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WAIKOLOA MAUKA, LLC

BEFORE THE LAND USE COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Petition of

DOCKET NO. A06-767

WAIKOLOA MAUKA, LLC

To Amend the Agricultural Land Use District
Boundaries into the Rural Land Use District for
Approximately 731.581 Acres in South Kohala
District, Island of Hawaii, Tax Map Key No. (3)
6-8-02:016 (por.)

WAIKOLOA MAUKA, LLC'S
WRITTEN DIRECT TESTIMONY OF TOM W. HOLLIDAY

- 1 1. Is there sufficient market demand to absorb the 398 lots of the subdivision during
2 a reasonable exposure period given Village growth trends, the availability of
3 competing developments and statewide/regional economic trends?
4
- 5 2. From a market perspective, will the subject project be a favorable use of the site
6 relative to governmental land planning objectives, accepted master plan design
7 characteristics, and the area environs?
8
- 9 3. What will be the general/specific and direct/indirect economic impacts on the Big
10 Island resulting from the undertaking of the subject development through capital
11 investments, jobs, wages, business revenues and profits, de facto population
12 characteristics, and resident/guest discretionary expenditures?
13
- 14 4. What will be the impact on the state and county “public purse” from the project in
15 regards to costs of services required versus increased tax/fee receipts?
16

17 These issues were addressed through a comprehensive research and inquiry process
18 utilizing data from market investigation, governmental agencies, various Hawaii-based
19 media, industry spokespersons/sources, on-line databases, and published public and
20 private documents.
21

22 The results of our investigation and analysis, and subsequent conclusions, were published
23 in a narrative report in May 2006, a copy of which is included in the EIS for the subject
24 project, and is identified as Exhibit “20”.
25

26 **3. *Can you please describe your market study and its conclusions?***
27

28 Waikoloa Village has been the focal point of residential growth in the South Kohala
29 District over the past two decades, a trend that is anticipated to continue into the long-
30 term. Over the last 20-plus years, about half the new residential units in the South
31 Kohala District were built in the Village. And, given the scarcity of zoned lands and
32 infrastructure limitations elsewhere, up to 60 or 70 percent of non-resort housing
33 development in South Kohala is projected to be located there over the next 20 years.
34

35 Based on federal census, state population forecasts, county planning projections, the
36 availability of services, entitled lands, and market indicators, we have forecast the
37 number of new residences that will be required in the Village to meet anticipated demand
38 through 2025 at from 4,188 to 7,038 total units; with a mid-point of 5,613 units. In
39 addition to the acute need for resident housing opportunities, which the Village has
40 helped meet, the total demand figures also account for the rapidly increasing non-resident
41 buyer segment which strongly moved into the Village upper-end lot and home market
42 during the recent up-cycle. The formula additionally provides for a nominal vacancy
43 allowance to facilitate household movement, units under repair and short-term
44 fluctuations.
45

Testimony of Tom W. Holliday

1 Single-family homes and lots, such as proposed at Waikoloa Highlands, will comprise
2 some 89 percent of the total market. Multi-family sites are becoming increasingly scarce
3 in the Village.

4
5 An estimated 27.7 percent of the demand to 2025 will be for homes/units having a 2006
6 equivalent sales price of \$750,000 or more; the envisioned subject target range. And,
7 they will constitute 30 percent of the market by the end of the study period. Purchase
8 opportunities for the lower segments will be limited, but it is probable that some/many
9 will either “stretch” into the focal range or become renters for investor-owned homes in
10 the subdivision.

11
12 Annualized gross sales data for Waikoloa Village homes and house lots from 2001
13 through 2006 (est.) depicts a dramatic upsurge in both segments, with total “sales
14 volume” and “average sales prices” up several-fold. Although there has been a
15 measurable downturn from the hyper-levels which peaked during 2005; activity and
16 prices remain well-above past norms. The “sag” is primarily from appreciating prices
17 and interest rates combining to make purchase more difficult for some local households
18 and less attractive to the investor segment.

19
20 However, overall demand is still solid relative to historic levels, with the foundational
21 trends in the full-time resident and second-home owner segments remaining favorable
22 and expected to expand within the Village over the mid- to long-term.

23
24 Apart from the subject’s 398 lots (which will become single-family homes over time),
25 there are only some 3,681 units firmly proposed/moving forward at this time; fewer than
26 the 4,000 to 7,000+ needed in the community over the coming two decades.

27
28 We conclude our market analyses provide strong market support for the proposed
29 Waikoloa Highlands subdivision.

30
31 The 700-acre subject parcel, a large holding fronting Waikoloa Road southeasterly
32 upslope of Waikoloa Village, is a highly appropriate and favorably competitive location
33 for the proposed Waikoloa Highlands rural subdivision. We conclude the physical,
34 functional, scope, and amenity characteristics of the property are desirable from a market
35 perspective, and will enhance the salability of the finished single-family lot inventory.

