

SOCIO-ECONOMIC IMPACTS WAIKOLOA HIGHLANDS

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Exhibit "17"

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SOCIO-ECONOMIC IMPACTS WAIKOLOA HIGHLANDS

1. INTRODUCTION

Waikoloa Highlands is designed to include 398 improved lots, covering a total of 700 acres, upon which buyers will build homes within the limits of the deed restrictions. A percentage of the remaining ~~1,300~~¹⁹² acres will become areas for passive recreation and open space, complete with trails and other appropriate amenities.

The following section discusses the socio-economic context within which the project is located, specifically the South Kohala region and Hawaii Island as a whole; as well as the socio-economic impacts this project will have on South Kohala and the specific community of Waikoloa. This section will also present the concerns of community representatives and members, and public officials, as they related to the project as a whole and some of the anticipated socio-economic impacts. It concludes with a discussion of possible measures, which can be taken to address some of these concerns.

2. THE SOCIO ECONOMIC CONTEXT

When first proposed for development by Boise Cascade in the 1960's, The Village of Waikoloa showed promise as an entirely new town in the South Kohala region. In reality, except for its initial growth spurt in the 70's and 80's, the growth of Waikoloa has been modest. The area has settled nicely as a suburban community with its residents being employed primarily in Kamuela and in the visitor industry plant along the Gold Coast. Although the Waikoloa Village Golf Course does attract some external business, for the most part Waikoloa Village basically services its residents and the travelers who pass through in transit between Kamuela and the Coastal areas.

All of this is changing as Hawaii County and the South Kohala region experience strong growth pressures, and the visitor plant along the Coast continues to expand and enjoy record business. This pressure has resulted in record low unemployment, record low residential vacancy rates and record high housing costs. None of this phenomenon is good for sustainable growth in a region. In a response to these factors, Waikoloa is experiencing a resurgence in residential development proposals, and possibly an increase in development activity. Projects that have progressed far beyond the talking stages include Waikoloa Heights (1,000 units), the County's Affordable Housing Project (1,000 units) and Waikoloa Highlands (398 units). Given that there are only 1,750 units in Waikoloa today, these three projects alone will more than double the size of the village.

2.1 Economic Context

2.1.2 Hawaii Island

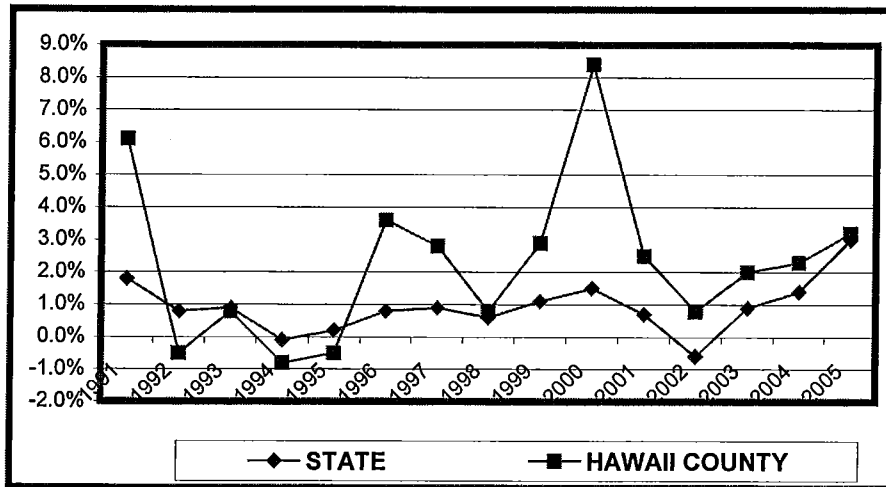
From the early 1980's to 1990 the State's economy grew quickly. In the 1990's that growth began to stagnate and it has, only in recent years, begun to return to a healthier stable growth rate. By the end of 2005, the State's unemployment rate of 2.8 was the lowest in the United States.

Somewhat contrary to Statewide trends, Hawaii County's economy has been experiencing wide scale growth for the last decade. In terms of job growth, Hawaii County has exceeded the states growth since 1996 (See Exhibit 2.1). Although the civilian labor force has also increased significantly, it has not kept pace with employment opportunities, resulting in an unemployment rate that has been steadily shrinking since the mid 90's.

The visitor industry has been the backbone of that economic growth. Visitor arrivals and hotel occupancy have risen steadily over that period as each indicator rose sharply in 2005. In 2005, Hawaii County's share of the statewide visitor count was at its highest level, 15 percent, since 1998, up from 12 percent in the previous year (see Exhibit 2.4). Interestingly, Hotel Occupancy rates have risen more modestly than visitor counts, thereby supporting the contention that it is the expanding cruise ship market that is triggering much of this growth. Whether true or not, it portends further visitor count increases in the near future and greater pressure on the island's housing infrastructure to accommodate the employment demand increases.

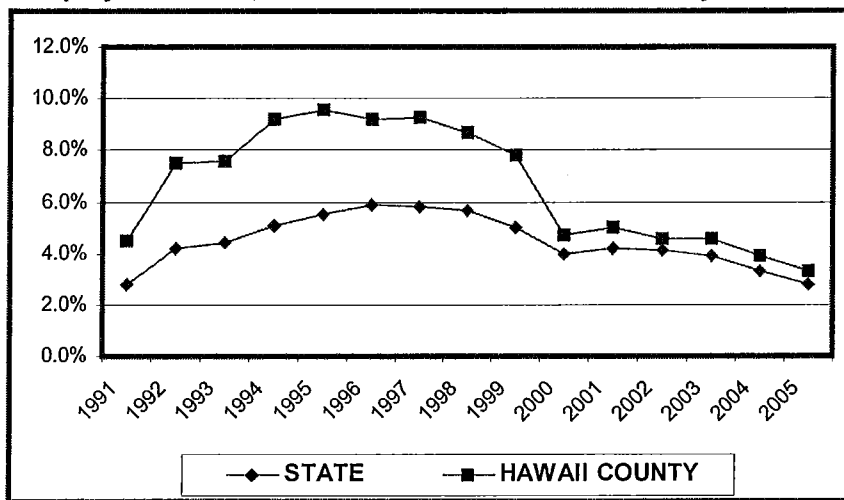
The leisure and hospitality industry accounts for the largest proportion of jobs, 22 percent, followed by government, which accounts for 18 percent of Hawaii County jobs. County officials believe that diversifying the economy is crucial to the economic health of the county and have been working at accomplishing that objective. In fact, since the early 1990's, Hawaii County has witnessed annual job growth in virtual every industry. They have not yet, however, achieved the economic diversification they would prefer.

