

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

Friday, June 27, 2014

KAKAAKO

I. CALL TO ORDER/ROLL CALL

A regular meeting of the Kakaako Members of the Hawaii Community Development Authority (“Authority” or “HCDA”), a body corporate and public instrumentality of the State of Hawaii, was called to order by Mr. Brian Lee, Chairperson of the Authority, at 9:10 a.m., June 27, 2014, at Authority’s principal offices at 461 Cooke Street in Honolulu, Hawaii, 96813, pursuant to Article IV, Section 1 of the Authority’s Bylaws.

Members Present: Miles Kamimura
Brian Lee
Luis Salaveria (DBF)
Ralph Morita (DAGS)
Brian Tamamoto
Lois Mitsunaga
Mary Alice Evans (DBEDT)

Members Absent: Randy Grune (DOT)

Others Present: Anthony Ching, Executive Director
Diane Taira, Deputy Attorney General
Lindsey Doi, Compliance Assurance & Community Outreach
Officer
Loretta Ho, Asset Management Specialist
Holly Hackett, Court Reporter

MATERIALS DISTRIBUTED:

1. Decision Making: Shall the Authority Authorize the Executive Director to Enter into a Lease Agreement for an Initial Term Not to Exceed Thirty (30) Years, Together with a Ten (10) Year Option to Extend, with Kewalo Harbor, LLC for the Development and Management of Kewalo Basin Harbor in Accordance with the Terms and Conditions Recommended by the Hawaii Community Development Authority Staff?

II. KAKAAKO MATTERS

1. Decision Making: Shall the Authority Authorize the Executive Director to Enter into a Lease Agreement for an Initial Term Not to Exceed Thirty (30) Years, Together with a Ten (10) Year Option to Extend, with Kewalo Harbor, LLC for the Development and Management of Kewalo Basin Harbor in Accordance with the Terms and Conditions Recommended by the Hawaii Community Development Authority Staff?

Executive director, Anthony Ching, presented his staff report and showed a video produced by HCDA staff. The video outlined HCDA's vision for transforming Kewalo Basin Harbor into a community amenity and gathering place. It included concepts that were supported by Kakaako Makai Conceptual Master Plan and area stakeholders.

Mr. Ching also gave a powerpoint presentation outlining the potential changes to the harbor and why such a public-private partnership is necessary to renovate the harbor to maximize public benefit. Mr. Ching outlined the lease terms, which include a lease premium, base rent, and percentage rent. The lease premises include all Kewalo Harbor submerged lands and certain fast lands (the parking area near front row tenants, dolphin lab parcel, and roadway near harbormaster's building), however it does not include Kewalo Basin Park or the NOAA lot. There will be no floor area development in the fast lands that are part of the lease, as the dolphin lab area will be converted into additional parklands by HHC.

Member Tamamoto deferred his comments to a later time.

Member Salaveria clarified that there are approximately \$20M worth of capital improvements that need to be put into the harbor right now. Mr. Ching said yes, that is an approximate number, which would go toward improving the dock facilities like spalling replacement or repair, as well as utility infrastructure to service the slips. Member Salaveria asked if that was an immediate need, to which Mr. Ching replied in the affirmative. Member Salaveria questioned the revenue stream and said we are under water right now, since we need \$20M of improvements but only take in about 600, so the present value of that income stream is only about \$12M.

Member Tamamoto questioned why the development table is up to 5 years. Mr. Ching replied that the time frame is related to a number of determinations that need to be made for the full scope of the project, which includes entitlements and deciding whether to use floating or fixed docks, or a combination. Member Tamamoto asked about the cost for the different types of docks and whether fixed docks were twice as expensive as floating. Mr. Ching replied it might be even more than that, along the lines of 650 vs. 227. Member Tamamoto asked about the environmental impacts of these types of docks. Mr. Ching said the EIS evaluated the impacts to the harbor floor for both types of docks, so this should be a decision that should be made after careful study. Mr. Ching said the HCDA would allow the operator to make the decision on what docks they'd use and the configuration, but the HCDA would still have to

approve the scope and extent of the project. Member Tamamoto made a comment regarding the lifeguard station and said he's pleased to hear about those plans, since they've heard from several community groups that there needs to be a lifeguard station in that area.

