

DRAFT

Minutes of a Regular Meeting
of the Members of the
Hawaii Community Development Authority,
State of Hawaii

MEETING NO. 383
Wednesday, March 6, 2013

KAKAAKO

I. CALL TO ORDER/ROLL CALL

A regular meeting of the Kakaako Members of the Hawaii Community Development Authority ("Authority"), a body corporate and public instrumentality of the State of Hawaii, was called to order by Mr. Brian Lee, Chairperson of the Authority, at 11:46 a.m. on Wednesday, March 6, 2013, at the Authority's principal executive offices at 461 Cooke Street, Honolulu, Hawaii, pursuant to Article IV, Section 1 of the Authority's Bylaws.

Members Present: Jade Butay (DOT)
Grady Chun
Mary Lou Kobayashi (DBEDT)
Miles Kamimura
Kamaki Kanahale
Brian Lee
Lois Mitsunaga
Dean Seki (DAGS) (11:52 a.m.)
Luis Salaveria (DBF)

Members Absent: None

Others Present: Anthony Ching, Executive Director
Lori Tanigawa, Deputy Attorney General
Deepak Neupane, Director of Planning & Development – Kakaako
Shelby Hoota, Program Specialist
Patricia Yoshino, Secretary
Holly Hackett, Court Reporter

MATERIALS DISTRIBUTED:

1. Report of the Executive Director;
2. Summary Minutes of Kakaako Authority Meeting of February 6, 2013;
3. Decision Making: Shall the Authority Authorize the Executive Director to Enter into a Construction Contract and Expend Up to \$6,104,900 from the Hawaii Community Development Revolving Fund, Leasing and Management Account, for the Renovation of the American Brewery Building.

II. APPROVAL OF MINUTES

1. Regular Kakaako Meeting of February 6, 2013

Chairperson Lee asked whether there were any corrections to the minutes of the February 6, 2013 meeting. There were no comments or corrections from the Members, and the minutes were approved as presented.

III. REPORT OF THE EXECUTIVE DIRECTOR

Executive Director Anthony Ching provided his report via a PowerPoint presentation (see Exhibit A). He noted that the next board meeting would be rescheduled to April 10, 2013.

There were no questions from Members on the report.

Chairperson Lee asked whether any members of the public wished to comment. There were none.

IV. KAKAAKO MATTERS

2. DEFERRED FROM FEBRUARY 6, 2013 MEETING

Decision Making: Shall the Authority Authorize the Executive Director to Enter into a Construction Contract and Expend Up to \$6,104,900 from the Hawaii Community Development Revolving Fund, Leasing and Management Account, for the Renovation of the American Brewery Building?

Mr. Ching summarized the report in the packet distributed to Members.

Member Salaveria asked what was the amount of the settlement from the litigation.

Mr. Ching replied that there were 2 settlements on contingency and the agency realized \$1 million after expenses.

Member Salaveria asked if the total project cost would be the net amount after the \$1 million.

Mr. Ching replied that it would be \$5.1 million.

Member Kanahale stated he was not happy with the 3 alternatives offered: status quo, fix and rent, or fix and use. He asked staff to go back and reconsider other things. There would be costs associated to continue to preserve it as a historic property, and a liability cost to provide access as a community facility. He was not comfortable to support the action.

Member Kamimura had concerns about spending \$6 million for the project for what the return would be in terms of occupiable space. An alternative would be to get a proposal from a contractor to separate out the project and give the ground floor to the

association and fill the obligation for the community space, and wait for future reasons to build the upper floors. There are more economical ways to house HCDA staff comfortably. You can pay rent at \$17,000 per month for 20 years even on an escalating basis with \$6 million. It is now at \$500 per square foot to renovate this property. Other properties are available that sell for \$350 per square foot. The Authority is entrusted with money and is obligated to make prudent decisions.

Member Salaveria stated he appreciated the comments from Members Kanahale and Kamimura. He looked at it as \$5 million net \$1 million from a financial perspective. Assuming consolidation of lease costs in Kakaako and Kalaeloa and cash flow savings, there is an internal 6% rate of return on the project, 4 % if you take out Kalaeloa. The longer it is idle represents lost opportunity. He recommended the Authority should have a larger discussion on what to do with our assets.

Member Seki stated he supported Member Salaveria's comments and acknowledged the comments from Members Kanahale and Kamimura that the Authority should look at other alternatives. The perspective from the Department of Accounting and General Services is to maximize use of State buildings. It may not financially pan out, but if there is a way to bring State workers back into State buildings, it is preferable to renting. This is a unique opportunity to renovate a building that has been unused for very long time. The environment is favorable and even though construction is on the upswing, but the bids came in under the estimated budget.

Member Chun asked whether LEED or green building aspects were looked at.