Exhibit 2.1: Job Growth, State of Hawaii and Hawaii County, 1991-2005



Source: DBEDT Quarterly Statistical and Economic Report 2006

Exhibit 2.2: Unemployment Rate, State of Hawaii and Hawaii County, 1991-2005



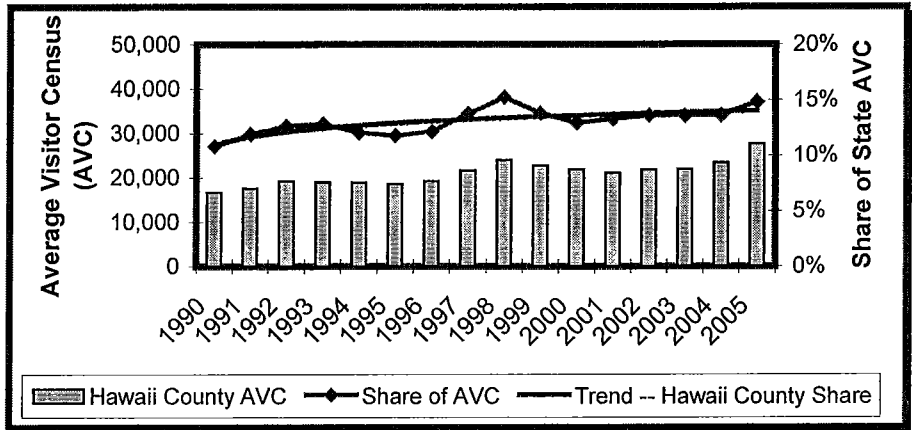
Source: DBEDT Quarterly Statistical and Economic Report 2006

Exhibit 2.3: Job Count, Hawaii County, 2006 2nd Quarter

	Hawaii County		State	
	Job Count	%	Job Count	%
Total wage and salary jobs	65,950		621,300	
Total non-agriculture wage and salary jobs	63,800	97%	615,050	99%
Natural Resources, Mining, Constr.	5,050	8%	35,600	6%
Manufacturing	1,550	2%	15,300	2%
Wholesale Trade	1,750	3%	18,050	3%
Retail Trade	9,050	14%	70,500	11%
Transp., Warehousing, Util.	3,050	5%	32,750	5%
Information	650	1%	11,250	2%
Financial Activities	2,650	4%	29,750	5%
Professional & Business Services	5,000	8%	76,350	12%
Educational Services	1,000	2%	13,950	2%
Health Care & Social Services	6,000	9%	57,000	9%
Leisure and Hospitality	14,250	22%	107,800	17%
Arts, Entertainment & Recreation	1,600	11%	11,800	2%
Accommodation	7,150	8%	39,200	6%
Food Services & Drinking Places	5,500	3%	56,800	9%
Other Services	2,000	18%	25,550	4%
Government	11,900	2%	121,350	20%
Federal	1,250	12%	31,500	5%
State	8,200	4%	72,550	12%
Local	2,450	3%	17,300	3%
Agricultural wage and Salary jobs	2,200	0%	6,200	1%

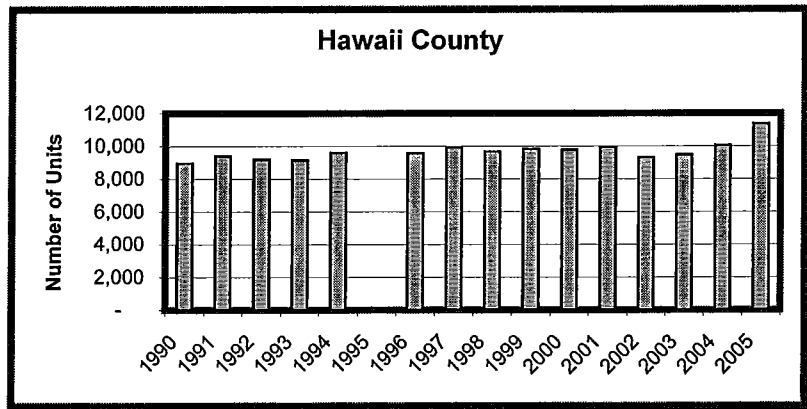
Source: DBEDT Quarterly Statistical and Economic Report, 3rd Quarter 2006

Exhibit 2.4: Average Visitor Census, Hawaii County, 1990-2005



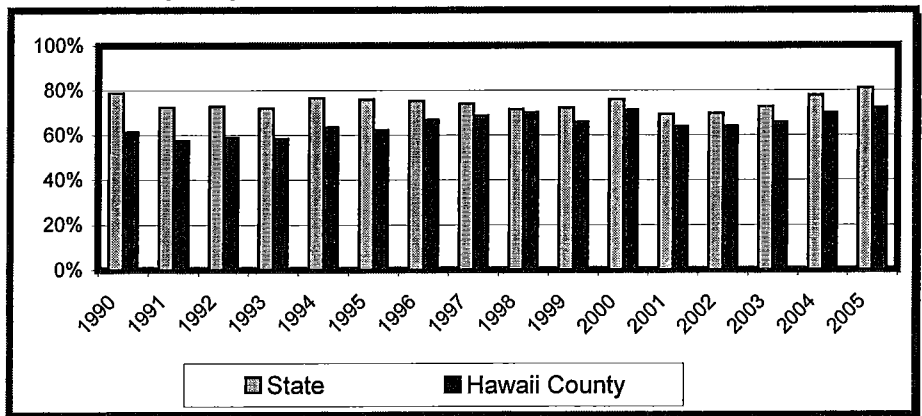
Source: DBEDT Historical Visitor Statistics, DBEDT Annual Visitor Research Report, 2005

Exhibit 2.5: Visitor Plant Inventory, Hawaii County, 1990-2005



Source: DBEDT Visitor Plant Inventory 2005

Exhibit 2.6: Hotel Occupancy Rate, State and County of Hawaii, 1990-2005



Source: DBEDT Quarterly Statistical and Economic Report, 3rd Quarter 2006

2.1.2 South Kohala

South Kohala's economy has seen dramatic changes since the completion of Queen Ka'ahumanu Highway in the late 1970's. This two-lane highway made the South Kohala area much more accessible to visitors and residents alike. Thus, the area has seen an increase in population, visitation, and the number of jobs. Since the completion of the Highway, many resorts, including the Hilton Waikoloa Village, Marriott Waikoloa Beach Resort, and others, have been added to the visitor plant along South Kohala coastline. Recent trends suggest that the South Kohala region will soon surpass other West Hawaii areas in terms of its economic contribution.

Unfortunately, except for the employment associated with the Kawaihae Harbor, employment in South Kohala is almost entirely oriented to, and dependent upon the visitor industry. With the exception of construction activity, this imbalance is not expected to change in the years ahead.

2.1.3 Waikoloa

In the early 1970's the Waikoloa Village Golf Course was opened and development of the surrounding community, Waikoloa Village, commenced. Since that time, Waikoloa Village has grown to house over 4,800 residents in 1,750 homes. It is the only village of comparable size in the region, for at least 15 miles.

The Waikoloa Village community has several commercial and residential amenities in addition to its golf course. Within the Waikoloa community there is a shopping center with a gas station, grocery store, and other retail and service businesses. The Village has a community park, tennis courts and other recreational facilities to service the growing population. Its retail/commercial areas primarily service its residential population and do not represent a major employer.

Unlike most of the recently completed homes along the Coast, Waikoloa homes are primarily built for long term, local residency.

2.2 Population Context

2.2.1 Hawaii County

Hawaii Island is by far the largest of the Hawaiian island in terms of land area with approximately 4,028 square miles of land area, and it continues to grow. However, despite its size it is only the second most populous county with a population of over 164,400¹ residents, 13.3% of the state population. Exhibits 2.7, 2.8 and 2.9 show present estimates of Hawaii County's population growth, based primarily on Census data, using interim data to modify extrapolations. The 2005 American Community Survey shows the estimated growth for the state and counties of Hawaii. During the last five years, Hawaii County population has increased markedly by 12.7 percent, the largest growth rate of all the counties during this period.