Chairperson Lee stated that there were four comments from the HCDA website in support of the Kewalo Harbor lease, with one comment in opposition. Chairperson Lee then opened the floor to public testimony.

Joe Bardouche, who manages yachts in Kewalo, testified that the condition of Kewalo Harbor is not improving as quickly as it should. He said homelessness has been an increasing issue, with a homeless person untie a \$2 million yacht from the harbor and causing much damage. Mr. Bardusch says he moved from Koolina harbor to Kewalo in anticipation of harbor improvements and developments. He says these improvements will be an integral part of the development of Waikiki to Ala Moana.

Ron Iwami of Friends of Kewalos, testified that he agrees with the public private partnership to improve Kewalo Basin. But he asks for a deferral of the decision today because he says things that happen at the harbor will impact neighboring users, like surfers at Kewalos. Mr. Iwami thanked Howard Hughes Corp. for coming out to the community and talking about their intentions. But he says he's concerned because HHC has told him that harbor plans are not set as far as configurations of piers. Mr. Iwami says some piers won't be improved, and the wave abatement walls aren't in the plans because they require a separate EIS, which could take years. Mr. Iwami says this has raised important questions that should be answered before a lease is signed. He says he sees the big picture with different developers having exclusive negotiation agreements, but he believes one developer for the whole area would prevent development from being piecemeal. He says he likes the plan laid out for the entire harbor that Howard Hughes has proposed.

Webster Nolan testified that he would like a deferral of today's decision as well. He says he does not want to sound anti-development, as he respects Howard Hughes and their developments around the country. Mr. Nolan says he doesn't feel like the general public, aside from the harbor stakeholders, are aware of the enormity of this project and its impact on Hawaii's economy. He says the economy of Kewalo is dependent on three private corporations: General Growth, Howard Hughes, and Kamehameha Schools. He says this is unhealthy because it concentrates political power, which has not been grasped by the media. He says these companies will eventually be calling the shots like an oligarchy, and they are not accountable to the public. He says there are no safeguards for the public. Mr. Nolan asked for a deferral so the public has a chance to assess what this means in the larger context.

Chairperson Lee asked Mr. Nolan if he disagreed with Mr. Iwami, who requested that one applicant like Howard Hughes take over the entire development of Kewalo Basin. Mr. Nolan says the plan sounds good from a lay person, so he doesn't have a comment.

Troy Miyasato, business owner of Kakaako architecture firm, testified that he remembers when Kakaako was not a very hospitable place for kids. As a business owner, he says he's delighted to see the energy and concentration of effort in Kakaako development that has surfaced in the past 10 years. He'd like to see the HCDA progress with lease negotiations with Howard Hughes and move the process along in a timely manner, and not defer as others have suggested. Mr. Miyasato says he believes the improvements would best be done during this development period. He says after years of studies, the many citizens who enjoy the area, and the businesses who use the harbor, can finally see the improvements that have been dreamed about for decades. Mr. Miyasato says Howard Hughes brings the private resources that are needed by the state to fulfill the goals of redeveloping the harbor.

Member Salaveria asked about Mr. Miyasato's written testimony, which was submitted online, which stated he opposed the harbor lease. Mr. Miyasato clarified that that was a mistake, and he really does support the project.

Paulette Kaleikini testified she is in support of Kewalo Harbor LLC and its effort to redevelop the harbor. She says this is an opportunity for the state to have improvements made, which may never happen again. She says we should take this opportunity, and deferring it any longer won't matter, the harbor will just continually be depleted and go unused. She says improvements would open the harbor up for more community use.

Moani Kaleikini testified she is also in full support of the lease and renovation effort. She says we should jump on this now, as we may not come across this opportunity again.

