

Hawaii Interagency Council for Transit-Oriented Development

Minutes of Meeting No. 35

Tuesday, May 12, 2020

9:30 am

**Office of Planning 6th Floor Conference Room
235 South Beretania Street, Honolulu, Hawaii
and
Video Teleconference**

Members/ Designees Present:	Mary Alice Evans, Office of Planning (OP), Co-Chair Denise Iseri-Matsubara, Hawaii Housing Finance & Development Corporation (HHFDC), Co-Chair Sara Lin, Office of the Governor Curt Otaguro, Department of Accounting and General Services (DAGS) Robyn Loudermilk, Department of Education (DOE) Darrell Ing, Department of Hawaiian Home Lands (DHHL) Heidi Hansen-Smith, Department of Health (DOH) Malia Taum-Deenik, Department of Human Services (DHS) Russell Tsuji, Department of Land and Natural Resources (DLNR) Wayne Takara, Department of Public Safety (PSD) David Rodriguez, Department of Transportation (DOT) Hakim Ouansafi, Hawaii Public Housing Authority (HPHA) Scott Chan, Stadium Authority (SA) Representative Nadine Nakamura, House of Representatives Harrison Rue, City & County of Honolulu April Surprenant, County of Hawaii Pam Eaton, County of Maui Betty Lou Larson, Catholic Charities, Housing Advocate Bill Brizee, AHL, Developer Representative Ryan Okahara, U.S. Housing & Urban Development, Honolulu Office (HUD) (Ex-officio)
Members/ Designees Excused:	Executive Director, Hawaii Community Development Authority (HCDA) David Lassner, University of Hawaii (UH) Senator Lorraine Inouye, State Senate Jodi Higuchi Sayegusa, County of Kauai Cyd Miyashiro, American Savings Bank, Business Community Representative
Other Designees/ Alternates Present:	Deepak Neupane, HHFDC Chris Kinimaka, DAGS David DePonte, DAGS Ian Hirokawa, DLNR Benjamin Park, HPHA John Fink, SA Jillian Okamoto, Catholic Charities, Housing Advocate

TOD Council Rodney Funakoshi, OP
Staff: Ruby Edwards, OP
 Carl Miura, OP
 Aaron Setogawa, OP

Guests: Kevin Auger, HPHA
 Franz Kraintz, City & County of Honolulu
 Lauren Yasaka, DLNR
 Nancy McPherson, DHHL
 Sydney Hart, Office of Senator Lorraine Inouye
 Hilarie Alomar, Kamehameha Schools
 Miki David, Kamehameha Schools
 David Arakawa, Land Use Research Foundation (LURF)
 Nathalie Razo, PBR Hawaii
 Kiana Otsuka, Oahu Metropolitan Planning Organization (OMPO)
 Phillip Camp, hiarchy.net
 Kerry Nicholson, Legacy Partners
 Ben Trevino, Honolulu Authority for Rapid Transportation (HART)
 Veronica Rocha, Essential Leap
 Matthew Kodama
 Linda Schatz
 M. Andrade, Office of Representative Henry Aquino
 Jeff Merz, AECOM
 Brian Strawn
 KDA Capital
 HOEISF-Lobbyist

1. Call to Order

Mary Alice Evans, Co-chair, called the meeting to order at 9:30 a.m.

2. Virtual Meeting Procedures

Carl Miura went over the virtual meeting procedures.

- **Visibility** –Please make sure your camera is turned on and full name is displayed. If your camera isn't working or you don't have one, then it is important to make sure that your full name is used as the participant log-in.
- **Mute** – Please check to see that your microphone is muted to avoid any unnecessary noises. When you opened Zoom today, it should already be on mute.
- **Introductions/Attendance** - Since we do not have a sign-in sheet, we will be depending on introductions to note your attendance in the Council minutes. The Co-Chair will call out the

agency and the member/designee will introduce him/herself using your first and last name. At the same time, please introduce others from your office that are participating.