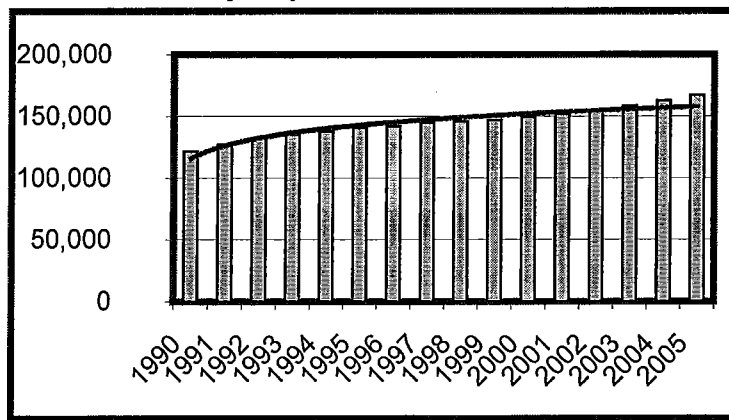
¹ Does not include those living in group quarters.

More important, these projects suggest that Hawaii County will grow at a rate well beyond that of the other counties. In fact, Hawaii County is the only county projected to have consistent appreciable growth beyond 2003. With these population increases will come increases in the demand for housing.

2.2.2 South Kohala

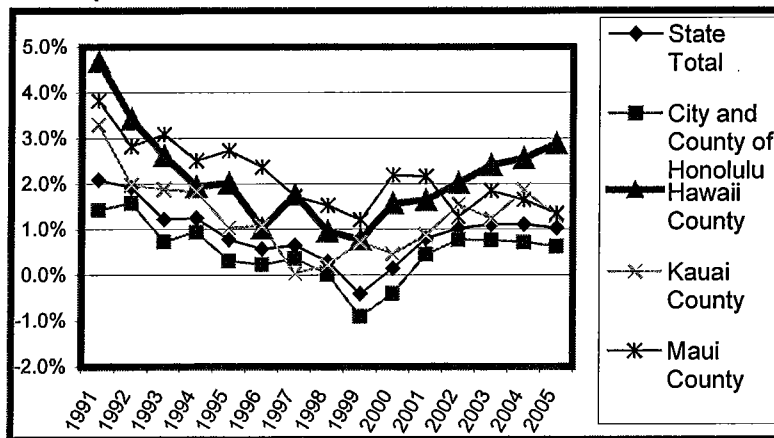
South Kohala is one of the nine districts that make up Hawaii County. The major areas in South Kohala include Waimea, Puako, and Waikoloa. Census figures show South Kohala with a total resident population in 2000 of 13,079 in 4,648 households.

Exhibit 2.7: Hawaii County Population, 1990-2005



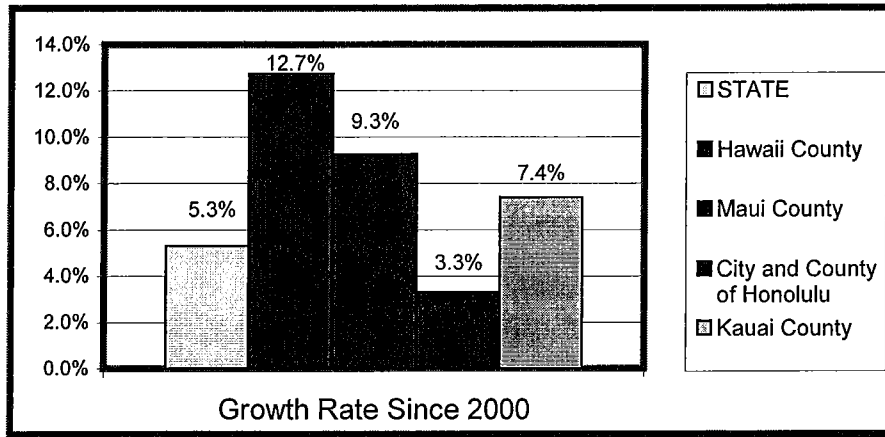
Source: DBEDT State of Hawaii Data Book, 2005

Exhibit 2.8: Projected Population Growth Rate, State and Counties of Hawaii, 1990-2005



Source: DBEDT State of Hawaii Data Book, 2005

Exhibit 2.9: Actual Population Growth Rate, State and Counties of Hawaii, 2000-2005

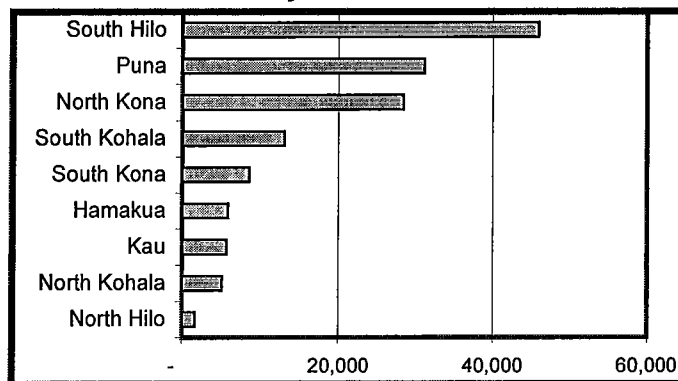


Source: US Census Bureau, 2005 American Community Survey

As seen in Exhibit 2.11, South Kohala is the fourth most populous district accounting for approximately 9 percent of the County population. South Kohala has experienced the greatest wide-scale growth since 1980, as the population has increased by more than 140 percent over that period of time.

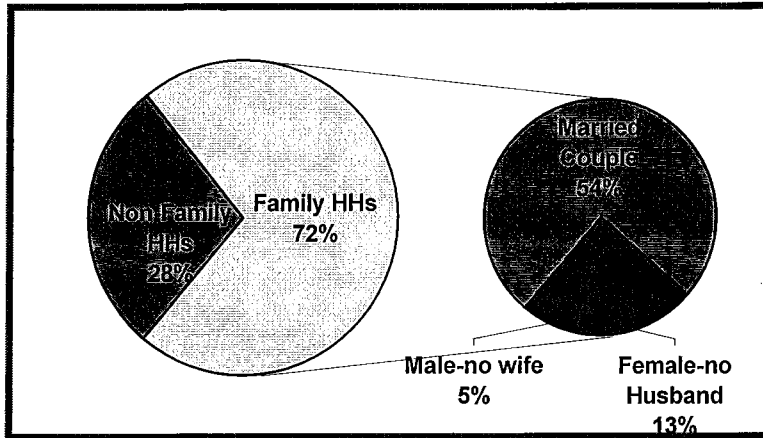
Most South Kohala households are family households and of these, most families are married couples (See Exhibit 2.12). Non-family households most often consist of a householder living alone (See Exhibit 2.13). Of those living alone, about one-quarter are over the age of 65.

