas and these two areas should be merged from a planning perspective. As of July 2006, residential use in the Makai Area has been prohibited by the Legislature.*

Discussion: The Housing Task Force (HTF) generally agreed that there is no particular advantage to maintaining separate plans, and that the combined plans may result in better integration of uses. It was also mentioned that the actual integration of the plans and rules will cause the process to be longer since the current rules are different for each area.

2. **Issue:** *Reserved housing is only exacted from Planned Development (PD) projects (over 20,000 s.f. in land area) in exchange for higher density of a floor area ratio (FAR) of 3.5 and a height of up to 400 feet. In addition, PDs must mix uses and must provide reserved housing. Base Zone projects under 45 feet in height and with a FAR of 1.5 or less do not trigger reserved housing, nor are they required to mix uses as in PDs. Should this be changed?*

Discussion: The HTF felt that residential projects, regardless of their size, should contribute to reserved housing. However, there was no conclusion on whether or not other uses should also contribute. Also, there has been talk of abandoning the requirement for projects to have mixed uses, and such a determination may impact reserved housing requirements under such new rules. The HTF is sensitive to the fact that smaller projects will have difficulty meeting reserved housing exactions. The HTF is also sensitive to the risk of inadvertently creating an imbalance to the point that the rules will cause developers to prefer one concept over another. Staff needs to conduct appropriate research to help reach a conclusion.

Staff's initial opinion is that smaller projects are already at a point at which additional exactions could be a hardship. However, further study and analysis may be necessary before making a policy commitment.

3. **Issue:** *The target market for HCDA’s reserved housing program is the so-called “gap group” or “work force” homeowner. For a purchaser, the median income range is from 80% to 140%, and for a renter, the target income is 100% of median income. Should this be changed?*

Discussion: The HTF was sensitive to the fact that the need for “affordable” units is even greater than that of the “gap group”. However, it generally felt that current targets seem to be at the maximum point of “affordability” for most large-scale projects and that forcing the target home prices any lower may begin to adversely affect Kakaako redevelopment. It also pointed out that the gap group housing inventory is immediately absorbed so that need is as significant. It was felt that one of the reasons for HCDA’s successful projects was that it realistically focused on workforce housing and did not try to address financially problematic affordable housing. Therefore, it was agreed that, at least for the time being, the target market needs to remain as is.

4. **Issue:** *The current rules are extremely complicated, in large part because the reserved housing program is designed to do too much. There is an argument for simplifying the program to provide housing for workers and to design a program that will do so despite fluctuations in the market. A goal should be that any reasonably intelligent person, whether developer or HCDA staff member, should be able to read, understand, and abide by the program. Currently, such is not the case.*

Discussion: The HTF concurred with the goal of simplifying the program and the rules relating to it. Formulas will have to be simplified and little-used alternatives, perhaps deleted.

5. **Issue:** *One means of controlling speculation by the owner of a reserved unit is a buyback period of 2, 5, or 10 years that is imposed on the owner. During this period, HCDA has a “buy-back” option, which is the first right of refusal to purchase the unit according to a pre-specified price. Are these restricted periods appropriate? If the objective is to retain reserved units for purchase by other needy buyers, shouldn’t these units be forever retained in the inventory of reserved units? One argument against this is because if the opportunity for profit is removed, even a reserved-qualified buyer would hesitate to buy that unit.*

Discussion: The HTF did not want to preclude the ability of the buyers to build wealth through the reserved housing program, and therefore did not agree to apply perpetual restrictions on the reserved units. It asked that research be done to determine what other agencies such as HHFDC and other housing agencies in the mainland are doing and the need for consistency with them. A 10-year buyback period was acceptable to the HTF if it was consistent with the buyback policies of other housing agencies.

For the time being, it may be prudent to use 10 years as a uniform duration for all buyback restrictions.

6. **Issue:** *Another method to discourage speculation is for HCDA to take a pre-specified share of the profits from selling the unit on the open market in the event HCDA refuses to purchase the unit itself. This “equity-sharing” option should work hand-in-glove with the buyback option described above and should be continued into perpetuity.*

Discussion: The HTF wants to keep this issue open pending a decision on the buyback timeframe. It is possible that equity sharing could be established independently of buyback due to already existing real estate business practices.

7. **Issue:** *An “in-lieu” fee is intended to exact a cash equivalent as an option from developers in lieu of constructing units priced for reserved housing. Currently, it remains the developer’s option, deniable by the Authority. However, the Authority’s growing sentiment appears to prefer units because HCDA does not have the capability to use these funds to develop units itself, and would take a long time to get the units produced by others. It should be fairly easy to determine the exact number of reserved units required for any project, and an in-lieu fee should only be used in instances of a fractional unit or whenever the units cannot be produced as specified.*

Discussion: The HTF’s concern was that “in-lieu” fees should be linked to the cost of providing reserved units so that there is a better balance between providing units or paying the in-lieu fees for the project. Discussion leaned toward providing “in-lieu” guidelines but evaluating specific in-lieu payments on a case-by-case basis. In particular, the HTF was critical about a recent case when the program was apparently negotiated by staff to the extent that the Authority would be seen as just a “rubber stamp”.

