

**Decision-Making: Shall the Authority Authorize the Executive Director or Designee to Negotiate and Execute a Memorandum of Understanding with the Hawaii Strategic Development Corporation to Support an Business Aggregation Hub in the Kakaako Development District for an amount not to exceed \$597,921.80 from the Hawaii Community Development Revolving Fund, Kakaako Improvement District Subaccount?**

***Staff Report***

July 9, 2015

**Background:** The enabling legislation for the Kakaako Community Development District (“KCDD”), Hawaii Revised Statute (“HRS”) §206E-31, identifies pressure and need for balanced redevelopment or renewal to realize its potential as a major economic center for the State. Economic development is embedded in this charge to ensure responsible growth in the area.

An opportunity has been presented to the Hawaii Community Development Authority (“HCDA”) from the Hawaii Strategic Development Corporation (“HSDC”), to drive economic development in the KCDD through its HI Growth Initiative program. Through this Initiative, the HSDC has identified a business aggregation and economic development prospect, seeking to establish a collaborative co-working space in the KCDD that provides Hawaii-based entrepreneurs and their companies’ access to collaborative working spaces, mentor networks and access to seed capital to launch their businesses.

To this end, the HSDC has also identified a location and negotiated a 2-year lease for a 13,777 square foot space to establish this co-working facility at 1050 Queen Street, currently managed by the Hawaii Housing Finance Development Corporation (“HHFDC”). Base rent for the space is \$1.10 per square foot with common area maintenance (CAM) fees of \$0.80 per square foot. Impact Hub would request relief from Real Property Taxes as a non-profit 501(c)3, lowering CAM payments to \$0.55 per square foot. The HSDC’s lease with HHFDC also provides for two months of free rent and a co-termination clause so if the Impact Hub sub-lease is terminated, it’s lease with HHFDC would be terminated concurrently.

If approved, funds provided for under the MOU, attached as Appendix A, would be used as a lease guaranty for a prospect selected by HSDC through its HI Growth Initiative program as it is expected that the prospect would not have the credit history or capacity to otherwise qualify for the space lease. The prospective co-working facility would be subject to meeting certain milestones as a program under the HI Growth Initiative and subject to HSDC oversight.

Under the program the HSDC shall set out certain milestones that will include financial targets such that the co-working space will be able to afford rent and CAM within the first

year to limit HCDA's exposure relative to its restricted use as a guaranty of the lease. Failure to do so would result in the termination of the lease relieving HCDA of its constructive guaranty. Potential exposure under this guaranty is projected to be approximately \$250,000, however as a lease guaranty, a restriction and encumbrance would have to be placed for the entire value of the 2-year lease, \$597,921.80.

**Discussion:** By statute, economic development is included in the enabling legislation of the HCDA as well as the legislation that establishes the KCDD. Along the lines of innovation, the co-working facility is something that could provide a positive economic impact to the area. The HSDC by enabling legislation is an agency whose function is to seek and support these kinds of programs.

For a co-working space business model to be successful requires continued growth of its membership to meet the anticipated "churn" of unsuccessful businesses to maintain a steady membership level to sustain operations.

The space at 1050 Queen Street is attractive and would provide amenities appropriate for this kind of facility – an increased number of better quality office, meeting and co-working spaces. In this kind of business model, these facilities are able to rent space for well in excess of three (3) to five (5) times the market rent for office space on a per square foot basis.

The Impact Hub business model would be a great addition to bolster growth in the State. The Hawaii Innovation Assets Report, a report commissioned by the Hawaii Business Roundtable, cites that the sector that would be serviced this kind of facility comprises approximately 7% of total jobs or 64,000 jobs locally. There are only a handful of these kinds of spaces in the State that operate on a much smaller scale, each with growing memberships and looking for space to expansion.

If the operations perform as forecasted by HSDC, HCDA funds expended would be approximately \$250,000 in the initial start-up phase otherwise the HSDC would look to terminate the lease.

**Recommendation:** The economic impact to the local economy of successful businesses anchored at the Impact Hub would yield benefits that would provide an economic multiplier well in excess of funds being placed at risk by the HCDA. Staff recommends further negotiation of the MOU to expand language and insert additional terms for clarity and protection.