Exhibit 2.11: Population of Hawaii County Districts



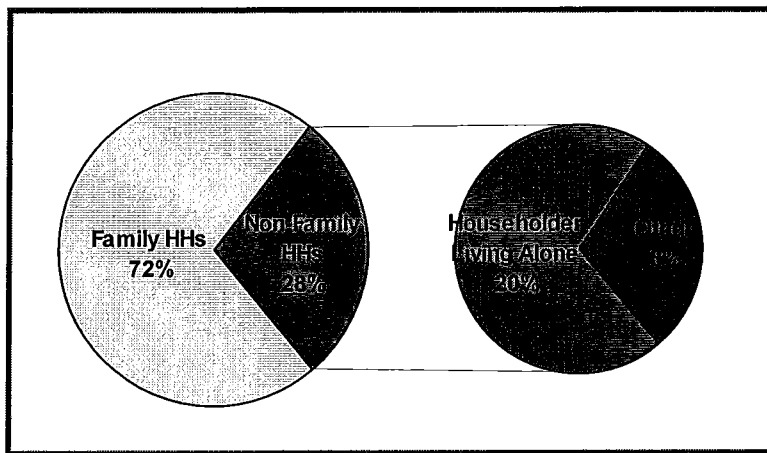
Source: U.S. Census Bureau, County of Hawaii Data Book, 2004

Exhibit 2.12: Characteristics of Family Households, South Kohala District



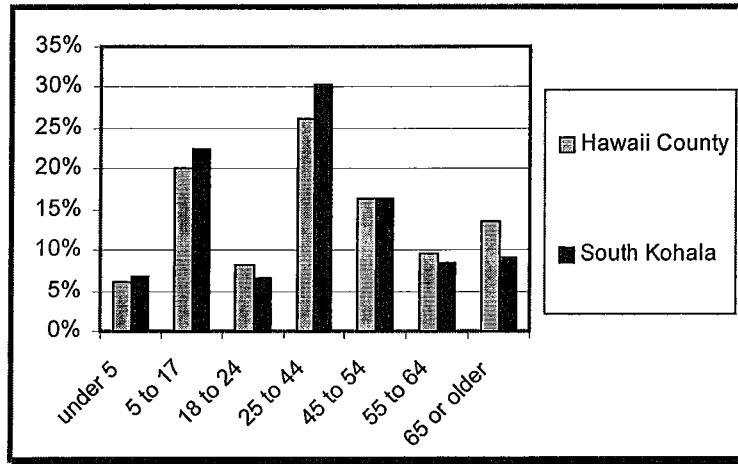
Source: U.S. Census Bureau, County of Hawaii Data Book, 2004

Exhibit 2.13: Characteristics of Non-Family Households, South Kohala District



Source: U.S. Census Bureau, County of Hawaii Data Book, 2004

Exhibit 2.14: Age Distribution, County of Hawaii and South Kohala

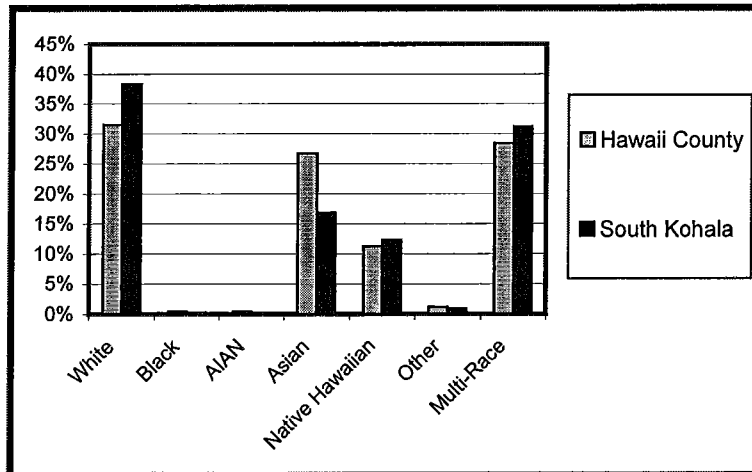


Source: U.S. Census Bureau, County of Hawaii Data Book, 2004

In terms of gender, the resident population of the South Kohala is comprised of approximately 50 percent males and 50 percent females, which is similar to the distribution in the County and State. There is a slightly higher concentration of children under the age of 18 in South Kohala, with 29 percent compared to 26 percent in Hawaii County (see Exhibit 2.14); but not nearly as many residents over the age of 55 in South Kohala with only 18 percent in this category compared to 23 percent County-wide. As a result, the median age for South Kohala residents is 36.2, lower than the County median of 38.6.

Hawaii is one of the most racially diverse states in the U.S. Exhibit 2.15 shows that Hawaii County and South Kohala contribute greatly to this diversity. Nearly one third of County residents and 28 percent of South Kohala residents classify themselves as mixed or multi-raced. South Kohala has a slightly higher concentration of Caucasians than the County with 38 percent compared to 32 percent respectively and fewer Asians (17 percent compared to 27 percent).

Exhibit 2.15 Racial Distribution, Hawaii County and South Kohala

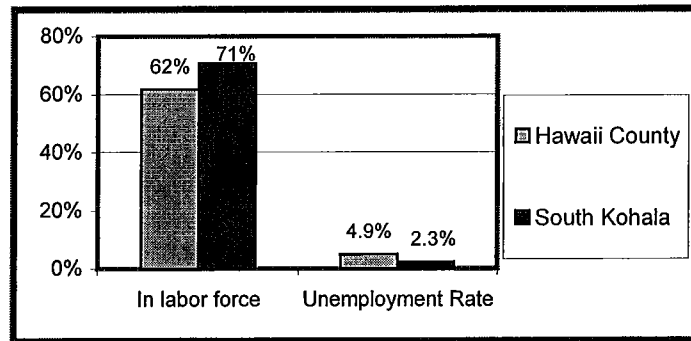


Source: U.S. Census Bureau, County of Hawaii Data Book, 2004

From an economic perspective South Kohala is one of the strongest districts in the County. Census 2000 showed that South Kohala has the highest proportion of employed adults in the County at 70.7 percent and the lowest unemployment rate of 2.3 percent. Exhibit 2.16 shows a comparison between 2000 South Kohala and Hawaii County employment figures.

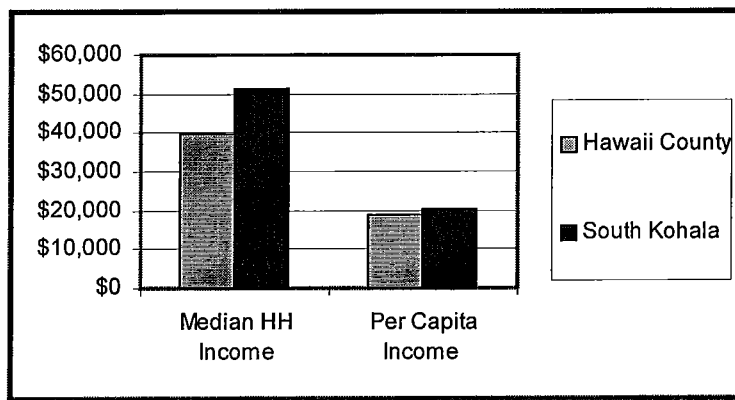
Among all the districts in Hawaii County, South Kohala residents have the highest median income at \$51,379 and the per capita income of \$23,194 second only to the North Kona District. (see Exhibit 2.17).