Wayne Takamine, CPAC, testified that he has been following this harbor lease since May 2, 2012 and believes they had legislation that year that authorized the HCDA to lease up to 65-years with sealed bids. Mr. Takamine says the first proposal for the lease of Kewalo Basin was in 2012 with KB Marina/ Almar, which was deferred. He says the lease was continually deferred until this date. Mr. Takamine says CPAC and numerous other community groups sent a letter to the governor that asked for a review of exclusive negotiation agreements, due to a lack of transparency. He says the Kakaako Makai Conceptual Master Plan took years to create with numerous public workshops. He says ENA's have just 6 days notice on the agenda, then can be approved by the HCDA. Mr. Takamine brought up other ENA's that are currently ongoing in the Kakaako Makai area. He says there is a discrepancy with what Howard Hughes will do and it's unclear what they will build. He questions whether they will follow the EIS buildout, or keep certain things as is for \$12 million. He says he doesn't think HCDA or the public is ready for this lease, since it is a binding contract and changes will be difficult. Mr. Takamine says he questions the validity of the staff report because it talks about development in 30 years, when the lease is for 35 years. He says he's disappointed with this because it's so rudimentary and insufficient, and

he's appalled with the ENA's because these things popped up so fast, when the master plan took years to make.

Member Salaveria said he is familiar with revenue bonds and clarified that we cannot use general obligation bonds for this site because they are tax exempt bonds, and there is private activity in this site. He says we'd have to use revenue bonds, which are sold at a much higher interest rate than 4%, actually you're probably looking at 7%. \$20M in revenue bonds at 7% for 30 years comes out to close to a million dollars a year just to pay off the bonds, in addition to operating costs that you'd have to charge. Member Salaveria says that money would have to come from the tenant, and he doesn't think we could raise rent that high to recoup the costs. Mr. Takamine asked about a cap rate that adjusts for inflation. Member Salaveria says there is a cap rate, but he said you also have to consider how much your capital outlay is going to be up front, and in order to come up with \$20M up front with debt service, your margins from a state perspective put you in a quandary.

Chairperson Lee thanks Mr. Takamine for his testimony and says the HCDA doesn't take any of these decisions lightly, and they've looked at many of the details over the years. Mr. Takamine says he met with HHC yesterday, and he thinks they're a good company with good ideas, but what HCDA is presenting to the public right now is not adequate. Chairperson Lee says the HCDA is bound by certain procedures and privacy concerns, but he appreciates the comments.

Galen Fox of Kakaako United, testified about Howard Hughes' project at Southstreet Seaport in New York City. He said the NYC community and representatives told HHC they were going too fast, and HHC agreed to sit down for community negotiations. Mr. Fox says elected representatives are not part of that development process here in Hawaii, so the community input is lacking here.

Rob Harrington, charter boat operator at Kewalo Basin, testified that he'd like to see a deferral because the tenants would like to reconsider some of the options in and around Kewalo Basin, specifically with the charter house and NOAA center. He says there will be no added financial benefit for the boaters or the state to put a wedding chapel or Italian restaurant in those parcels. Mr. Harrington suggests more discussion with HHC to see how these areas can be better developed and utilized.

Michelle Matson, Kakaako Makai Conceptual Master Plan/ Oahu Island Parks Conservancy, testified that she appreciates the connection of Kewalo Basin Harbor's future with its past. Ms. Matson says HHC might be unaware that the basin and fastlands are ceded land. She says since the lease has been undisclosed, it's unclear what area is covered, or if it includes OHA land. She also questions how much higher boat slip fees will increase and if it will become a luxury yacht harbor for HHC's luxury towers. Ms. Matson also wants to know if the governor has spoken to HCDA about their letter about ENAs. She asks for a deferral because she does not know what this lease means for a cohesive public interest. She wants everyone at the table at the same time so this is not done piecemeal.

There were no further comments or questions from members or the public on this agenda item.

Chairperson Lee called a recess at 10:27 a.m.

Chairperson Lee reconvened the meeting at 10:39 a.m.

Howard Hughes Corporation's Race Randle and David Striph presented their vision for the harbor and reiterated how excited they are for making Kewalo a great place. Mr. Randle said HHC spent the past 6 months meeting with stakeholders to hear their concerns and ensure the improvements meet their needs. He says HHC takes their concerns seriously and wants to make sure Kewalo satisfies everyone's needs. Mr. Striph says Ward Village is mostly local small businesses, and HHC helps them everyday. He says HHC looks forward to bringing their resources to bear here, which will help the operators and businesses in Kewalo.

