

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

DRAFT

MEETING NO. 384
Wednesday, April 10, 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 1:02 p.m. on Wednesday, April 10, 2013, at the Department of Hawaiian Home Lands, Hale Pono`i conference room, 91-5420 Kapolei Parkway, Kapolei, Hawaii, 96707, pursuant to Article IV, Section 1 of the Authority’s Bylaws.

Members Present: Mary Alice Evans (DBEDT)
Randy Grune (DOT)
Scott Kami (DBF)
Miles Kamimura
Kamaki Kanahele
Brian Lee
Lois Mitsunaga
Dean Seki (DAGS)

Members Absent: Grady Chun

Others Present: Anthony Ching, Executive Director
Lori Tanigawa, Deputy Attorney General
Deepak Neupane, Kakaako Director of Planning & Development
Chris Sadayasu, Asset manager
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 March 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;
4. Decision Making: Shall the Authority Authorize the Executive Director to Grant an Easement to the Hawaiian Electric Company, Inc. Along Portions of Waimanu Street Owned by the Hawaii Community Development Authority in Order to Provide Service to the Waihonua at Kewalo Development Project, as Recommended by HCDA Staff;
 5. Decision Making: Shall the Authority Authorize the Executive Director to Execute an Agreement Subordinating its Shared Equity Encumbrance on the Pacifica Honolulu Condominium Unit No. 1008 and Consenting to the Owner's Request to Refinance the Original Mortgage.

II. APPROVAL OF MINUTES

1. Regular Kakaako Meeting of March 6, 2013

Chairperson Lee asked whether there were any corrections to the minutes of the March 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 Ching summarized the report in the packet distributed to Members.

Chairperson Lee inquired about the status of S.B. 66 regarding disclosure of financial statements.

Mr. Ching explained that the bill would affect financial disclosure information submitted to the Ethics Commission. While there is no increased disclosure, the information would be available for public distribution. The impact would be beyond board members, as it would affect many appointed individuals. He will monitor the bill as it proceeds.

There were no public comments offered on the report.

2. DEFERRED FROM MARCH 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 Kamimura stated that in reference to Mr. Ching's explanation on the annual expenditures, income, operating as any company would operate, and improving cash flow, he did not see how spending \$6 million on a 28-year payback would help the cash flow. One of the advantages listed for remaining in the current office was that there would be \$4.8 million for other purposes if we continue to rent. That is a lot of

money. He believed at some point it would make sense to buy a property, and for less than \$6 million, we could find and purchase a property. He does commercial real estate in the area and is familiar with the comparable properties (“comps”) listed. The current office has 8,500 square feet now, part of which is garage storage. So he would argue that less space is needed for true office space. However, the comps listed for a 14,000 square foot building and a 31,000 square foot building are not relevant to the analyses. He noticed that the examples came off LoopNet which is a commercial real estate site that he uses. There are a lot of properties not listed by LoopNet. There might be an opportunity to retain a property manager to find properties that might fit. It is irresponsible fiscally to authorize the expenditure at this point. In the future, it may be the right thing to do, but he did not see enough information now to support that decision. The Brewery building has 37 parking stalls, and he asked where does staff park now.

Mr. Ching acknowledged that there may be properties other than those listed. Staff had inquired with a particular agent to seek listings that would approximate our current needs. In conducting the analyses, research was limited because the agent did not want to do more work until there was an assurance of exclusive representation or an agent’s fee, which we were unwilling to do at this time. The current office building has 8 parking stalls, and we also use the offsite Kauhale Kakaako parking garage to meet our total parking needs.

In moving forward with remediation, we identified the potential budget and encumbered the \$6 million, so it is still available for use. As far as reducing operating costs, we looked at the office rent situation which is money going out each year. At \$60,000 at Kapolei and \$173,000 on Cooke Street, it is almost \$250,000 each year for office rent. We would look to add or appreciate that quarter million dollars each year to improve our revenue stream. Revenues come in at about \$1.3 million to \$1.6 million. Another way to improve the revenue stream is to increase projects and yield from projects. We also look to replace over \$1.4 million in revenues lost through the Office of Hawaiian Affairs conveyance. To reduce cost, we can try to do it a dollar at a time or take the \$250,000 for rent and use it to improve our revenue stream. We do have to offset a 28-year period to realize the rent, but it would stabilize cash flow going out. The value of the facility is estimated to be \$1.9 million, but we cannot sell it. At the end of 28 years, after considering rent outlay and the expenditure of \$6 million, we would produce a facility that has value and can be used for other purposes. It is not a straight analysis, but we would be able to realize the use of a historic building that cannot be demolished or sold for any useful value.