- **Chat** – You may use chat to communicate with the meeting organizer, generally the OP Co-Chair. If your microphone isn't working, then use Chat to provide your name and agency or company you are with.
- **Speaking** - When speaking, be sure to get recognized by the Co-Chair first, unmute yourself, say your full name, and then ask your question or make your comment. We request that everyone be respectful and do not interrupt the speaker.
- **Questions/Comments** - TOD Council members/designees and staff will be asked for questions and comments first, and then the discussion will be opened to receive comments or questions from other guests or meeting attendees. To get the Co-Chairs attention, you are welcome to use chat to submit a question. Questions will be deferred to the end of presentations.
- **If the Co-Chair Asks for a Motion** – Please state your full names when making and seconding a motion. Voting will be done by roll call of Council member agencies.
- The meeting materials and handouts will be posted on the TOD Council website after the meeting. We will notify you by email when it is uploaded.
- Anyone who did not receive today's agenda can go to the TOD Council website <https://planning.hawaii.gov/lud/state-tod/>. The agenda is posted on the top right of the page at "TOD Council Meeting Information and Materials", "Meeting Agenda".

Evans mentioned that Council members and designees should have received the meeting materials via email prior to the meeting.

3. **Introduction**

Members/designees and guests introduced themselves. They also introduced other individuals from their agencies.

4. **Review and Approval of Minutes of the February 11, 2020 Meeting**

There being no corrections, the February 11, 2020 meeting minutes were approved as circulated.

5. **Kamehameha Schools TOD Community Building Initiatives, Presentation by Walter Thoemmes, Managing Director, Commercial Real Estate Division, Kamehameha Schools**

Walter Thoemmes explained that Kamehameha Schools (KS) was founded through the trust legacy of Princess Bernice Pauahi Bishop, the last descendent of Kamehameha the Great, to educate and advance native Hawaiians. This remains the trust focus. In 2015, KS developed Vision 2040, with the goal of assisting their learners in achieving postsecondary success within one generation of 25 years, which applies to all native Hawaiians and not just those enrolled on campus. As of school year 2018-2019, KS serves about 60,000 learners: 7,000 students on three campuses and 29 preschools and over 13,500 extension education learners. The remaining 40,000 students are reached through their partners such as the Department of Education and post-secondary public and private schools.

Ninety-eight percent of this effort is funded by an endowment, of which KS land holdings account for 31% of the \$3.8 billion endowment. About 15,000 acres are in the commercial portfolio that his division manages. Most of the land is undeveloped land or golf courses. Less than 1,000 acres are in commercially productive categories, such as hotels and shopping centers.

Eighty percent of their land is held in ground leases, where KS owns the land, but does not own the vertical improvements. Pearlridge Shopping Center and Hualalai Resort are examples of these holdings. Most of these leases were issued during the post-war growth in the islands. Twenty percent of their portfolio is owned completely by KS, such as the SALT Project in Kakaako and Windward Mall. The KS portfolio management strategy is changing: owning, developing, and running a center is higher risk, but provides higher returns. As ground leases start to expire, it creates a lot of opportunities. Another interesting aspect of their portfolio is the diversity of commercial uses—from industrial to retail—because these commercial properties were developed by different developers.

In Hawaii, housing consumes the highest proportion of a household budget. It is a huge impact for the average family. In 1959, the median annual income for a family of four was \$6,300, and, by 2018, it had grown to over \$104,000. A house in 1959 was \$21,000, which was about three times the median annual income. In 2018, the cost of house was \$772,000 or about seven times the median annual income. Between statehood and the 1970s, the number of building permits ranged from about 11,000 per year to as high as 22,700. However, in the 70s, there was a huge decline in permits caused by several factors, including the oil embargo and increase in regulations.

For KS, this creates a number of challenges, such as getting the returns they need to fund their mission to educate all native Hawaiians. It will require a significant economic infusion to achieve their goal. But what should success look like? In their tracking, most of their students are going away and not coming back. This is not just a native Hawaiian issue. How can they call it success when they cannot create an environment that allows young people to stay in the islands?

One of the things KS did was to change their strategy to a total return model where they look at the value as well as income growth across their portfolio. They decided to be more active than passive. Ground leases just cannot provide the kind of income that will meet their trust education strategy. KS also wants to partner with good developers that will align with their strategy to the point where they may want to be an investor. KS wants to create master plans rather than having things come together organically like in the past. In Kakaako, KS got control of nine blocks at the same time. This allowed them to better plan and think through what the community should look like in the future.