Member Salaveria asked how HHC sees this envisioned with the overall Kakaako Master Plan and asks whether the harbor improvement complements their development across the street. Mr. Striph replied that HHC has a great interest in Kewalo, which is basically the entryway into their property at Ward Village. He says they're trying to create a neighborhood here, and they want to have a great neighborhood mauka to makai. Mr. Striph says they can bring their management and marketing expertise to accomplish this.

Member Tamamoto stated that testimony from Mr. Iwami brought up good discussions with HHC, but requested more specifics on harbor design. Member Tamamoto asked about the timeframe for getting more specifics. Mr. Randle says if HHC is selected to move forward, HHC will complete the design process and bring the design to HCDA, since HCDA retains design approval. He says they can also commit to bringing those designs to stakeholders so they understand them, and to also consult with them to get their input.

Member Kamimura also referred to testimony from Mr. Iwami and asked whether HHC would be interested in being the consistent developer for the harbor and developing other parcels at Kewalo. Mr. Striph says HHC is absolutely interested and also believes one developer designing the entire area with public and HCDA input would make a lot of sense, as things like parking and other things cannot be considered independently.

Chairperson Lee asked about the advantages/ disadvantages of a single developer and whether that would give them a broader vision of how to be a better steward of the area. Mr. Striph agreed that a single developer would be a better steward of the area over another entity that might solely be interested in maximizing public benefits. He said HHC could actually make better returns in investments other than at the harbor, but HHC is interested in improving the community.

Member Tamamoto wanted to comment that he appreciates all the public testimony and he took good notes on what everyone said. He said its important that the public get candid feedback, and for those who want deferral, that was done at the last meeting. Member Tamamoto says the board itself had questions and concerns, and that's why they voted to defer at the last meeting on June 10. He says this decision is being well thought out. Member Tamamoto commented that a full pro forma has been created and revised many times, as the board was not satisfied initially. He says this was seriously reviewed and scrutinized by those with financial backgrounds. Member Tamamoto says regarding ceded lands, the state would pay OHA so it's not an issue here. He says the board had concerns about protecting commercial boaters at the harbor, and the lease does protect them. Member Tamamoto says it's not a perfect process, but the criticisms have been addressed. He says the board is holding HHC accountable to refine their plan with the input of the stakeholders in the future.

Chairperson Lee thanked Member Tamamoto for his explanation.

Chairperson Lee entertained a motion for the Authority to Authorize the Executive Director to Enter into a Lease Agreement for an Initial Term Not to Exceed Thirty (30) Years, Together with a Ten (10) Year Option to Extend, with Kewalo Harbor, LLC for the Development and Management of Kewalo Basin Harbor in Accordance with the Terms and Conditions Recommended by the Hawaii Community Development Authority Staff.

A motion was made by Member Tamamoto and seconded by Member Kamimura.

Member Salaveria clarified that he sees Kewalo Basin as an asset that the state has but cannot maintain. He says this partnership can benefit the state as a whole, since in the absence of it, there's would be a cost.

Member Tamamoto commented that it's difficult when government owns and operates something, as they don't always seem to get it right at times. He says this public private partnership is a good solution because it can yield returns to the community.

Chairperson Lee agreed that these are difficult decisions that have to be made, and HHC will be held accountable. He says he is in support of this.

A roll call vote was conducted.

Ayes: Members Kamimura, Mitsunaga, Salaveria, Tamamoto, Evans, Morita, Lee.

Nays: None.

The motion passed 7 to 0, 2 excused (Members Grune and Vacant Cultural Specialist)

Member Tamamoto thanked Mr. Ching and the HCDA asset management team for their efforts in renegotiating the lease and clarifying points of concern. He also

thanked HHC and the attorney general for ultimately reaching an agreement that is acceptable to all.

Chairperson Lee also thanked HCDA staff.

V. ADJOURNMENT

Chairperson Brian Lee adjourned the regular meeting at 10:57 a.m.

Respectfully submitted,

/s/

Miles Kamimura
Secretary

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