Mr. Ching explained that State law requires building to at least LEED Silver for any State project. The curtain wall and use of passive lighting was part of the effort to produce a green building model for a renovation project. This building is a unique circumstance. It would be difficult to do a partial renovation of the first floor. It would require deconstruction of the flooring of the second floor because the laminate beams hold up the second floor. The concern is that at the end, if we chose to go back in to the building and restore the other 4 floors after restoring just one floor, there would be significant if not equal costs associated. The roof is no good and made of the same laminate beams. We would have to take off the machinery from the roof, deconstruct the roof and then start taking apart from the top down in order to achieve the reconstruction. The wood framing is very pervasive and requires deconstruction, even the exit stair wells are made of metal but have wood framing holding them up. Encapsulation or other techniques are attractive, but the risk is we could spend money but still end up in the same place. It was considered a risk too great to take. Building was originally renovated for \$2.5 million and unfortunately it was not done right.

Member Kamimura asked what other options were considered.

Mr. Ching replied that earlier remediation efforts were to try and save the building by encapsulating the laminate beams on each floor and then capping the floor boards. There are 2 parts to the floor: the beams that go across and connect to the steel frame

and the wood flooring on top. They tried to cover a particular surface on the wood and then encase the laminate beams. The roof laminate beams are exposed and would have to be sealed. The expectation from experts was that the method could not be guaranteed to work. Another option was a solicitation received from an individual who wanted to purchase the building and convert it into office space. That proposal did not materialize given the prohibition of not being able to sell the building, which limited their desire to make an investment in the building. We also wondered whether we would have liability since it was a documented pre-existing condition and problem. If sold and then was encapsulation and did not work, future tenants might have recourse against HCDA as a contributor to the problem. That was a concern as to risk and liability if building were to be sold.

Member Kamimura asked if the HCDA is allowed to buy property.

Deputy Attorney General Lori Tanigawa replied that the HCDA has the power to acquire; however, the HCDA is prohibited from selling fee title of lands that it holds.

Member Kamimura stated the board has not explored that option. If we are going to spend millions of dollars, we owe it to ourselves to explore other properties. Speaking from the real estate standpoint, we could buy a property of equal square footage for less money in our district.

Mr. Ching replied that it was an option that was considered. If you consider raw land or built structure in Kakaako, the comparable is \$150-\$160 per square foot, depending on the land or type of situation. The HCDA has limited holdings, so if you purchase outside, the purchase cost which would get to \$4-5 million for that size lot, plus there are redevelopment costs. As an example, Artspace is a mixed use project for \$40 million. If we seek to finance, it would be much of that, with some return for commercial space and rentals. We have a 10,000 square foot lot on Cooke Street, which is currently home to a garden and parking lot, that was estimated at about \$20 million to build out for beneficial uses. The construction costs and space achieved would be similar. If we looked at a vacant lot, it would at minimum \$10-20 million to produce another building, plus the cost of the land acquisition. We considered incorporating space within a proposed project such as 690 Pohukaina. The assumption was \$250 per square foot for the beneficial uses that we wanted to do at 690 Pohukaina. It would be \$6 million for 25,000 square feet, which is 10,000 square feet more than what we would net here. For the price point of \$6 million, can we achieve and realize 15,000 square feet of usable space versus acquire and build. In either scenario of our using our own land or purchasing other land and doing the redevelopment cost, we might end up higher than \$6 million.

Member Kamimura stated that it sounded like Mr. Ching has more information than the 3 options mentioned earlier, which the Authority would need to know.

Chairperson Lee inquired why Mr. Ching did not include the discussion on the comparable alternatives or dismissed those concerns.

Mr. Ching stated due diligence requires considering things over time. Staff has looked at assets like this building and the Historic Pump Station to figure out the logical next step and efficient use of money, and how to produce a product within our means without asking the Legislature for money. Extensive thought was given on how to proceed. He did not include the full range of discussions since we had been concentrating on solving the litigation, which is now done. The previous possibilities were revisited, but it came back to the 3 alternatives. If it is renovated, would it make sense to keep it as our own or use it as revenue producing asset for the Authority. We have been moving along towards this point, full discussion took place in 1995 when first happened, and in 2003 when decided to pursue litigation, and with subsequent remediation efforts. He can provide an in-depth comparison of the options but concern that time specific period to accept the bid. We may have to go out to bid again and suffer the consequences of that action.

Chairperson Lee asked what the bid guarantee period was.

Mr. Ching replied that it was 90 days, and extended to 180 days, which would be in May 2013.

Member Chun stated that he has been on the board for a long time and had been through the issues that Mr. Ching mentioned. Throughout the years, the board had looked at many other options for the property, but did not find anything that was viable. The HCDA has come to only the 3 options left since 2003.

Member Kanahale stated that the lesson learned is that we should have a briefing paper of the historic past of what has occurred so as not to regurgitate things that could have been answered prior to this discussion. If we can buy but not sell, he asked whether land can be exchanged. Members come with different skills and talents and want to contribute and do the best thing for the State. Until the new Members understand where you come from and where you want to go, they need to have the conversation.