In 2015, KS adopted a regional approach with the idea that each community is different: what is needed and what works in Waianae is different from Waipahu. They use a values framework to understand what different regions need in terms of education, housing, infrastructure, business, health, and 'aina to guide them in their programming. They look at all of these in their planning to accomplish more than just economic growth.

With rail, KS realized that there is tremendous opportunity to create future communities and to provide housing. Along the corridor, they have lands in Waipahu, Waiawa, Kaonohi (Pearlridge), Kapalama, and Kakaako. They are also planning when rail goes through Moiliili to UH-Manoa.

In Kapalama, a lot of the ground leases are expiring about the time that rail is coming through. It is a prime area for redevelopment. It is also KS' largest contiguous urban holdings with 105 acres from Nimitz Highway to King Street, straddling two sides of Kapalama canal. The portfolio is very diverse with some retail and light industrial. They have plans to develop 4,500 to 5,000 workforce housing in the next 20-25 years. Urban green space along with retail will be part of the community. They want to make sure community residents' basic needs are met in the neighborhood. With 1-1.2

million square feet of industrial space, one of the challenges will be keeping many of the small, local businesses that operate out of the Kapalama from leaving. When the timing is right, KS would like to pursue multi-story and mixed-use industrial. They would like to own and operate the areas with light industrial on the bottom and apartments above.

The first phase, Kapalama Kai, is about 16 acres located between Waiakamilo Road, Dillingham Boulevard, and Kohou Street. KS anticipates a buildout of about 1,800–2,500 dwelling units at between 80–140 percent AMI with 60,000–130,000 square feet of flex industrial, with about 3.8 acres of green space. A developer has been selected, but not signed. They will be presenting the selection to the Board in July.

Their Kakaako development was started in 2009 during the great financial recession. For the first phase, KS has built 1,350 housing units, 456 of which are workforce housing on Keawe and Auahi Streets. Only half of the total residences are completed. They have worked with various developers using different deal structures, including one where KS develops and operates the project. As the master planner, KS remains involved until they are sure developers are delivering on what they promised. Out of the nine blocks they own, they have five blocks left to develop in Phase II. They are in discussions to develop two separate areas where Fisher Hawaii used to be located and Honolulu Beerworks is currently located. They are hoping to get more projects in before 2024.

In Phase II, KS envisions the Cooke and Auahi Street corridor becoming more of a focus. Their model is to retain retail and commercial space on the ground floor. This allows them to curate and enhance placemaking in the district. If they sell the interest, it will be to a developer to do the housing component.

In Waiawa, they recently went in to update their plans with the Land Use Commission to build a solar facility. Over the long-term, they would like to create a community with a mix of uses. KS hopes to build 12,000 homes while retaining agriculture in different places. They are going to seek a partner developer for the project that will adopt their plans and go through the approval process. Phase 2 of the project will displace solar with more homes.

In Moiliili, KS owns Pucks Alley and the old Varsity Theater site. They have plans to build 350 affordable rental units, a hotel, and a 700-bed student housing complex with three different developers. Like other developments, these projects will be on top of retail that KS will own and operate.

KS has a 3.5-acre property near the rail station and bus hub in Waipahu. They found a developer to partner with to build a grocery-anchored, mixed-use development, which will include an affordable rental project under a ground lease. It will be like other projects where KS will own and operate all the retail. The developer would build the affordable housing. Due to height limitations, they can only get about 200 units. However, if this is lifted, they can get as many as 500 units. The old American Savings Bank Building, which is now a medical office, will be retained.

Pearlridge Center is under a very long-term lease with Washington Prime Group. KS is discussing TOD opportunities like kamaaina housing or hotel uses with them. KS also owns about 14 acres of land makai of Kamehameha Highway from HomeWorld Furniture to Pearl Kai Shopping Center. It is under a lease until 2026. They are looking at similar mixed-use possibilities, as well as designing for sea level rise.