The in-lieu fee needs to be equal to the cost of providing reserved units to avoid one being more or less advantageous than the other. Therefore, the in-lieu fee needs to be set at the unit sales price less the unit cost for the lowest priced units, and should continue to be approved by the Authority and not by the developer. Also, it should only apply to circumstances in which providing the units would be a particularly severe hardship to the developer. The HTF agreed that this issue needs more research and should be discussed further.

8. **Issue:** *Reserved units should not be provided with parking stalls or other dedicated amenities and the unit prices should be reduced accordingly. We should encourage shared parking (Note: a Makai Area parking study is being conducted that will be recommending methods to reduce the numbers of required stalls by sharing).*

Discussion: The HTF thought that one stall per unit should be provided as a minimum but that the reserved stalls could be “pooled”. There may be a need to study the workability of shared or pooled parking.

9. **Issue:** *HCDA should be prepared to acquire reserved units and these should be retained and subsidized as rental units rather than allowing the units to be sold at market prices. HCDA will need a source of funding to accomplish this.*

Discussion: The HTF supported the retention of rental units but rejected any idea of HCDA acting as a rental or property manager.

HCDA needs to make every effort to acquire reserved units as they become available. The buyback and equity sharing proceeds could be one of the sources of funding for this program.

10. **Issue:** *Currently, Chapter 206E allows fulfillment of reserved housing requirements offsite and does not require units be developed onsite. "Offsite" may allow units to be located outside Kakaako.*

Discussion: The HTF would expect that any proposal for offsite fulfillment of the reserved housing requirement would result in more advantageous reserved housing from the public's standpoint. This should be done on a case-by-case basis, with the acknowledgement that such a proposal will also require the simultaneous establishment of a procedure for consistent and fair handling of each project.

There may be a need to develop policy recommendation for establishing a credit formula for housing provided outside of the HCDA jurisdiction.

11. **Issue:** *Is there a preference for taller and more slender structures or shorter and more dense structure? Does HCDA want to provide direction to developers?*

Discussion: The HTF thought that this should be addressed on a case-by-case basis. In general, it was thought that the tower/podium design did not make efficient use of the site. In addition, a low-rise configuration made for a more pleasing and interesting design consistent with urban village trends. However, the low-rise preference may not be adaptable to every site as it will depend on other uses and densities on that same site.

FAR bonuses and other incentives may be used as tools for creating low rise as well as better designed projects.

12. **Issue:** *Currently, there is no particular incentive for the developers to take the risk of providing retail storefronts at grade for a project that is not in an area of high pedestrian traffic. Since this is such an important urban design feature to promote pedestrian activity, does HCDA want to provide incentive to the developer to provide retail? If so, how do we mitigate the risk that at least initially, the retail will not be profitable.*

Discussion: The HTF thought that this too was a case-by-case issue. However, it was supportive of allowing bonuses in exchange for the provision of streetfront retail space. Staff also discussed the possibility of simply exempting streetfront retail as floor area.

Again, FAR bonuses and other incentives may be used as tools for creating commercial spaces at the street level.

13. **Issue:** *It has been suggested that the FAR should be flexible between the current 3.5 maximum to a new maximum of say, 5.0. The Authority should be allowed to award bonuses to the developer for constructing features desired by the Authority for such public benefits as affordable/reserved housing, public facilities, and improving urban design. In addition, HCDA should be able to award FAR bonuses to projects that produce only reserved housing.*

Discussion: The HTF supports this concept. Staff needs to determine the appropriate bonus details such as devising a formula for relating specific desirable benefits to FAR bonuses.

14. **Issue:** *HCDA should adopt design guidelines and create a standing design review committee (Note: this has been done for the Makai Area).*

Discussion: Although this can be an expensive way to influence design, it has the benefit of ultimately producing a better design. The applicant submits proposed plans to a professional design advisory committee which advises on the design. It tends to be a time-consuming process and one consideration is whether or not HCDA has adequate staffing for this kind of program. Kalaeloa is seriously considering such a program.

It may be worth considering establishing design guidelines for the Mauka Area with written text and graphics for desirable design and an architectural review by an independent committee of design professionals and community members at least for “major projects” over say, 200,000 square feet in size.

15. **Issue:** *Life care facilities meet a public need and should therefore be exempt from the requirement for reserved housing.*

Discussion: Staff's recommendation is that a bona fide life care facilities could be exempt from reserved housing requirements. The HTF concurs provided that procedures and definitions need to be established to determine the services provided by a bona fide life care facilities and, criteria for waiver based on service levels provided, size of assisted living areas certification, etc., will have to be developed, reviewed and adopted.