Chairperson Lee stated he would like the Members to fully vet this issue. He would be deferring the rest of the agenda so the board can focus on this item.

Member Kanahale stated he was relying on the real estate and finance experts on the board to make sure we are accountable for every dime of State money that we are responsible for. Member Kamimura’s position is on solid ground, and until he and other members are satisfied, he will be opposing it. Kakaako has 600 acres. We just

got through looking at what is available in Kalaeloa with 3,700 acres, 1,200 acres of which can be developed. We should look at the whole gamut of our kuleāna and look at Kalaeloa for the future of development. It is cheaper to move out to Kalaeloa. Everyone, including the federal, the state and county governments, are coming out to this area. In 20 years, we will have a valuable property if we move here. He agreed with Member Kamimura's recommendation to further investigate and find other recommendations. We should not limit ourselves to one location at the Brewery building without being able to review the full gamut of what is available. Out here, we could buy it ourselves. We should go beyond Honolulu, and go to the second city and investigate the potential of building it here. When he was with the National Endowment for the Arts in Washington, D.C., any historic building that any art company got into was a heavy financial burden for years and years. We may be giving ourselves more of a burden to carry, and it is not a good expenditure of State money.

Member Seki stated that other Members bring up excellent points. His position is that the Department of Accounting and General Services looks at utilizing State property wherever possible to house State programs and employees. It will always come at a cost. The numbers do not always pan out financially, but we also have an improved property where we can increase the value, maybe not as much as we would like it to, but that is the reality of it. If you don't do anything, it will just sit there. The longer it sits there, it will depreciate at an even faster rate.

Member Kami stated he was at the prior Authority meeting when the Brewery Building was discussed. All comments made by Members were valid with a lot of different perspectives in terms of how best to approach it. He asked whether there were maintenance and insurance costs involved to leave it "as is" and vacant.

Mr. Ching replied that the HCDA had stopped maintaining the elevator, which would need to be reconstructed. The air conditioning systems have not been used and would need to be replaced. The conditions may not get worse, but will not get better.

Member Kami felt that the physical plant of the facility would deteriorate more as we go along. While we should look at some other options, the Authority has had good discussions on cost considerations and what are we going to do with the asset. At this point, he would be in favor of moving ahead with the renovation of the building.

Member Kamimura stated that he did not consider the property an improved property and an asset. At this point, the property is in disrepair and is not improved because you cannot go in and occupy it. We must spend a significant amount of money to get it there. Looking at it from a real estate standpoint, it is a bad investment. We should not be going into a bad investment just because it is ours. As far as what the building should be used for, he agreed that we should do something with it, and it cannot just sit there. We have a \$1 million settlement from the initial construction, and that money could be earmarked to bring the property to some kind of use and not sit there. Perhaps the interior and bad wood can be demolished and the property turned into

something usable, even if it is just a ground floor with high ceilings and no upper floors. Or, it can be used by the condominium next door or some kind of community use. The money can be used productively. When looking for property, it is a process where you would look and search. We have the benefit of time, and even if we rent the existing office space for another year, the money will still be there. We are trying to make a decision now with a finite point in time, but the decision can wait. It is a process that we should explore. If, after exhausting all other options and finding out that this is the best option, he was certainly willing to reconsider his position. In his opinion, we have not even started exploring other options that might meet the office needs even better in a more economical way.

Member Grune stated he has been involved with the board for 2 years and in the recent discussions on the building. He had serious concerns whether the odor would be gone even if the building is redeveloped. Perhaps the brick may have absorbed some of the odors. He appreciated the fact that there is a holding cost to the building, as Member Kami mentioned. He was on the fence at this point. He knows there is a need to make use of State buildings and property. If we were to make this investment, he wondered if it would be the final investment in the property. He respected Member Kamimura's comments about real estate investments. He had happened to know of the sale of other building in Kakaako recently and felt there are other opportunities out there.