Exhibit 2.16: Employment Statistics, Hawaii County and South Kohala, 2000



Source: U.S. Census Bureau, County of Hawaii Data Book, 2004

Exhibit 2.17: Household and Per Capita Income, Hawaii County and South Kohala



Source: U.S. Census Bureau, County of Hawaii Data Book, 2004

2.2.3 Waikoloa Village

Demographically, Waikoloa Village residents are slightly younger than Hawaii County residents as a whole with a median age of 34.6 compared to 38.6 respectively. More than 75 percent of the eligible Waikoloa workforce is currently employed. This employment rate is the highest of all Big Island neighborhoods. Similarly, Waikoloa Village boasts an extremely low unemployment rate, charted at 2.5 percent in 2000. ✓

Waikoloa Village residents have a relatively high median household income, which in 2000 was at \$50,040 more than 25 percent higher than the County median. Very few Waikoloa families, 8.6 percent, were living below the poverty level in 2000.

2.3 Social Service Context

2.3.1 Hawaii County

As nearly every student of Hawaii knows, Hawaii Island is twice the size of all remaining major Hawaiian Islands combined. That makes for more than interesting trivia; it makes for an island that is very difficult to service with adequate public infrastructure. Although ever growing, the population base is also simply not large enough to financially support its public service needs.

The problem is not one of providing the basic services. The problem is driven by the size of Hawaii Island and the accessibility of services. For example, there are certainly enough schools on the island to service a population of 164,400 people, but the widely dispersed communities make it difficult to ensure that schools are adequately accessible. Some communities are short of school services simply because they are too far from other communities or they are too small to justify a new school in their community. That problem is repeated in health care, police, emergency medical facilities and in other public services.

With the notable exceptions of Hilo, Kailua-Kona and Kamuela, Hawaii Island is characterized by small towns built to service what were once rural, agrarian based communities. There always seemed to be an ever evolving balance between the economies of those communities and the population size, such that there was a sufficiently population to service the industry of the area. This is no longer the case, especially on the west side of the island where the tourism industry has grown to such an extent so as to overwhelm the capacity of the local population to service the industry. Local infrastructure, including roads and medical services are sorely taxed. And if one considers affordable housing as a basic infrastructure for housing the labor force, that service is in significant difficulty.

In July 2006, in response to a survey fielded by SMS Research, 42 percent of the Hawaii Island respondents felt they and their families were better off today than they were five years ago, while only 35 percent felt they were worse off. That situation switched when asked to foresee the future: 34 percent felt they would be better off five years from now, while 40 percent felt they would be worse off. When asked to describe the critical problems of their communities, Hawaii Island residents invariably mentioned the lack of affordable housing and traffic congestion as among their responses.

2.3.2 Waikoloa Village

As a relatively new community, Waikoloa Village is adequately serviced. However, like other Hawaii Island communities, its relative isolation does raise issues as to future services. Residents of Waikoloa Village are so concerned with the necessity of traveling great distances for some services that it is a goal of theirs to become a self-sufficient location with medical services, auto mechanics, and so on.

2.3.2.1 Education

Currently there are three public schools typically utilized by Waikoloa students: Waikoloa Elementary School (K-5) located in Waikoloa Village, Waimea Middle School (6-8) located in Kamuela and Kealahou High School (9-12) located in North Kona, just north of Kailua-Kona. The Department of Education class size policy states that for grades K-3, the schools should maintain a 20:1 ratio with a maximum of 25:1; while the optimum class size for grades 4-12 is 26:1. Currently, according to statistics found in the DOE's School Status and Improvement Report for 2004-05 School Year, each of these three public schools currently have an average of 18-20 students per classroom, well in line with DOE standards. In addition to these three public schools, there are six schools in the region ranging from church daycare to private high schools.

2.3.2.2 Police

The South Kohala Police's main station is in Waimea. The staff of 32 policemen covers an area of 688 square miles, an area larger than the island of Oahu. Although 4 – 5 officers short of a full complement, the staff, with appropriate overtime, can adequately handle the service area. There are two substations in the service area, one at the Mauna Lani Resort and one at the Waikoloa Golf Club, although the Waikoloa substation is typically unmanned.

2.3.2.3 Fire

There is currently a Fire Station located on Waikoloa Road near the entrance to Waikoloa Village. According to the Regular Meeting Minutes of the Fire commission for June 14, 2006, the Waikoloa Fire Station which opened as a one man station, recently became a two man station. With the added support of the volunteer firemen in the region, the area is adequately serviced.

2.3.2.4 EMS

EMS services are located within the Waikoloa Fire Station. In addition, an emergency helicopter is located on Queen Kaahumanu Highway about one mile from the main intersection to Waikoloa Village. The accessibility to these services more than meets the requirements for Waikoloa Village.

2.3.2.5 Parks

There is one County maintained park located in Waikoloa Village; with a second park location undeveloped. The current park is 2-3 acres in size, and is used primarily for baseball and soccer, with a small jungle gym for tots. There are numerous beach park locations within five miles of the main intersection to Waikoloa Village. There is also considerable open space surrounding the Village.

Given the County of Hawaii standards of 5 acres of park area per 1,000 residents, Waikoloa is currently under serviced in park space. Unfortunately much of the land available for development received its zoning before park dedication were required. Bringing this feature of the community up to standards may require that the community raise funding, as was done for the first park, or that the County fund the improvements.

2.3.2.6 Hospitals

Although there are emergency services at the Fire Station, currently there are no emergency medical facilities located in Waikoloa Village or its immediate surrounding area. The nearest medical facility is located 18 miles away in Kamuela, the North Hawaii Community Hospital. There are four other hospitals within 40 miles that have emergency services, as well as acute and long term care: Kona Community Hospital (40 miles), Kohala Hospital (35 miles) and Hale Ho'ola Hamakua (32 miles). County acute care hospitalization has decreased 7 percent since 1995, while long-term care admissions have increased from 23 percent in 1993 to 54 percent in 2003. In 2003, there was an average of 1.5 beds per 1,000 population. Given current occupancy rates of the four facilities, the 2004 SHPDA statistics indicates that there is sufficient space for more patients.

2.3.2.3 Resident Attitude Toward Level of Service

SMS Research conducted individual interviews with residents of Waikoloa, including many of the officers of the Association. Their comments as to the levels of public service in Waikoloa today include:

- Waikoloa Road has simply too little capacity to handle the resident and through traffic today. The combined resident populations of Waikoloa and Panaolo Estates (somewhere between 6,000 and 7,500) currently burden the road. Add to that the non-resident traffic with construction trucks, through traffic, and army vehicles and the movement during peak parts of the day is very slow. If nothing else, we need another lane in each direction.
- Having just one road in and out of the Village invites troubles. There is no other access through the area. There have been proposals and discussions about an alternate route connecting the Village makai to Queen Kaahumanu Highway and mauka to Mamalahoa Highway, but nothing has happened. We at least need an alternative exit route for emergency purposes.
- The through traffic in the mornings can get so bad that it is dangerous exiting the Village onto Waikoloa Road. We need a traffic circle or a stoplight exiting the Village.
- The middle and high school students have to go so far each day for schooling. It makes for a long day being bused such long distances.
- The only library in Waikoloa is at the elementary school and, as such, its collection is primarily for children up to the 5th grade. Other readers or those requiring a library for research must travel to Kamuela to get to an adequate public library.
- There is not a lot to do in Waikoloa: no theater, no community center, no gymnasium, no place for younger people (or older people for that matter) to get together. On weekend young people go to the beach, specifically Beach 69, Hapuna, and Mauna Kea.
- There is currently one park that was financed and built by the residents and turned over to the County for maintenance. The park, however, is poorly maintained. Today its one field is used for both baseball and soccer, and it has a small jungle

gym for tots. It is simply not enough. We need bike trails, hiking trails, a play structure and more playing fields.