36
37 Primary contributing factors to this conclusion include:

- 38
- 39 • Waikoloa Village has evolved into a major, comprehensive, moderate to
40 marginally upscale, suburban community (with growing second-home owner and
41 investor components) that is planned to be the focal point of South Kohala
42 residential development over the coming decades. The Village has at last
43 achieved its long-awaited full acceptance in the market and is primed for growth.
44
 - 45 • The subject property is a natural Village expansion site being on the only access
46 road, nearby the main entrance to the existing community. The westerly (makai)

1 growth of the Village core is underway at Wehilani and Sunset Ridge; to the north
2 will be Waikoloa Heights; with, the subject lands representing the primary
3 development opportunity to the southeast.
4

- 5 • Though a widening spectrum of Village product diversity has been envisioned for
6 many years, the existing single-family inventory of some 2,000 homes remains in
7 its original “cookie cutter” stage; with virtually all houses and lots falling into a
8 rather tight product range. Normal maturation of the community will require
9 providing additional alternatives outside the in-place sector; with larger lots and
10 less intense, more-amenitied development being of prime interest to prospective
11 purchasers.
12
- 13 • The holding has access to necessary utility and roadway systems to support
14 subdivision of the subject property.
15
- 16 • The parcel is of sufficient size, shape, view panoramas, and terrain to support a
17 competitive/residential project.
18

19 We have quantified absorption rates using three techniques, all of which point to a
20 reasonable sell-out period of four to six years for the 398 subject lots.
21

22 **4. *Can you please describe your economic impact analysis and its conclusions?***
23

24 The development of the Waikoloa Highlands subdivision will generate significant efforts
25 and expenditures that will favorably impact the Big Island economy on both a direct and
26 indirect basis, increasing the level of capital investment, capital growth and capital flow
27 in the region. The project will pump millions of dollars into West Hawaii, expanding the
28 economy, widening the tax base and creating stable long-term employment opportunities.
29

30 From a direct perspective, the proposed 398 rural residential lots and homes eventually
31 built there-on will create numerous construction, equipment operator and specialty trade
32 jobs on- and off-site during the planning and emplacement of the infrastructure, and
33 building of the improvements. After completion of the homes over an estimated 10-year
34 development period, there will be significant additional employment positions created via
35 the buildings themselves; such as landscape, service, maintenance, and renovation needs
36 in the course of their use.
37

38 Numerous local businesses will enjoy significant profit opportunities arising for
39 contracting companies constructing the improvements, and for local businesses which
40 would supply a substantial portion of the materials needed in the building efforts.
41

42 The general island economy also will benefit from the subject development and resulting
43 wage earners, who will spend large amounts of their income in regional shops,
44 restaurants, and service establishments throughout the Big Island, and in purchasing day-
45 to-day goods and services.
46

1 Indirectly, as these construction wages, profits, and resident expenditures move through
2 the West Hawaii economy, they will have a ripple, or “multiplier,” effect--increasing the
3 amount of capital flowing to the entire island community as a result of the subject
4 undertaking.

5
6 We developed a 10-year econometric model depicting the life-span of the subject project
7 from ground-breaking until eventual build-out and stabilized “operations”.

8
9 The project will generate some \$340.3 million in direct, new capital investment and
10 spending into the Big Island economy during the 10-year modeling period. This will
11 create an estimated \$47.7 million in profits for local contractors and suppliers. On a
12 stabilized basis after completion, some 56 maintenance/renovation/repair workers and
13 other on- and off-site positions will earn \$1.6 million in wages each year, and
14 resident/guest users of the project will spend \$38.9 million annually in the local
15 economy.

16
17 A total of 1,640 worker/years of direct on-site employment will be created during the 10-
18 year construction and operation study timeframe, along with an additional 656
19 worker/years in associated and indirect off-site employment. The total wages paid during
20 the initial decade of development and use will be \$113.1 million.

21
22 The full-time resident population at the subject project is estimated to reach 907 persons,
23 with a maximum of 233 children in public schools. Second-home owners and guests are
24 expected to add a daily average of 161 persons to the community, resulting in a de facto
25 population of 1,068 persons for the project at build-out. The total household income of
26 full-time residents is forecast to reach a stabilized level of \$47.8 million per year.

27
28 The expenditure of employee wages, business profits, and resident/guest discretionary
29 funds into the Big Island market will enhance hundreds of additional off-site,
30 secondary/indirect jobs on the island, and generate several million dollars in additional
31 wages.

32
33 The total direct, local economic impact to the County of Hawaii (dollars flowing into the
34 island market) is estimated to be \$409.3 million during the initial decade construction and
35 operation study period, and stabilize at \$47.7 million annually thereafter. As these
36 dollars move through the island market, they will have a multiplier effect increasing the
37 economic impact of the Waikoloa Highlands subdivision to the Big Island during its first
38 10 years to some \$818.6 million.

39
40 **5. *Can you please describe you public costs/benefits assessment and its***
41 ***conclusions?***
42

43 The purpose of this analysis was to delineate the direct areas in which the proposed
44 subject rural residential subdivision will potentially impact the sphere of public agency
45 resources, and quantify (where possible) the costs of providing expanded services to the

Testimony of Tom W. Holliday

1 project, versus the economic benefits that accrue to the community through an increase in
2 local and state tax payments.