16. **Issue:** *Since HCDA is averse to condemning sites, it should have a land acquisition fund that will enable the purchase of reserved housing sites at market prices during soft market conditions.*

Discussion: The lack of suitable land is a significant obstacle in developing reserved housing. The HTF supports the use of reserved housing funds for land acquisition, but prefers to induce the developer to acquire land and develop projects.

Establishing a program to identify appropriate sites and make this information available to developers together with a reward program established by HCDA should be considered. There is a need to identifying near term source of funds to acquire land and/or units, and establish a buyback and equity sharing program that provides a longer term source.

17. **Issue:** *Developers are using lower cost standards in reserved units. Should HCDA continue to allow this?*

Discussion: HCDA has allowed this on a case-by-case basis in the past and should continue to do this while maintaining the safety and livability of the units. However, at Keola Lai, the developer is using the same appliances and furnishings for both reserved and market units.

18. **Issue:** *Since HCDA does not want to develop projects, would the obvious thing to do be to develop the capability to finance them?*

Discussion: The HTF thought that due to its complexity, this may be a low priority. This would require developing a specialized financing capability, including access to large amounts of funds.

Financing housing projects together as joint ventures with housing developers could probably be the fastest way to develop reserved housing. In the future, HCDA should try to establish a program and a source of funding to develop this capability as quickly as possible. In the short term, it needs to be receptive to advantageous joint ventures as the opportunity may arise.

19. **Issue:** *Lack of reserved housing sites is the biggest impediment to producing reserved housing. HCDA can best help by acquiring land by condemnation, if necessary.*

This issue has been discussed above in issue # 16 and 18.

20. **Issue:** *HCDA should subsidize development of reserved housing by foregoing/deferring lease rents, land costs, gross excise and real property taxes (city), etc.*

Discussion: Although this could be a direct means of addressing the affordability problem, the effectiveness as well as the level of political will to support such a program must be discussed in much more detail. The HTF thinks that this needs to be a low priority because of the complexity of the issue involved. Also, HCDA does not have control of either excise tax or real property tax; therefore, these two options are not available.

However, over time, staff could discuss and get a sense of effectiveness of these benefits for the production of housing, then discuss whether to pursue this difficult and costly subsidy.

21. **Issue:** *HCDA should focus on putting people in homes rather than building wealth.*

Discussion: The HTF would prefer to do both and thinks that making the programs more economically attractive will benefit the developer, buyer and HCDA. It is known that the buyers will not accept a program that does not produce economic benefits for them.

The general preference is that the programs should continue to provide both shelter and asset growth.

22. **Issue:** *HCDA should establish joint ventures with such housing specialists as UniDev and Pacific Housing Assistance Corp to produce housing.*

Discussion: Such partnerships can potentially produce the most units in a form most in line with the kind of housing units that HCDA would like to see. This needs to be a focus of HCDA's housing programs but its involvement needs to limit downside and vest the responsibility and authority with the developer.

Programs addressed in issue #16 and 18 above need to be pursued over time.

23. **Issue:** *HCDA should use its fees and revenues in any way that conforms to our mission rather than earmark them only for certain uses.*

Discussion: The HTF generally supports more flexibility in applying funds for the development of housing but considers this a matter that can be resolved internally.

Staff needs to look into making the necessary adjustments to provide more flexibility in applying funds for housing programs.

24. **Issue:** *HCDA should require all projects to provide reserved housing or in lieu fee.*

Discussion: Is this a realistic burden for the smaller landowners? This is also discussed in issue #4 above.

The HTF conclusion was to not further burden the landowners at this time.

25. **Issue:** *What revisions to the reserved housing rules can be adopted to stimulate developers to propose major residential projects?*

Discussion: The Housing Task Force was established to discuss the issues related to the existing reserved housing program. There may be a need to engage an outside expert on reserved housing to review the issues discussed by the HTF as well as review the current program, look at reserved housing program in other areas in the mainland, talk to affordable housing developers and operators in the State, and make recommendations on how HCDA's current reserved housing rules can be revised to make them more effective.

26. **Issue:** *What resources does HCDA have to contribute to the development of "workforce housing"? What other resources can HCDA seek to utilize towards the development of "workforce housing"? What governmental agencies, housing programs, and housing developers may be interested in partnering with HCDA to develop "workforce housing"?*

Discussion: This has been discussed in several of issues above. HCDA needs to look into making available and aggressively utilizing its access to State resources, funding, and regulatory capability, to enhance private-public partnerships. It needs to look into developing a dedicated capability to do this well, and develop strategies to overcome political inertia if it truly wants to make a difference.