- Both the police substation and the fire/EMS services are understaffed, but the entire island is understaffed, it's not just this area.
- Nearly every person interviewed noted that this community is in desperate need of a community center for meetings and for gatherings. They noted that the various developers should pull their resources and impact fees to develop ONE community center with ONE major park. They seem to imply that the Village today has more families than was originally envisioned, and those families need more services targeting families.
- Although the current commercial center is adequate today, respondents believe that specific other services are needed, including a theater, a library, a hardware store, more doctors and dentists, new restaurants, another gas station and maybe even their own transfer station.

2.4 Emerging Socio-Economic Trends

2.3.3 Economy

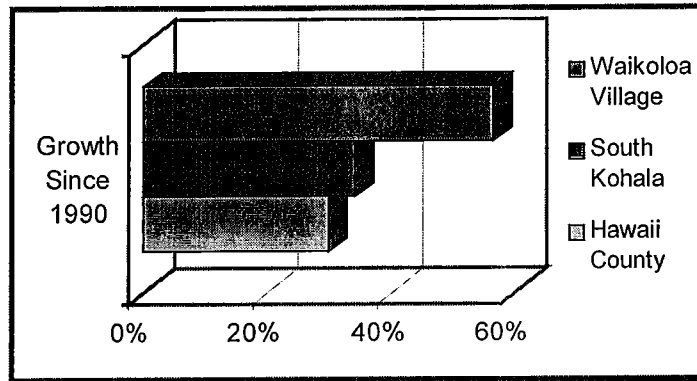
The economy of the South Kohala continues to show strong steady growth. The visitor plant has enjoyed record years and given its high end attractiveness, is less likely to experience some of the fluctuation that other more diverse visitor areas. The only foreseeable barrier to further growth is the difficulty of the hotels face in attracting median to lower end labor due to the shortage of affordable and accessible housing.

As the only deep draft harbor in west Hawaii, Kawaihae Harbor continues to be the only port of call for goods and cruise ships in the fast growing west Hawaii market. Although there have been proposals for a port closer to Kona Village, there are no real plans to deliver on that discussion. Every indication is that the cruise line industry will continue to grow; if so, South Kohala's economy will likely enjoy the fruits of that growth, while South Kohala's communities will bear the brunt of the impacts in terms of congestion and demand for housing.

2.4.2 Housing

As of 2000 there were 5,348 residential units in South Kohala, a 34 percent increase in housing units since 1990. This growth is larger than that of the County as a whole (30 percent), and given the economic health of the region, it is expected to continue.

Exhibit 2.18: Number of Housing Units by Area, 1990 to 2000



Source: US Census 2000, County of Hawaii Data Book 2004

Several new developments are planned in the district that will add to the growing community. Communications with officials at the County of Hawaii Department of Housing and Community Development and developers indicate that approximately 2,000 to 4,000 units (excluding this project) are planned in South Kohala between present and 2010. It is impossible to estimate how many of these units will actually be built, and it is quite possible that a great deal less of these planned units will actually come online by 2010. However, it is clear that the South Kohala district will continue to experience future residential growth.

2.4.1 Population

Growth in population and Big Island visitation has created uncertainty regarding the available infrastructure and housing. Most notably, there is concern regarding the availability of affordable housing and escalating housing costs. In response, the County has developed affordable housing requirements for new developments and much research and planning is underway to address insufficient infrastructure.

The State's short-term forecast anticipates annual growth in the state product and personal income reaching 5.2 and 2.4 percent by 2010. Population growth is forecasted at about 1.0 percent per year. Wage and salary jobs are also forecasted to grow at the rate of a little more than one percent per year². It is unlikely that Hawaii County will experience such modest population and economic growth, as indicators suggest that the County will contribute a greater share to the state population and economy.

3. SOCIO-ECONOMIC IMPACTS

3.1 Economic Impacts

In this economic impact analysis, impacts that this project will contribute to the economic environment are reviewed. Technical terms are used here to distinguish impacts of several sorts. First, in economic analysis, a distinction is made between impacts of the actual construction and operations of a project, and the effects of project-related spending throughout the local economy. In discussions of jobs, earnings, and taxes, three broad types are distinguished:

² (DBEDT, Quarterly Statistical & Economic Report , 3rd Quarter 2006).

- *Direct jobs* are immediately involved with construction of a project or with its operations. Direct jobs are not necessarily on-site: construction supports construction company personnel in offices and base yards, as well as on-site.
- *Indirect jobs* are created as businesses directly involved with a project purchase goods and services in the local economy.
- *Induced jobs* are created as workers spend their income for goods and services.

Indirect and induced employment in Hawaii can be estimated using multipliers from a model of input-output relations in Hawaii's economy developed and refined by State researchers.

3.1.1 Employment and Income Impacts Due to Construction

For this project estimates are made on a 10-year full build-out schedule with 3 years allocated toward infrastructure construction and 9 years allocated toward the construction of new homes.

Construction of Waikoloa Highlands is expected to take 10 years to complete. The construction period for the infrastructure is estimated at 30 months. The construction of the subsequent single-family homes will begin in second construction year and will take nine years to complete 398 homes.

Pending the receipt of final engineering figures, the construction of the infrastructure has been estimated at \$150,000 per lot or a total of \$59.7 million for 398 lots. Construction of Waikoloa homes is estimated at \$300 per square foot applied to a 2,100 square foot home² plus an additional \$75,000 per home for minor utility and land development. The total construction costs for single-family homes is estimated at \$280.6 million.

Total construction for this project is estimated at \$340.3 million. This construction spending will have a positive impact on economy by creating jobs and spending in related industries. Exhibit 3.1 shows that the direct workforce as a result of this project will include some 2,011 person-years of employment³. Direct jobs are not necessarily located on-site. As a rule of thumb, about 20% of direct construction jobs are off-site (in base yards, offices, and the like).

Indirect and induced jobs are also created throughout the state. These are likely to be concentrated in commercial and/or industrial centers, rather than near a job site. In addition this project will support some 3,280 indirect and induced person-years of employment. In total approximately 5,291 person-years of employment will be created through the infrastructure and single-family home construction.

Not all of these indirect and induced jobs will be created on the Big Island. Many industries that support Hawaii-based construction efforts are not located in the Islands or on the Big Island. SMS's experience with this matter suggests that approximately 4,470 person-years will be located on the Big Island⁴.

² Homes in this development will vary in size this figure represents the estimated median square footage.

³ Person years of employment is the number of full time equivalent positions required to complete the work defined by the estimated cost of construction during the specific period of time.

⁴ Includes all direct construction work, and 75 percent of indirect and induced work.