Ms. Tanigawa explained that there is a prohibition on any conveyance in fee simple. Even if a land exchange were set up, if the structure of the deal called for us to convey fee simple title, that would be prohibited unless we go to the Legislature and specifically get legislation which authorized us to do that conveyance, notwithstanding the statutory prohibition in 206E-31.5.

Member Kanahale asked if, as an example, the HCDA wanted to exchange a piece of property with the Kamehameha Schools, would we have to ask permission from the Legislature.

Ms. Tanigawa replied that it has happened in the past, but there was a prohibition in 2006 which says the HCDA cannot sell or convey fee simple interest in the lands it owns in the Kakaako District. The prohibition does not apply to Kalaeloa.

Chairperson Lee asked if there was another State law requiring legislative approval

for any sale of State land.

Ms. Tanigawa replied that it applies with the assumption that you have the ability to convey land. In the case of the HCDA, there is a specific statutory prohibition with respect to Kakaako.

Chairperson Lee asked if it would require legislative approval if the land was outside the district.

Ms. Tanigawa stated that in general there is a requirement that for State lands, you would have to go to the Legislature and get a concurrent resolution of two-thirds majority to do that.

Chairperson Lee asked Member Salaveria how the rate of return of 6% was achieved.

Member Salaveria stated it was a rough estimate.

Member Kamimura noted that when looking at netting a \$1 million settlement against a cost of \$6 million, \$2.5 million was already paid out in order to build the first time, and we only got \$1 million back. We are still in the hole \$1.5 million, but want to spend another \$6 million.

Member Salaveria agreed with Member Kamimura's calculations.

Chairperson Lee noted that it was a difficult policy decision. There were also community good, externalities to the market and State policies to consider.

Member Kanahale stated that Members representing the State departments have skills. Members need to be briefed on what the potentials are, since all are liable for how we handle State money and State lands. We want to bring back a credit as well as profit and benefit to the State. He asked for help with past historic things to help walk us through the current issues.

Member Lee asked whether there might be anything else that might bridge the differences.

Member Salaveria asked how long it would take to put together a chronology.

A recess was taken at 12:45 p.m.

The meeting was reconvened at 12:46 p.m.

Member Salaveria asked Mr. Ching to prepare a chronology for Members, especially the issue of the options that were discussed. He wanted to move decision making to the next meeting, which would be the final meeting before the bid goes stale. He distinctly remembered 690 Pohukaina being discussed as an option. When you take into consideration some costs that did go into the building previously, it changes

financial numbers.

Chairperson Lee noted that everyone wanted more due diligence to review past studies and actions and would feel more comfortable with more information and time. He asked if it would be applicable to hire an impartial property manager to assess the options.

Mr. Ching replied that he was not sure he could procure someone in time. However, he would prepare the information to help Members understand other options that had been considered.

Chairperson Lee asked whether any members of the public wished to comment. There were none.

Member Kamimura stated the bid expiration was looming, but he disagreed that it should be a consideration for driving the decision. The fact that it may have to be bid out again, whether it is higher or lower, should not dictate the timing of the decision. Bids can be redone instead of forcing the board into a decision. The Authority was deciding on \$6 million dollars. The bids could change by 10 or 20 percent up or down, but he did not want the deadline to drive the decision.

Chairperson Lee stated that decision making would be deferred to the next meeting. He asked Mr. Ching to provide more of the history of the thought processes and what brought us up to this point.

V. ADJOURNMENT

There being no further business, a motion was made by Member Mitsunaga and seconded by Member Salaveria to adjourn the meeting. By a show of hands vote, the motion carried unanimously.

The meeting adjourned at 12:49 p.m.

Respectfully submitted,

/s/

Miles Kamimura
Secretary

Attachment: Exhibit A - Report of the Executive Director

Note: The transcript of this meeting contains a verbatim record and should be consulted if additional detail is desired.

Kakaako Report
 March 2013

Kewalo Basin Update

	January	February
Overall Occupancy	100%	98%
Slip Revenue	\$98,000	\$96,000
Parking Revenue	\$1,000	\$750
Total Revenue	\$115,000	\$110,000
Operating Expenses	\$60,000	\$60,000
Net Income	\$55,000	\$50,000
Deposits (02-29-12)	\$114,344	

Kewalo Basin Update

- Vessel Mix
 - Commercial Fishing (6%)
 - Charter (57%)
 - Pleasure (38%)
- NPDES Compliance Issues
 - Car Wash Violations
 - Fuel Spills – 5 Reports
 - Floating Debris – 6 Reports
 - Storm Drains Cleaned/Street Sweeping

Next Meeting

- Regularly Scheduled Meeting
 - Shifted From 1st to 2nd Wednesday
 - April 10, 2013
- Location
 - 461 Cooke Street
- May Meeting May Be Scheduled for Kalaeloa