LATE

TAX FOUNDATION
OF HAWAII

126 Queen Street, Suite 304, Honolulu, Hawaii 96813, Telephone 536-4587

February 3, 2011

The Honorable Suzanne Chun Oakland, Chair
Senate Committee on Human Services
State Capitol, Room 16
Honolulu, Hawaii 96813

RE: SB 604 - Relating to Kuhio Park Terrace

Dear Chair and Committee Members:

Over the past three years I have been very much aware of the efforts to rehabilitate and renovate Kuhio Park Terrace and come today with my evaluation of the proposal that is currently being considered. We believe that the proposal is severely underfunded and deserves another look.

As I noted in our conversation, the project is severely underfunded and I do not believe that KPT can be adequately renovated with the funding as proposed by the awardee. The winning proposal relied on applying for the federal HOPE VI grant. However, to my knowledge when the NOFA was issued last year, the awardee failed to apply. Not that it would have made much difference as Kuhio Park Terrace had applied twice in the past for HOPE VI funding and failed to secure that grant.

The proposal relies on nearly $30 million in state low-income housing tax credits (LIHTC). These state tax credits have been difficult to market and as a result, the HHFDC has had to monetize these credits recently to the tune of $6 million. It is this lack of appetite for the state credits that had stalled the financing of Kukui Gardens which would have utilized only $5 million in state tax credit equity. If EAH could not sell $5 million of the state tax credits, how will this proposal fill this $30 million hole if they cannot sell the state tax credits? Is the state prepared to fill that hole with state funds?

In addition, the proposal depends on obtaining nearly all of the state's allocation of the 9% volume capped low-income housing tax credits for the next eight to ten years. What will other developers of affordable housing do without access to these credits? What will happen to the activity in the private affordable housing market?

Further, the Authority selected a proposal that contradicts the Authority's own findings in its project needs assessment study that it would take more than $162 million to renovate just Kuhio Park Terrace, yet the awardee proposed to spend only $42 million to renovate Kuhio Park Terrace. What is indeed evident is that this proposal is nothing more than a minimal "paint and patch" proposal as it does not even seem to ask why some of the inherent problems occurred.

Could it, in fact, be that there are an insufficient number of elevators in the towers, that a ratio of three hundred families to two elevators is grossly inadequate? How about the fact that a three-bedroom apartment, where the size of the family is probably five or six at a minimum, would have only one bathroom?

Further, there is no contemplation of meeting the city building code insofar as the ratio of parking stalls to number of units? Perhaps it is believed that poor people aren't supposed to be able to afford a car and so this little requirement was just dismissed.

However, as you know, the greatest omission and disappointment for me is the lack of any attempt to provide support services to the families in Kuhio Park Terrace. Although the proposal offers to apply for various federal grants to underwrite social service coordinators such as the ROSS grant or from the Department of Justice Division of Juvenile Justice, they are just that - grant applications with no guarantee of funding. So if those grants are not funded, will there be any of the social, educational, or health services they proposed? They have made no commitment on funding these services but merely to rely on seeking federal grants.

The Authority may attempt to alter various portions of the proposal, but the bottom line is that it is severely underfunded, lacks creativity, fails to address the underlying issues and in the end will KPT will return to its dilapidated and deteriorated state.

Given the fact that the awardee was at the time of the award engaged in litigation over the failure to secure the financing for a New York project, I just wonder if the HPHA is also headed down the same road which in the end will cost us taxpayers even more should the awardee not be able to deliver on its proposal.

It is for these reasons we urged you to seriously consider adopting SB 604 and revisit the project and the proposal. It is in the best interest of not only the taxpayers but the residents of Kuhio Park Terrace.

Sincerely

Lowell L. Kalapa
President

LLK/kad

LATE

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GCA of Hawaii
GENERAL CONTRACTORS ASSOCIATION OF HAWAII
Quality People. Quality Projects.

February 3, 2011

TO: THE HONORABLE SENATOR SUZANNE CHUN OAKLAND, CHAIR AND MEMBERS OF THE COMMITTEE ON HUMAN SERVICES

SUBJECT: S.B.604, RELATING TO KUHIO PARK TERRACE.

NOTICE OF HEARING

DATE:	Thursday, February 3, 2011
TIME:	1:15 p.m.
PLACE:	Conference Room 016

Dear Chair and Members of the Committee:

The General Contractors Association (GCA), an organization comprised of over five hundred and eighty (580) general contractors, subcontractors, and construction related firms, is opposed to the passage of S.B.604 and recommends that the bill not be passed.

S.B. 604 would require the Hawaii Public Housing Authority to review the redevelopment plans for Kuhio Park Terrace to determine whether the complex should be renovated or alternative plans should be pursued. The report is due to the legislature before September 30, 2011.