Attachments:

Appendix A: DRAFT HSDC Memorandum of Understanding  
Appendix B: HSDC Presentation Materials

## MEMORANDUM OF UNDERSTANDING

among

**Hawai'i Strategic Development Corporation, and the Hawai'i Community Development Authority**

This Memorandum of Understanding ("MOU") is entered into this \_\_\_\_ day of \_\_\_\_\_, 2015, by and among Hawai'i Strategic Development Corporation (HSDC), and the Hawai'i Community Development Authority (HCDA). HSDC and HCDA may be referred to herein individually as "Party" and collectively as "Parties." This MOU is relating to the Parties' cooperation in the HI Growth Initiative.

**WHEREAS**, the parties realizes the urgency to encourage economic diversification, create employment opportunities for our residents, and support the emerging technologies and creative sectors of our economy; and

**WHEREAS**, the HI Growth Initiative is intended to promote the economic development by investing in efforts to promote entrepreneurial development, the commercialization of products and services, and access to startup capital; and

**WHEREAS**, HSDC has identified the Impact Hub as a credible operator of a co-working space and provider of entrepreneurial development programs and the Impact Hub wishes to locate in the Kakaako development district a co-working space to help Hawai'i-based entrepreneurs and their companies gain access to mentor networks and seed capital to launch their businesses, thus positioning them for further development of their products and services.

**NOW THEREFORE**, the Parties agree to the following conditions:

- 1) The Parties agree to cooperate and share resources to facilitate the implementation and execution of the HI Growth Initiative;
- 2) HSDC agrees to serve as the manager of HCDA's financial contribution to the HI Growth Initiative.
- 3) HSDC agrees to enter into a lease agreement with Hawaii Housing Finance Development Corporation for the commercial space located at 1050 Queen Street, Honolulu, HI, for the purposes of subleasing the space to a qualified operator of a co-working space.
- 4) HCDA's Board of Directors has approved a commitment \$597,921.80 over two years to support the establishment of a co-working space located in Kakaako that provides Hawai'i-based entrepreneurs and their companies access to collaborative working spaces, mentor networks and access to seed capital to launch their businesses, thus positioning them for further development of their products and services.
- 5) HCDA agrees to make 24 monthly payments to HSDC of \$26,176.30 beginning August 1, 2015. Monthly payments will continue until HSDC has accumulated sufficient reserves to pay any remaining lease obligations. Total monthly payments will not exceed \$597,921.80.

Nothing in this MOU shall be deemed to constitute any Party hereto as partner, agent or representative of the other Parties or to create any fiduciary relationship between the Parties;

This MOU shall be effective upon the signatures of all Parties and shall remain in force for a period of three (3) years, unless terminated earlier by any Party. Any Party may terminate this MOU for any reason upon ninety (90) days written notice to other Parties;

Each Party shall be responsible for damages or injury that may be caused by its respective agents and representatives within the scope of their employment and performance under this MOU, to the extent that the liability for such damage or injury has been determined by a court or otherwise agreed to by the Parties, and the responsible party shall pay for such damage and injury to the extent permitted by law;

This MOU may be executed and signatures transmitted electronically or by facsimile. This MOU may be executed in counterparts, each of which shall be deemed an original, and all of which shall together constitute one and the same instrument notwithstanding that all of the Parties are not signatories to the same counterparts. For all purposes, duplicate unexecuted and unacknowledged pages of the counterparts may be discarded and the remaining pages assembled as one document.

**IN WITNESS WHEREOF**, the undersigned being duly authorized by the respective agencies and companies, have signed this Memorandum of Understanding.

**HAWAI'I Community Development Authority**

By: \_\_\_\_\_

Date: \_\_\_\_\_

Anthony Ching

Executive Director

**HAWAI'I STRATEGIC DEVELOPMENT CORPORATION**

By: \_\_\_\_\_

Date: \_\_\_\_\_

Karl Fooks

President



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## *Supporting an Innovation Ecosystem*