Representative Nadine Nakamura asked which projects along the rail corridor offers the best opportunities to partner with State. Thoemmes answered that the readiest sites are Kapalama and Waipahu. The level of affordability will be influenced by the programs that the State can provide, such as LIHTC. This helps local people to buy a home. If the State can provide quicker and more support, it will help developers move forward on these projects. Most developers do not take big equity positions in their projects, but they are financed to the limit. What is attracting or pushing away the financing is risk. To the extent that there is development and permitting certainty, it will de-risk the project and not cost the State anything. As risk is eliminated, more investors are willing to finance projects.

As part of their pitch, KS is doing their part to de-risk projects in the Kapalama area by doing the master planning, negotiating with the City on infrastructure, and dealing with HECO on power. If a developer chooses to do a project with them, they will already have a plan in place. KS will also help them market a project, because KS will be doing all the retail and community elements. Their efforts should be creating as much certainty for the developers as possible.

Nakamura asked what the biggest infrastructure obstacles for the two areas are. Thoemmes replied the two biggest issues in Kapalama are electrical power and the impact of rail. Sewer was a big problem for a long time, but is being worked out. Right now, there is only enough power to support 600 units in their Kapalama plans. They do not expect any problems with Waipahu.

Harrison Rue reiterated that the City has an effective partnership with KS and the State. It is uncommon for the State and City to work on power, but this is what is needed in Iwilei-Kapalama. He explained that the City has inked an unprecedented agreement with HHFDC to do the next phase of the infrastructure planning on the highest priority needs.

Veronica Rocha asked how KS is planning to incorporate renewable energy, sustainable water, and transportation infrastructure into its current and future developments. Thoemmes said it starts with being as energy efficient as they can in what they build or retrofit. They are attempting to follow green building standards in their designs. In addition, KS is looking into on-site treatment of wastewater. He is part of the Hawaii Community Foundation's taskforce to study the feasibility of these type of technologies. They achieved LEED Platinum Certification on Keauhou Lane, an affordable rental project in Honolulu. The recognition makes the building a lot more attractive to people who wish to live and shop there. They try to incorporate as many sustainable features as possible.

Malia Taum-Deenik said DHS is very interested in workforce housing and being able to serve recipients in Waipahu. She asked what his thoughts were on workforce housing. Thoemmes said that it is critically needed in Hawaii. They need to do more in this area to better serve their beneficiaries. This is the middle-tier housing group that developers may not receive incentives to produce housing for like those for lower income housing. It also needs to be balanced out with market housing to make the numbers work. The key is what is the right mix and what is the right length of time to keep it as affordable housing. The challenge is to manage the cost of producing it because selling or leasing should not be a problem. They like to keep the project expenses as low as possible because a larger market means a project becomes less risky.

6. Status of TOD-Related CIP Items and Legislative Bills

Rodney Funakoshi reported on the following TOD-related bills that are still alive.

1. HB 2542. Omnibus Housing bill to fund infrastructure for housing. It was not heard, but the vehicle bill is SB 3104.
2. SB 2054 SD2 HD1. Originally, the proposal was a surcharge on property taxes for infrastructure development in TOD areas. It was modified to allow for an infrastructure fund within the Dwelling Unit Revolving Fund (DURF). It also provides the TOD Council the authority to review projects that would be funded under the bill. This change made the bill more supportable.
3. SB 2214 SD2. This allows for fast-tracking of high-density housing projects greater than 250 dwelling units per acre. OP testified with concerns.
4. SB 2616 SD2 HD1. Current bill allows for 50 percent of school impact fee requirements to be exempted.
5. SB 2809 SD2 HD1. Provides General Obligation (GO) bonds to DBEDT for TOD. OP had requested \$1.5 million. No money is included in the bill, but the CIP bill, HB 2725 Proposed SD1, includes this item.
6. SB 3015 SD2. Relates to innovative project delivery appropriation. The bill appropriates fund to DAGS for training, development, and consulting services for innovative project delivery. No dollar amount is specified.
7. SB 3104 SD2. Omnibus Housing bill. It is in the House Housing/Finance Committee and has a large appropriation of \$275 million in GO bonds. It also establishes the Office of the Housing Advocate to focus on affordable housing.
8. SB 3143 SD2. Innovative project delivery or P3 bill with DAGS to develop a 10-year pilot project. One position is authorized to be funded.
9. SB 2940 SD2. Transfers the Stadium Development District from the Hawaii Community Development Authority to the Stadium Authority.