Exhibit 3.1: Construction Employment

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Cumulative
<i>Infrastructure</i>											
Construction spending 1	19.7	25.1	14.9	-	-	-	-	-	-	-	59.7
Direct workforce 2	194	247	147								589
Indirect workforce	86	162	18								265
Induced workforce	188	239	142								568
<i>SF Home</i>											
Construction spending	-	24.7	28.2	35.3	35.3	35.3	35.3	35.3	28.2	23.3	280.6
Direct workforce		125	143	179	179	179	179	179	143	118	1,422
Indirect workforce		98	129	193	193	193	193	193	129	85	1,406
Induced workforce		92	105	131	131	131	131	131	105	86	1,041
Total (infrastructure and SF)	468	962	684	502	502	502	502	502	377	289	5,291

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Cumulative
<i>Construction Earnings 1</i>											
Direct earnings	13.7	22.5	16.2	7.3	7.3	7.3	7.3	7.3	5.8	4.8	99.2
Indirect earnings	3.3	7.5	6.3	4.7	4.7	4.7	4.7	4.7	3.8	3.1	47.5
Induced earnings	5.9	10.2	7.6	3.9	3.9	3.9	3.9	3.9	3.1	2.6	48.8
Total	22.9	40.2	30.0	15.9	15.9	15.9	15.9	15.9	12.7	10.5	195.5

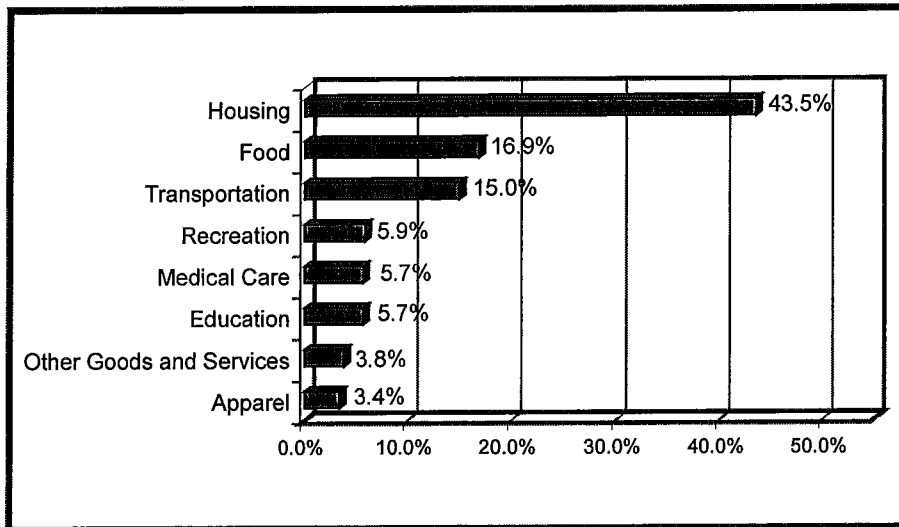
¹ in millions of 2006 constant \$

Source: DBEDT, State Input - Output Study, 2002

These earnings will boost the local economy, as many of these dollars will be used to purchase goods and services from other industries. Exhibit 3.3 shows Honolulu consumer spending patterns to illustrate how earnings may be used.

Housing costs such as shelter payments and utilities account for more than 43 percent of consumer expenditures. Food and transportation also account for a large amount of consumer spending (17 and 15 percent respectively). It can be expected that these patterns will continue in the future creating economic growth in several industries as a result of this project.

Exhibit 3.3: Consumer Spending Patterns by Industry



Source: US Census 2000, County of Hawaii Data Book 2004

3.1 Fiscal Impacts

Fiscal impacts consist of new tax revenues accruing in the state government and county government as a result of this project.

3.1.2 State of Hawaii

No major new commitment of County or State funds is needed to support this project. For this reason, the construction spending results in a net increase in state tax revenues. Exhibit 3.4 displays estimated state tax revenues as a result of the Waikoloa Highlands project.

Exhibit 3.4: State Tax Revenues

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Cumulative
<i>State Taxes ¹</i>											
Direct	0.73	1.85	1.61	1.33	1.33	1.33	1.33	1.33	1.06	0.88	12.77
Indirect	0.54	1.51	1.35	1.18	1.18	1.18	1.18	1.18	0.95	0.78	11.03
Induced	1.12	1.98	1.48	0.78	0.78	0.78	0.78	0.78	0.63	0.52	9.62
Total	2.39	5.34	4.44	3.29	3.29	3.29	3.29	3.29	2.63	2.17	33.42

¹ in millions of 2006 constant \$

Source: DBEDT, State Input – Output Study, 2002

This project involves development of 398 parcels of raw land and construction of subsequent homes. The level of construction is estimated at \$340.3 million and this level of construction will result in \$12.8 million in direct state tax revenues. The indirect and induced impact of this project will result in \$20.7 million in state tax revenues. In total, this project will result in an estimated \$33.4 million in state tax revenues. These state tax revenues will stimulate the state economy and no negative fiscal impacts are anticipated.

3.1.2 County of Hawaii

The new units developed in the Waikoloa Highlands will result in County tax revenues via property taxes. Some of these property taxes will come from new residents of Hawaii County and result in-migration while other tax revenues will come from residents relocating from other Big Island areas. For this reason, it should not be assumed that 100 percent of these property taxes represent new tax revenues.

In total, the 398 new homes could result in approximately \$600,000 to \$750,000 in property tax revenues. These estimates are based on the value per square foot of neighboring Waikoloa Village homes applied to 398 2,100 square-foot units⁵. This amount of property taxes would represent approximately one percent of the total property taxes collected⁶.

⁵ High-end Waikoloa Village homes (estimated value \$800,000+) have an estimated range \$366 to \$504 per square-foot and the property tax assessed between \$1,500 and \$1,900. (Source: Zillow.com)

⁶ Based on fiscal year 2005. (Source: County of Hawaii, Comprehensive Annual Financial Report 2005)

The Waikoloa Highlands project will result in property taxes that will be assessed on land and homes that overall are more valuable than the surrounding Waikoloa Village homes. The trend is that property taxes are higher for more valuable units. As a result, the amount of property taxes could be even higher than the figures estimated here.

It is clear that this development will result in relatively high property taxes, which will stimulate the local economy. Other tax revenues will also be generated via taxes on utilities and other taxable services provided to local residents by the local government. This project requires no significant government contribution to complete and will have a positive fiscal impact on both the State and Hawaii County.

3.2 Social Impacts

The Waikoloa Highlands project of 398 lots is small enough that it will have minimal regional impact, but of large enough scale that its impacts will certainly be felt in the village of Waikoloa.

3.2.1 South Kohala

As noted earlier, Waikoloa was originally intended to be a town of much larger size, designed as a complete community. After a relatively slow growth period in its first 30 years, current proposals may push the Village to its original intentions.

If only half of the proposed plans were to become reality, Waikoloa would more than double in size. As a community significantly off the coastline, it is unlikely that Waikoloa would develop into a community dominated by tourism investment. Rather it will, in all likelihood, develop into a diverse community whose members work throughout the region, from Kamuela to the Kailua-Kona, both in and out of the visitor industry. As a mid-point between the established community of Kamuela and the bustling coastline, Waikoloa will probably continue in its suburban character, perhaps with a more defined town center offering a wider array of commercial and public services.

The lots of Waikoloa Highlands are not a unique product to the region. Similar lots have been and are available in various parts of Kamuela and along the coast. This project will not change the regional pattern of growth or significantly affect the character of the region.

