



HAWAII COMMUNITY
DEVELOPMENT AUTHORITY



KAKAOKO
KALAELOA

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LATE TESTIMONY

STATEMENT OF

ANTHONY J. H. CHING, EXECUTIVE DIRECTOR
HAWAII COMMUNITY DEVELOPMENT AUTHORITY

BEFORE THE

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS
CONCERNS

Tuesday, February 12, 2008

9:00 A.M.

State Capitol, Conference Room 325

H. B. 3333 - RELATING TO KAKAOKO.

Purpose: Provides a tax credit for existing light industrial, wholesaling, service or commercial operations in the Kakaako Community Development District zoned I-1 and I-2 and clarifies that the Hawaii Community Development Authority (HCDA) may, and not shall affix assessments against real property specifically benefiting from improvement district projects.

Position: With respect to the merits of awarding tax credits for existing and qualifying I-1 and I-2 operations in Kakaako, the HCDA defers to the Department of Taxation and the Department of Business, Economic Development & Tourism, but offers a technical comment.

With respect to amendment of the HCDA statute to clarify that the Authority may, and not shall assess the real property within an improvement district area according to the special benefits conferred by the public facilities or improvements developed, the HCDA offers the following comments.

Zoning Designations in Kakaako. As a function of the enabling legislation and the administrative rules creating the Kakaako Community Development District, only three mixed-use zones were established (i.e., MUZ-C, MUZ-R and MUZ-RA). Accordingly, there are no parcels within the Kakaako Community Development District that have the necessary designation of I-1 (limited industrial district) or I-2 (heavy industrial use). These are zoning classifications that are exclusive to the City & County of Honolulu and not the HCDA.

Improvement District Financing. Currently, only if less than the entire community district will benefit from an improvement district project will an assessment be levied “against the real property specially benefiting from such public facilities.” In this situation, the current assessment methodology requires that 27% of the construction cost is levied against the real property which benefits from the public facility. Planning, design, the remaining construction and any other costs are financed either by a legislative Capital Improvement Project (CIP) appropriation or from the HCDA Public Facility Revolving Fund.

HCDA staff is currently reviewing its assessment methodology and will report its findings to the Authority, Kakaako community and the general public. No timetable for the completion of this review has been set as of this date.

Thank you for the opportunity to provide these comments.

LATE TESTIMONY

COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS CONCERNS

Rep. Kyle T. Yamashita, Chair
Rep. Glenn Wakai, Vice Chair

**February 12, 2008, Committee Hearing
Conference Room 325
9:00 AM**

**House Bill 3333
Relating to Kaka'ako**

Chair Yamashita and Committee Members:

I'm writing in support for House Bill 3333.

Kakaako is unique in compared to other neighborhoods in regards to the rate and amount of expected growth. Real Estate News in June 2006 said city planners expect Kakaako's population to increase 178% by 2031. Kakaako rules require developers to provide 20% reserved housing as part of the development plans. On the surface this sounds like a good idea. However, by putting the required reserved units as part of the market priced luxury development, profitability doesn't pencil out. Instead, industrial properties have been purchased at inflated cost relative to industrial values if it were to remain industrial to build the reserve housing offsite. The inflated cost is passed on to the market condos prices. This practice has results in a skewed increase of industrial property values. This results in an unrealistic increase of property taxes. Businesses who try to remain in Kakaako find it difficult to afford the increase.

The state through HCDA is violating its legislative purpose to preserve industrial use in Kakaako. The state is breaking its own law. Chapter 206E, HRS paragraph (c), states "the legislature authorized the empowered Hawaii Community Development Authority (HCDA) to develop a community development plan for the district of Kakaako. It noted the plan for Kakaako should include a mix-used district **whereby industrial, commercial, residential and public uses may coexist compatibly in a vertical as well as horizontal mixture within a single development lot.** The legislature further directed that in a planning for such mixed uses, the Authority shall also **respect and support the function of Kakaako as a major center providing significant employment in such areas as light industrial, wholesaling, service and commercial activities.**"

Likewise, when HCDA plans an Improvement District (ID) project in Kakaako, it has been large in scale. The infrastructure as part of the ID is necessary to introduce the necessary development of large scale condominium and retail developments. The added capacity of the new infrastructure, however, does nothing for industrial or small property owners. Yet, industrial and small property owners are mandated to share in its cost with out any consideration of its benefit or ability to pay for the cost. The state has forced

another dagger into the heart of small business. It is necessary to change the language of Part II Section 4 of this bill from "shall" be assessed to "may" be assessed to allow HCDA the flexibility to work with affected properties.

The state is violating its own law by not providing an environment where industrial properties can exist and continue to be a major center of employment. Passing SB 3167 will help to bring the state back into compliance.

Thank you,

Gary Onishi