HCDA Board of Directors  
July 8, 2015



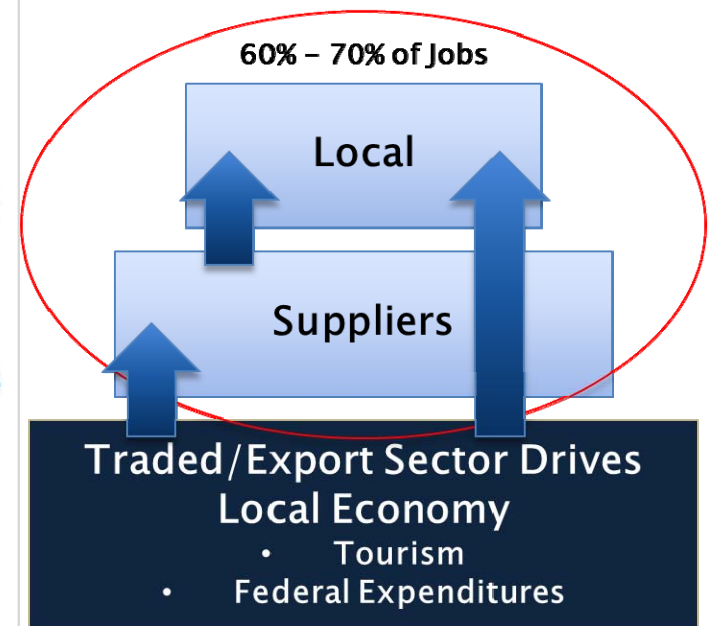
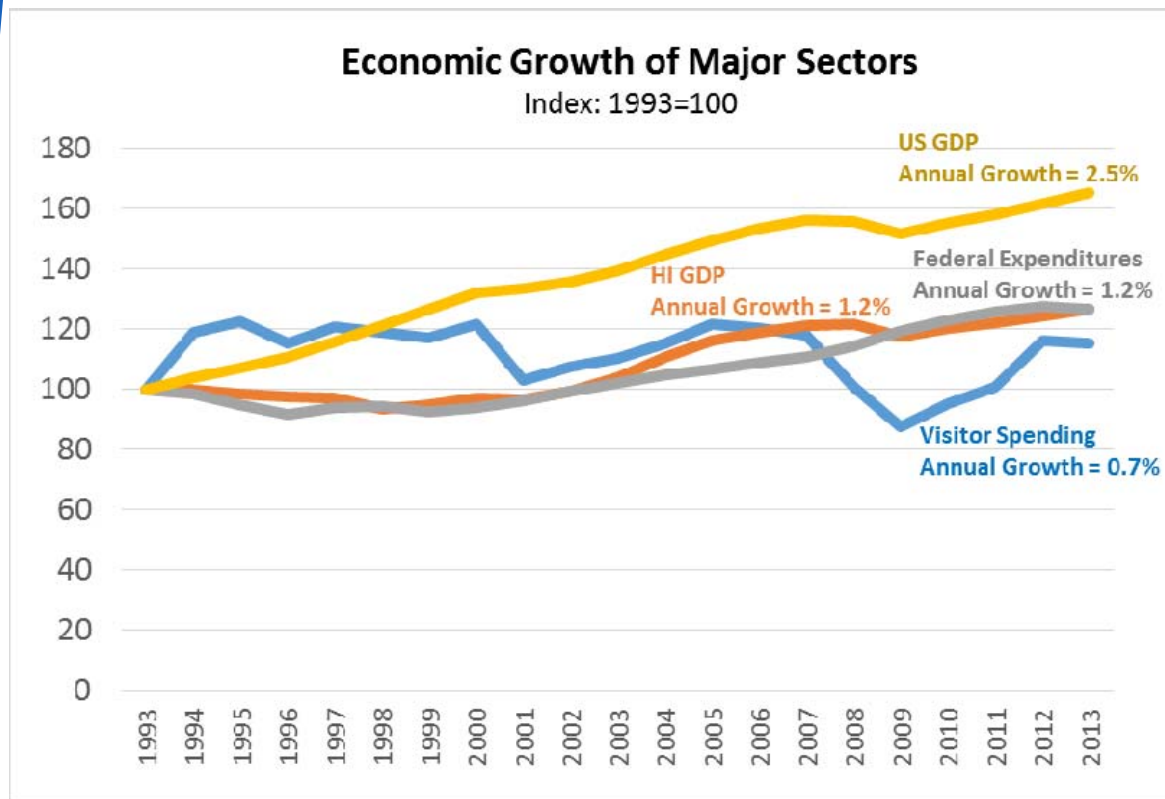
HAWAII  
STRATEGIC  
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CORPORATION