3
4 For most developments, potential direct costs to governmental services and programs
5 include:

- 6
- 7 -- Police Protection
- 8 -- Fire Protection
- 9 -- Public Oversight Agencies
- 10 -- Infrastructure Services
- 11 -- Recreational Demands
- 12 -- Educational Needs
- 13 -- Infrastructure Costs
- 14 -- Various Other Services and Financial Commitments

15
16 As a privately built master-planned rural residential community many of these costs will
17 not be increased on the state or county levels as a direct result of the proposed Waikoloa
18 Highlands. There will be minorly increased educational or recreational needs directly
19 attributable to the subject development; the major off-site public infrastructure items are
20 already in place; and the development will require no specific public subsidies, welfare
21 services, bonding or capital improvements.

22
23 Direct tax benefits to the state and county coffers will primarily flow from the project and
24 its operation over time from three major sources:

- 25
- 26 -- Real Property Taxes
- 27 -- Gross Excise Tax Receipts
- 28 -- State Income Taxes

29
30 A concern of this analysis is the integration of the subject project into the overall state
31 and County of Hawaii governmental services plan on both an actual and pro rata
32 perspective.

33
34 From an actual public service cost perspective to the Big Island and state agencies, the
35 subject will represent only a fraction of the county and state residential inventory and
36 overall urban lands in use. Given the vast number of housing units, resorts, businesses,
37 and agricultural lands on the island, it is difficult to assert that of themselves the subject
38 homeowners and users will create the need for meaningful expansion of existing public
39 services.

40
41 No new schools, parks, highways, recreational facilities, service agencies, hospitals, or
42 other public enterprises will be required specifically because of the Waikoloa Highlands
43 subdivision. The impact on the total regional land base will be minimal. Public safety
44 facilities in Waikoloa, Waimea and Kawaihae are reasonably proximate, generally have
45 the personnel and equipment to service the businesses and buildings in the development,

1 and will be expanded in the Village with overall community growth over the next decade
2 as the various other identified projects with their many thousands of units are built.

3
4 However, the need for additional services is a cumulative effect, each project, each
5 resident, tourist and, to a lesser degree, business adds a little bit to the community base
6 until increased “need thresholds” are reached.

7
8 In regard to some services, the effective actual impact of a minor/moderate subdivision
9 such as the subject project may not be apparent from a cost perspective, merely creating
10 nominally greater demands which can be readily met through existing agencies and
11 facilities without the need for additional workers or funds.

12
13 Our analysis of county of Hawaii and state budgets indicate the actual effect of
14 governmental services relating to the subject project would not create the need to expand
15 county and state services in and of itself.

16
17 As an alternative to actual cost estimates, which are often disparate as they inherently
18 cannot provide for unexpected and/or atypical items, it is most common to project public
19 costs for a proposed development on a per capita allocation.

20
21 This approach is generally appropriate for residential subdivisions, as the substantial
22 portion, but not entirety of public costs and services generally accrue to where a person
23 lives (or in the case of a tourist, where they are lodging).

24
25 Government services are holistic in nature, providing a foundation throughout a
26 community, regardless of actual, specific impact on any given land holding. A resort
27 development or business may not have a need for parks or schools, but they are essential
28 to the patrons and workers and create the climate in which the resort or business operates.
29 Similarly, government administration, capital projects and public welfare items may have
30 no direct relation to a particular project, but provide the economic underpinnings that
31 enhances overall economic success and quality of life for its residents.

32
33 In order to meaningfully quantify the maximum public costs that may be associated with
34 the subject development, we have viewed the Waikoloa Highlands on a per capita
35 allocation basis.

36
37 The County of Hawaii will receive \$24.4 million in real property tax receipts from the
38 project over the 10-year modeling period, and an estimated \$3.5 million per year
39 thereafter. The county government operating costs associated with serving the subject,
40 using a per-capita basis, will total \$7.8 million for the initial decade timeframe, and be
41 some \$1.6 million on a stabilized basis. The county will enjoy a net revenue benefit
42 (taxes less costs), totaling \$16.6 million during the first 10 years of construction and use,
43 and \$1.9 million each year after build-out.

44
45 The State of Hawaii will also show a positive net revenue benefit from Waikoloa
46 Highlands under the conservative per-capita perspective. The total gross tax revenues

Testimony of Tom W. Holliday

1 flowing to the state during the 10-year modeling period will reach \$41.5 million from
2 income and gross excise taxes, and will stabilize at \$4.4 million annually following build-
3 out. State costs associated with the project on a per capita basis will be \$16.7 million
4 during the projection timeframe and \$3.4 million per year subsequently. The state will
5 experience a net profit of \$24.9 million in the 10 years and a stabilized benefit of \$1.0
6 million annually after build-out.

7

8 In no year does either the county or the state suffer a revenue shortfall due to the subject
9 project.