Member Mitsunaga stated that Members had brought up valid points. She agreed with what Members Seki and Kami had stated. We cannot sell or demolish the building. Even if we explored other opportunities for office space, she wondered what we would do with the building. Member Kamimura mentioned doing other things, but it would still cost a lot of money to do those things. If we do not occupy the building, whose responsibility is the building, which has been a problem since the 1990's.

Member Evans stated she was not on the fence on the decision and wanted the building to be the home for the HCDA moving forward. The board had done its due diligence and asked staff for further due diligence. She saw it as a stewardship decision and not a real estate investment decision. The HCDA has the building and it is on the historic register. It is a responsible way to be a good steward for this property and a way to reduce costs going forward. It is a historic site, and it is a way to make the best use that also builds that community. If the building is allowed to continue to deteriorate, it is not just no value, but becomes a liability. The Authority has the responsibility to prevent that from happening and has a stewardship role.

Mr. Ching explained the financial analysis in the staff report. From a fiscal responsibility standpoint, the use of the money and return, even with the consideration of spending a half million dollars on maintenance, you would still get a rate of return of 3.47% which is better than if you deposit in the bank. We will realize a reasonable rate of return on the \$6 million and will be able to put a historic building back to use, not just for our use, but for community use. He acknowledged that it is a difficult decision to hold or move forward.

Member Kamimura stated that analyses can be made to come out any way you want it. You do not wipe out or ignore the \$2.5 million that was already spent and went into the whole formula. The comps used are not really comps. The analyses are flawed and make no economic sense. Our primary job is to steward fiscal responsibility and this is a real estate deal. There are alternative uses for the building.

Member Grune stated he was aware of a building that closed on One Kalakaua for \$8 million that was a lot bigger than this building. So that value goes back to what Member Kamimura is saying. He also appreciated Member Evans' comment about a long term strategic plan versus an economic investment. Oftentimes, that is how decisions are made in the public sector in terms of the long term value to the community.

There were no public comments offered on the agenda item.

Chairperson Lee entertained a motion for the Authority to 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?

A motion was made by Member Evans and seconded by Member Seki.

A roll call vote was conducted.

Ayes: Members Evans, Grune, Kami, Lee, Mitsunaga and Seki.

Nays: Members Kamimura and Kanahele.

The motion passed 6 to 2 with 1 excused (Member Chun).

While the remaining items on the agenda would be deferred to the next meeting, Chairperson Lee asked whether any members of the public wished to comment on any of the agenda items. There were none.

The following agenda items were deferred to the next Authority meeting:

3. Decision Making: Shall the Authority Authorize the Executive Director to Grant an Easement to the Hawaiian Electric Company, Inc. Along Portions of Waimanu Street Owned by the Hawaii Community Development Authority in Order to Provide Service to the Waihonua at Kewalo Development Project, as Recommended by HCDA Staff?
4. Decision Making: Shall the Authority Authorize the Executive Director to Execute an Agreement Subordinating its Shared Equity Encumbrance on the Pacifica Honolulu Condominium Unit No. 1008 and Consenting to the Owner's Request to Refinance the Original Mortgage?

5. Kewalo Basin Harbor Development Project: The Authority anticipates convening an Executive Meeting pursuant to Section 92-5(a)(3), Hawaii Revised Statutes, to discuss negotiations relating to the acquisition of public property.
6. 690 Pohukaina: The Authority anticipates convening an Executive Meeting pursuant to Section 92-5(a)(3), Hawaii Revised Statutes, to discuss negotiations relating to the acquisition of public property and Section 92-5(a)(4) to consult with the board's attorney on questions and issues pertaining to the board's powers, duties, privileges, immunities, and liabilities.

IV. ADJOURNMENT

A motion to adjourn was made by Member Kanahale and seconded by Member Seki. By a show of hands vote, the motion carried unanimously.

The meeting adjourned at 2:05 p.m.

Respectfully submitted,

/s/

Miles Kamimura
Secretary

Note: Meals were served to Authority Members and required staff as an integral part of the meeting.

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