Betty Lou Larson asked if any of these bills are going to be heard. Funakoshi answered he was not sure whether the bills will be considered, but that the Legislature will be reconvening again in June.

7. Affordable Housing Work Group Update

Sara Lin reported that the Affordable Housing Work Group was approved by the TOD Council in January. She is co-chairing it along with Representative Nakamura. The group had its initial meeting in April. The main purpose is to formulate a strategy to get a holistic view of all State properties and private parcels being planned for housing, specifically affordable housing along the rail line. The group is trying to figure out what are the priorities, challenges, and timelines for producing affordable housing. By compiling this information, the Council might be able to help accelerate some of the development. The purpose of looking at private parcels in areas like Waipahu is to identify where the public and private sector can work together to produce affordable housing. For example, the building height limit may need to be raised to double the number of affordable units. The basic strategy of the work group is to determine the schedule of affordable units for State projects, identify major private sector plans, set a timeline, and establish a 10-year goal for the number affordable housing units along the rail line. The group also wants to identify constraints and unknowns and figure out ways to accelerate affordable housing development. In consultation with Hawaii Housing Finance and Development Corporation (HHFDC) and the City's General Plan, the Work Group established an initial 10-year goal (by 2030) of 12,000–15,000 units. It is a range and can be adjusted as more information is gathered and discussed at future meetings.

Funakoshi mentioned that they have one more meeting scheduled in May. Nakamura suggested that the method used to develop the 12,000–15,000 housing unit goal could be explained at the next TOD Council meeting.

8. Discussion: Establishment of Infrastructure Investment Strategy Work Group

Ruby Edwards stated that the TOD Council was formed to act as a forum to advance TOD implementation. Regional infrastructure deficits and infrastructure financing are critical impediments to TOD implementation and a work group is proposed to advance work in these areas.

The State TOD Project on Oahu has compiled information on:

- State and major projects anticipated in three TOD priority areas over the next 30 years, including affordable housing.
- Regional infrastructure needs to support State and other TOD projects in priority areas over the next 30 years.
- Estimated project costs for regional infrastructure improvements and funding gaps for first phase infrastructure projects.
- Preliminary ideas and analysis of financing options to address funding gap for 2020-2030 regional infrastructure needs.

The consultant team estimated the total cost of infrastructure could be in the range of \$4.9 billion over a 30-year period from 2020–2050. Around \$1.74 billion may be available through conventional funding, but the remaining \$3.19 billion is unfunded. The consultant team looked at several alternative financing mechanisms such as tapping the one-time construction GET, new Operations GET, incremental real property tax revenue, and Community Facilities Districts.

A lot of information is available regarding infrastructure needs, timing, and costs at a high level. However, what is needed is a coordinated strategy to guide implementation and decisions on how, when, and where to invest in infrastructure.

The work group would undertake two tasks:

1. Investigation of infrastructure financing tools and options; and
2. Development of general timing and schedule for what kind of State investments would be needed where, when, and who will take the lead in infrastructure delivery.

Some of this work has already started in Iwilei-Kapalama with HHFDC and the City. Their effort could be a model for how this can be done in other TOD areas on Oahu and on the Neighbor Islands.

The general time frame for the work group work is at least a year. The effort would begin by getting organized and scoping of activities and schedule. The work group will need to research and develop action plans and recommendations for short- and long-term. It will look at whether things like financing tools and administrative mechanisms and instruments for implementation can be replicated in other areas.

The suggested TOD Council work group members are DAGS, HHFDC, HPHA, DLNR, DOT, UH, DOE, OP, and the City. Other agencies that will be invited to participate or consult include the Departments of Budget and Finance, Taxation, and the Attorney General.