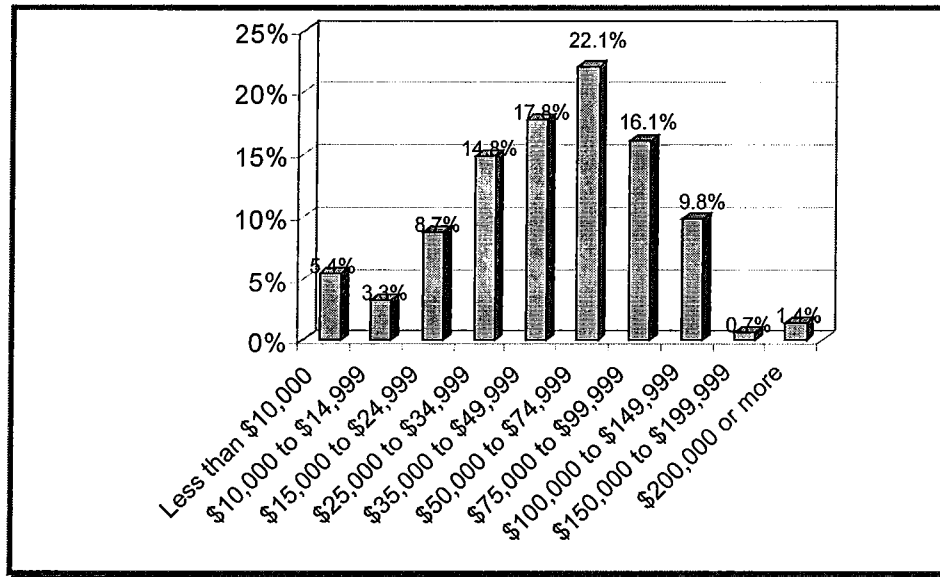
3.2.2 Waikoloa Village

Waikoloa Highlands will, however, significantly impact the existing community fabric of Waikoloa Village. If homes were built and occupied on every lot in Waikoloa Highlands, this project alone would increase the current size of the village by 23 percent. On the one hand, this will result in increased pressure on traffic and public services, but on the other hand, as some Waikoloa residents noted in interviews, its development would help support the current resident pleas for additional service.

3.2.2.1 Community Balance

While median incomes in Waikoloa Village are higher than those of the County as a whole, the median incomes in Waikoloa Village are highly concentrated around the mean. Only eight percent of the households have incomes below the poverty line, but only 2.1 percent have incomes in the higher incomes of the County, \$150,000 and over.

Exhibit 3.5: Waikoloa Village 2000 Income



Source: US Census 2000, County of Hawaii Data Book 2004

The lots at Waikoloa Highlands will sell for \$768,600 to \$1,058,400. At that level and assuming a 2,100 square foot home constructed at \$366 to \$504 per square foot, families will need incomes in the range of \$192,000 to \$264,000³. This project will bring to Waikoloa Village a segment of the population that is not highly represented there today.

This creates a more balanced community with not just a wider range of incomes, but a wider range of interests, a wider range of experiences, a wider range of contributions to the community's fabric.

In addition, as one public official noted, "this creates a more balanced community. Families in these income brackets demand and often get more public services. That's not a judgment of government or of families in differing income brackets. It's just how things happen all over this country."

3.2.2.2 Public Services

The development of Waikoloa Highlands will also result in greater pressure on public services. As noted earlier, Waikoloa is adequately serviced given its current population. For the most part, Waikoloa Highlands will not change that picture. All public services reviewed have adequate capacity to absorb the anticipated increases created by the Waikoloa Highlands project.

³ Annual incomes was calculated with a mortgage calculator and assume a \$768,600 to \$1,058,400 mortgage with a 30-year fixed rate of the state's current rate of 6.2%. This calculation assumes that mortgage payments should be no more than ¼ of a homeowner's monthly income.

However, as resident after resident noted in individual interviews, it is not a question of service levels, it's a question of accessibility. And on that score, for the residents of Waikoloa Highlands, although they may not add significantly to the problem, they will also experience the inconvenience of being "under serviced".

Education. The public schools that service Waikoloa are operating at class sizes lower than the maximum optimal class size. The additional 233 students that Waikoloa Highlands is estimated to add, can be adequately serviced without exceeding the maximum optimal class size. The project will have to contribute its incremental share to education services in the region, but it will not, in and of itself, trigger the development of a new school.

Education, however, is a good example of accessibility. Students in grades 6 through 8 travel 20 miles to Waimea Middle School, while high school students travel nearly 40 miles to Kealahou. A middle/high school in the Waikoloa Village would ease the burden of travel on these students, and create an important amenity to a growing community.

Police. All indications are that the police will continue to be served from the South Kohala District utilizing its substations. Responses from the Police Department indicate that with a full staff, Waikoloa Highlands will be adequately serviced. The residents of Waikoloa are additionally hopeful that the presence of a new subdivision at Waikoloa Highlands will lead to the current substation at the Waikoloa Golf Course being manned on a more frequent basis.

Fire. With the expansion of the Waikoloa Fire Station from a one-man to two-man station, and with the addition of volunteer firemen, there is sufficient service to both service the existing community and accommodate the 398 new homes at Waikoloa Highlands.

EMS. The current EMS location in the Waikoloa Fire Station and the proximity of emergency helicopter service, are adequate to absorb the anticipated additional needs of Waikoloa Highlands.

Parks. Waikoloa Highlands is estimated to general 398 families with 233 school age children. The finished park area in Waikoloa Village is not adequate to service it current residents. Waikoloa Highlands will add to this shortage.

Hospitals. Given the bed occupancy rates for the four surrounding hospitals, there is sufficient capacity to adequately handle the needs of Waikoloa Highlands. Like the schools hospitals are a great distance away (between 18 and 41 miles). However, whereas students travel each weekday to school, families have much lower requirements for hospital service and the distances do not appear to be a barrier to service.

3.2.2.3 Community Comments

For the most part, all respondents were positive in their reaction to the project. Although some had reservations, as with any development, and others had a problem with the intended higher income buyers, nearly everyone expected more development in Waikoloa and were more interested in discussing the energy that new development could bring rather than the negative impacts of a project of this scale. Among their comments regarding the specifics of the project:

- ❑ Don't build a gate to the community. Don't isolate yourselves.
- ❑ It is important that the people of Waikoloa Highlands become a part of and participate in the Village community. Pay dues and enjoy the amenities.
- ❑ Build a safe, controlled intersection wherever the community merges onto Waikoloa Road. This is especially important at the intersection of Waikoloa Road and Paniolo Avenue.
- ❑ Don't change the terrain; build on it. The Village is not a flat grid like other subdivisions; it flows with and fits into the landscape.
- ❑ Build in some recreation amenities. This community needs park space for bike trails, hiking trails and active games.
- ❑ Don't just use electric power. The location is always sunny and windy, perfect for solar and wind power.
- ❑ Try to mix the incomes a little bit. The development community should be building more affordable housing.

4. MITIGATION MEASURES

From the socio-economic perspective, Waikoloa Highlands will not generate any significant negative impacts. The one notable shortfall is that the development will further tax a park shortage that already exists.

Waikoloa Highlands will contribute to the economic base of the Hawaii Island community, it will provide needed balance to an ever growing Waikoloa Village, and it may add critical mass to the need for additional services.

Interviews with residents of the community and a review of Association minutes did not register any significant opposition to the project. Growth in Waikoloa Village is expected and anticipated.

This report would be remiss, however, if it did not point out that there are necessary improvements that would enhance the creation of a sound, well-balanced community in Waikoloa; improvements to which the developers of Waikoloa Highlands might consider contribution. These include;

- A new middle and high school in Waikoloa Village.
- A substation that is staffed on a more frequent basis by the County Police Department.
- Additional active park space in Waikoloa Village.
- Affordable housing as a part of the total development package.