**Karl Fooks | President | Hawaii Strategic Development Corporation**

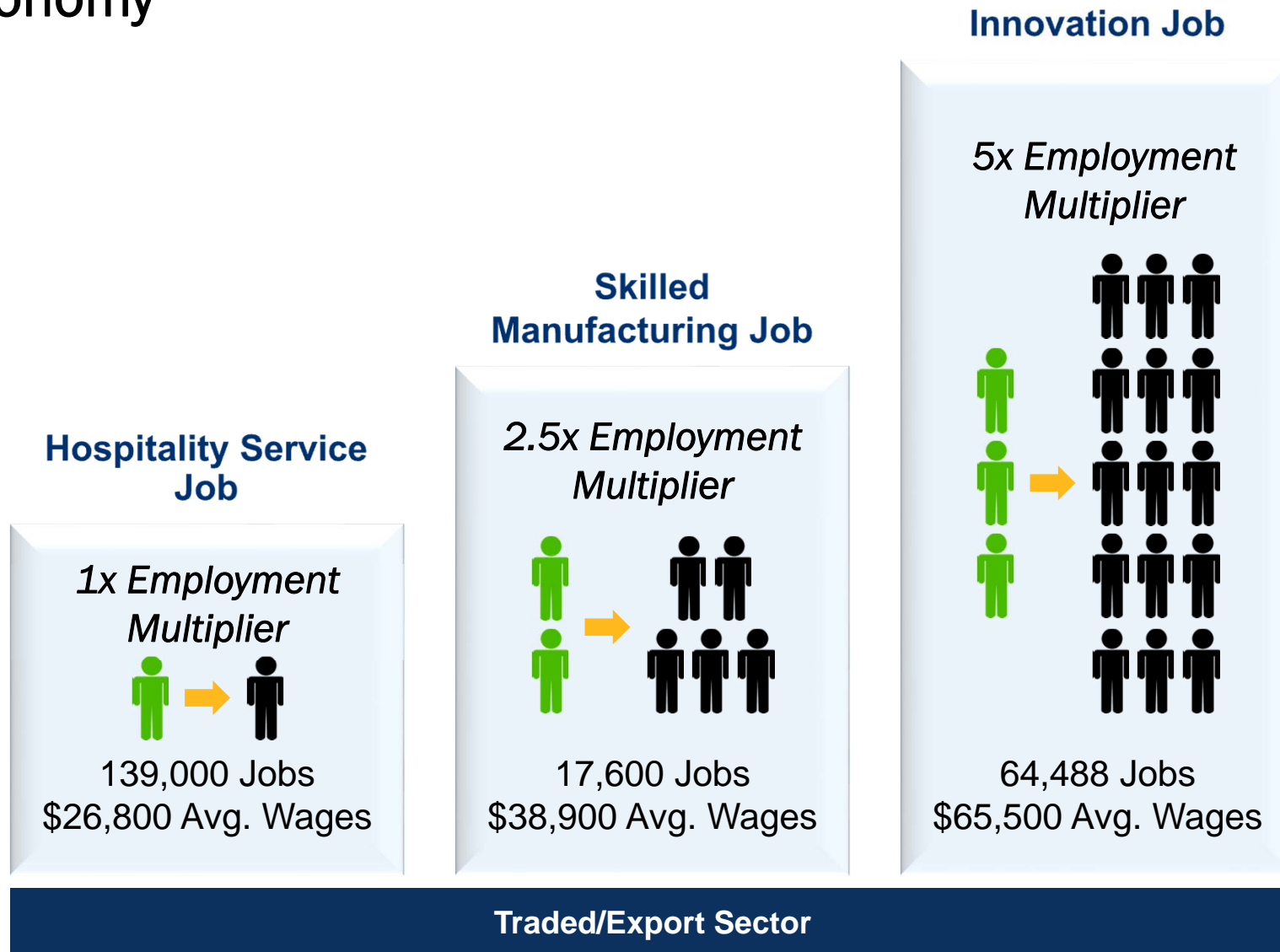
***HSDC's Mission is to Promote Economic Development and Diversification through a Return Driven Investment Program in Partnership with Private Capital***

Section	Description
§211F-2	<p>Establish programs to <b>stimulate private capital investment</b> in Hawaii toward investments that promote the welfare of citizens in this State, economic growth, employment, and economic diversification.</p> <p>The corporation may use public funds to provide incentives to private investment activity, by co-investing public funds in private financial organizations to increase the impact of the public investment while <b>utilizing the investment acumen of the private sector</b>, and by using public funds to reduce the risks of private investments.</p> <p>The corporation shall make provision for the <b>recovery of its expenditures, as far as possible</b>.</p>
§211F-1	<p>The endeavor shall <b>not be devoted to the sale of goods at retail, construction of housing, or tourism-related services</b>.</p>
§211F-7	<p>Financial participation by the corporation in private financial investment funds shall be made with the provision that the private fund shall make investments in Hawaii in amounts at least equal to the amount of state participation.</p> <p>Investments by the corporation to persons shall be made on the basis of solicitation and a competitive technical review process, <b>subject to the availability of funds allocated to the corporation for making investments</b>.</p>
§211F-12	<p><b>Significant private sector financial support shall be associated with any economic development project</b> for which the corporation provides assistance.</p>