Arakawa remarked that City department heads are going to be leaving in a few months, and State department heads will be gone in a couple of years. For continuity and institutional knowledge, he suggested adding private sector entities who have already been involved with infrastructure financing for major projects, including Kakaako. Rue reminded everyone that City TOD staff will provide continuity. He acknowledged the coming change in City administrators, but noted that the City is working with division chiefs to ensure continuity is built into the system. Edwards added that adopting institutional frameworks and necessary interagency agreements will help ensure continued support for infrastructure investment and delivery. Everyone is going to learn a lot from the Iwilei-Kapalama experience.

Larson asked if the PIG would consider any areawide infrastructure improvements as suggested in the State TOD Project. She also wondered if it would be more flexible to build for the future with climate change impacts still uncertain. Edwards explained that the City is looking at climate change as it impacts critical infrastructure investment in the next 10–30 years as they move forward in the Iwilei-Kapalama area. Rue shared that they are getting ready to publish the Draft Environmental Impact Statement for the City's Kapalama Canal project. It does include their assessment of sea level rise. He added that the City's Climate Adaptation Guidelines should be published in the next several weeks.

Taum-Deenik suggested adding someone from the CIP Committees in the House or Senate. Nakamura said that would be Representative Kyle Yamashita in the House and Senator Gil Keith-Agaran in the Senate. She also serves on the Finance Committee with Representative Yamashita.

Edwards commented that the financing tools piece, including the mechanisms needed to pay off debt or compensate the infrastructure delivery entity, could be less challenging than trying to figure out the critical path for where, when, and what to invest in. The work group is going to need the expertise of everyone involved in developing and managing capital improvement projects and CIP programs, since there are no funds for consulting services.

Larson asked about consulting with HECO and including their timetables. Edwards replied that HECO was consulted during the TOD Project for the three priority areas. HECO is aware of the anticipated buildout being considered in the areas and HECO has had an opportunity to comment on the buildout scenarios in terms of electrical system capacity and needs. Rue shared that the City started meeting with HECO about three years ago when they realized that electricity was the new sewer. He reiterated that the City has meetings twice a month with the TOD sub-cabinet and monthly meetings with planning and engineering directors, which is how the City manages coordination of City infrastructure issues. Any State agency that wants to discuss infrastructure is welcome to take advantage of these regular meetings to meet and coordinate with key City staff, directors, and administration.

Rocha mentioned that private sector P3 groups may be interested in participating or commenting on the work group's products. Edwards agreed that P3s could be a critical player in the value-capture and finance aspect of TOD development. It will be a large part of the discussion on how to make the alternative financing successful. Following up on Rocha's question, Arakawa asked if the large landowners in the TOD areas can be involved. He noted that Andrea Roess with David Taussig and Associates was a sub-consultant for finance and infrastructure on the State TOD Project. HHFDC hired David Freudenberger to draft a report two to three years ago and might be working on another

of their projects currently. Roess is the expert for Campbell Estate and Freudenberger is a consultant for Howard Hughes for infrastructure financing. They might be useful resources.

Edwards noted that private sector or other stakeholder organizations can be consulted or invited to participate on the work group. The focus for the initial proposal is to identify which TOD Council members should be included, and to ensure that no more than 12 TOD Council members are on the work group.

Edwards also suggested that this effort could also benefit from insights and expertise that might be offered by consultant teams for the New Aloha Stadium Entertainment District (NASED) and other projects. John Fink said that they would be happy to help.

ACTION: Russell Tsuji moved to establish the Infrastructure Investment Strategy Work Group as specified in the proposal; Robyn Loudermilk seconded. With no objections, the members approved the motion.

9. Speakers for Future TOD Council Meetings

Evans announced that OP is inviting suggestions for speakers.

10. Future Agenda Items

- Tuesday, June 9, 2020
State Housing Planning Study, Presentation by Jim Dannemiller, SMS Hawaii
Philip Garboden, UH-Manoa HCRC Professor in Affordable Housing Economics, Policy and Planning

11. Announcement

Evans noted that anyone wishing to receive future notices can contact Carl Miura. His email address is listed on the bottom of the TOD website.

12. Adjournment

There being no further business, the meeting was adjourned at 12:03 p.m.

Note: All meeting materials are posted at <http://planning.hawaii.gov/lud/state-tod/hawaii-interagency-council-for-transit-oriented-development-meeting-materials/>.