# Innovation Sector is a New Traded/Export Sector to Drive Economic Growth



# Innovation Sector Most Effective at Creating Jobs throughout Economy



Sources: UHERO; DBEDT; Moretti



# Global Trends Support Innovation-Based Economic Development



Hundreds of Billions of  
market value transferred to  
new market entrants

Source: Menlo Ventures

# Educated Entrepreneurial Workforce is Key Competitive Advantage for Innovation Sector



**Honolulu Startup Weekend**



**Maui Startup Weekend**

- Hawaii's high quality of life appeals to this workforce
  - Top 10 State for in-migration of educated entrepreneurial workforce
  - Top 15 State for educated workforce
- Hawaii is cultivating entrepreneurial talent
  - No. 1 ranked State for growth in entrepreneurial activity

*Source: The 2014 State New Economy Index, Information Technology & Innovation Foundation*



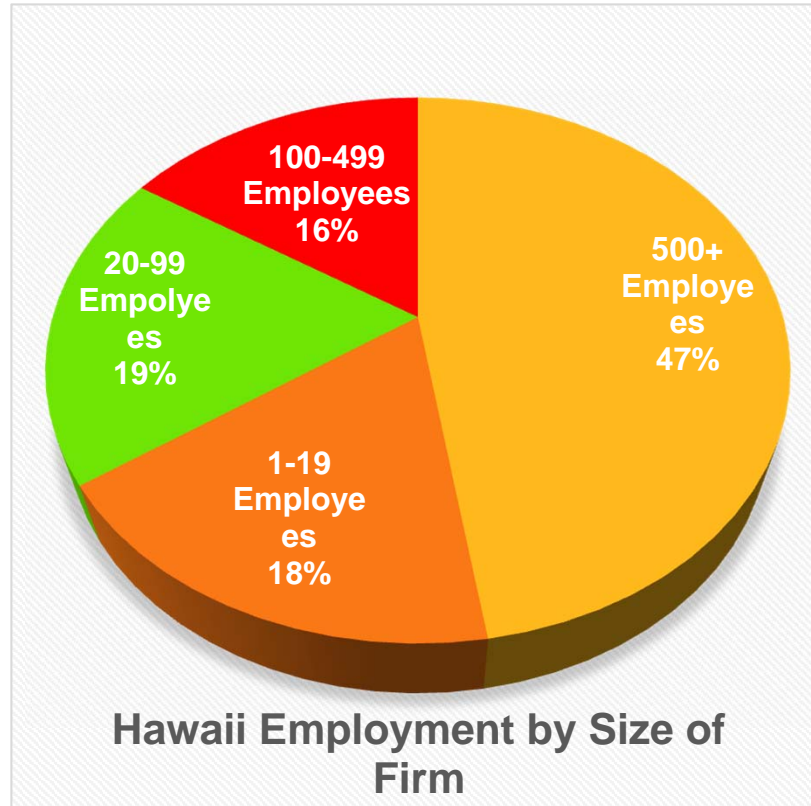
# Innovation Sector Requires Similar Ecosystem Investment as Other Key Industries

	INFRASTRUCTURE	WORKFORCE	CAPITAL
Innovation	<ul style="list-style-type: none"> <li>• Gigabit Broadband</li> <li>• Innovation Hubs</li> <li>• Industry and Investor Networking Events</li> </ul>	<ul style="list-style-type: none"> <li>• Co-Working Programs</li> <li>• Commercialization Programs</li> <li>• Tradeshow Programs</li> </ul>	<ul style="list-style-type: none"> <li>• Accelerator Programs</li> <li>• Investment Capital</li> <li>• SBIR Grants</li> </ul>
Tourism	<ul style="list-style-type: none"> <li>• Airports</li> <li>• Beach Parks</li> <li>• Branding and Marketing</li> </ul>	<ul style="list-style-type: none"> <li>• Tourism Training Programs</li> </ul>	<ul style="list-style-type: none"> <li>• Grants to Support People, Place and Culture</li> </ul>
Agriculture	<ul style="list-style-type: none"> <li>• Irrigation</li> <li>• Farmland</li> <li>• Seed Development</li> </ul>	<ul style="list-style-type: none"> <li>• Agriculture Extension Programs</li> </ul>	<ul style="list-style-type: none"> <li>• Agriculture Loan Programs</li> </ul>



# Innovation Sector Creating Opportunities for Freelancers and Smaller Firms

## Over Half of Hawaii Private Sector Jobs in Small Businesses



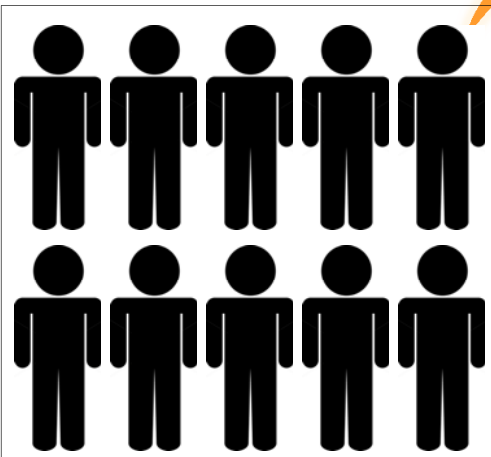
## Demand for contingent workers/freelancers increasing

- ▶ Biggest job gains were in firms with 1-4 employees
- ▶ Digital and creative professionals don't want traditional offices and want to avoid isolation of home offices

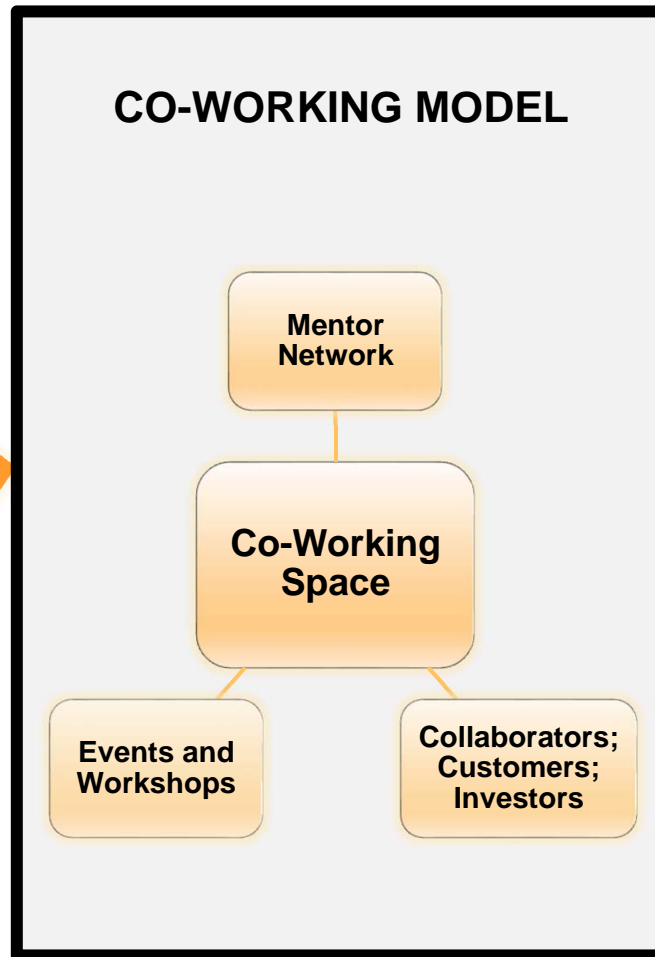
Source: Small Business Administration; Harvard Business Review

# Co-Working Spaces Enhance Probability of Success for Small Businesses

- Seeking increase in productivity
- Seeking increase in creativity
- Seeking customers
- Seeking collaborators



**Co-workers**



**Successful Businesses**

- 74% report increase in business ideas
- 71% report increase in creativity
- 68% report increase ability to focus
- 62% report increase in standard of work

# Co-Working Spaces are Key Economic Development Assets to Promote Innovation Districts

- ▶ Cities are promoting the growth of innovation districts to attract knowledge workers and their businesses
  - Grow jobs that align with the disruptive forces in the economy
  - Empower entrepreneurs to drive job creation and economic growth
  - Catalyst to redevelop urban districts
  - Increase employment and residential density to reduce energy use
- ▶ Critical mass of co-working capacity can anchor an emerging innovation district
  - Support the growth of individuals and firms and their ideas
  - Attract service providers and support activities to the district

# HSDC's Launch Akamai Venture Accelerator Program Supports Accelerators Around the State



**Blue Startups:** Information Technology ; Private Investor supports accelerator



**GVS:** Film/Media Content ; Hawaii County supports accelerator



**Energy Excelsior:** Clean Energy Technology; Federal Grant supports accelerator



**XLR8UH:** University Commercialization; UH supports accelerator



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