$316,000,000 has been appropriated for the development of Kuhio Park Terrace Towers and a Request For Proposal (RFP) for redevelopment was awarded to Michaels Development Company. The development plans have been progressing for over a year and construction is ready to start in sixty to one hundred days. Any delay at this point could jeopardize the financing and tax credits lined up for the project.

We believe that the proposed redevelopment plans address most of the problems raised by the tenants and should not be delayed at this late date. Any delay may result in improvements to Kuhio Park Terrace being put off for several more years.

The GCA believes that the proposed re-evaluation study should not be done at this late date and the proposed redevelopment of Kuhio Park Terrace should proceed as originally planned.

Thank you for the opportunity to testify on this bill.

LATE

TESTIMONY IN REGARD TO SENATE BILL SB NO. 604

I would like to thank the Senators for the opportunity to testify in regard to Senate Bill 604. My name is Monika Mordasini and I am a Vice President at the Michaels Development Company. I'm joined today by Joelle Chu, Project Manager with the Vitus Group. Our companies have joined together to work hand-in-hand with the Hawaii Public Housing Authority to revitalize Kuhio Park Terrace and Kuhio Homes.

With a total of 748 dwelling units, Kuhio Park Terrace and its sister property, Kuhio Homes constitute the large public housing development in the State of Hawaii. . Originally developed in the mid-1960s, the communities are composed of two, 16 story high rise towers and 176 low rise family units.

In the spring of 2009, a Request for Proposals was issued to private developers interested in partnering with the Hawaii Public Housing Authority to redevelop KPT and Kuhio Homes. After reviewing an initial statement of qualifications, four development teams, including ours, were invited to submit formal proposals. Two of these teams submitted proposals and participated in interviews. After carefully considering our credentials and the quality of our proposal, the HPHA unanimously selected the Michaels/Vitus team to serve as its partner in developing KPT and Kuhio Homes.

We believe that the depth of our experience, the quality of our property management and supportive services divisions and our local ties were factors that led to our selection. Since our founding in 1973, the Michaels Development Company has developed over 45,000 affordable residential units in 27 states, the District of Columbia & the U.S Virgin Islands. For each of the past four years, Affordable Housing Finance Magazine has named the Michaels Development Company the largest owner and developer of affordable housing in the United States. Mixed-finance programs are one of our specialties. These programs, seek to "reinvent" public housing through the creation of residential communities owned and managed by the private sector. The Michaels Development Company has pursued mixed-finance opportunities in more than 20 communities. There are over 10,000 units in our mixed-finance inventory, many of which are fully completed and occupied.

We were delighted when the Vitus Group, formerly known as Pacific Housing Advisors, agreed to join our team. Vitus has been developing affordable housing for over 22 years. Its special mission is preserving existing housing for future generations. With offices in Kailua, many of its efforts have concentrated on the State of Hawaii. Recent developments include Kekaha Plantation, an existing community for senior citizens that Vitus has now preserved as affordable housing for, at least, 55 years into the future and the Lokahi Apartments, a complex of 306 new low income housing tax credit units recently completed on the Big Island.

The Interstate Realty Management Company is another important member of our team. Interstate, an affiliate of the Michaels Development Company, provides property management services for more than 300 communities ranging from Section 8 subsidized apartments to luxury condominiums. It is one of the few private management companies with extensive experience in managing public housing. Interstate's program of supportive services serves as a model for property managers nationwide. Among the many activities that it sponsors is:

- The Interstate Educational Foundation, a scholarship program open to all of our residents. To date, the Foundation has provided over $2.2 million in financial aid for students attending universities, colleges, and trade schools;
- An After school Program custom-designed to assure that children have fun, but get their homework done; and,
- Neighborhood Networks Computer Learning Centers. At many of our Centers, we have forged agreements with local employers. Once residents have mastered practical computer skills, they have jobs waiting for them.

Among the many local firms providing design and construction services for our team are Architects Hawaii, Community Planning & Engineering, Inc., and Albert C Kobayashi, Inc. AC Kobayashi is the largest 100% locally-owned general contracting firm in Hawaii and has maintained a branch office on Oahu for over 45 years. The company specializes in building and renovating public and private residential communities throughout the State of Hawaii.

Although the HPHA, during the RFP process, allowed for a considerable amount of flexibility in fashioning a redevelopment plan for KPT and Kuhio Homes, it did set some parameters:

- It called for one for one replacement of the developments' 748 public housing units
- To facilitate the financing of improvements, it offered 200 Section 8 Project-based Units
- It expressed a strong preference for the preservation, rather than demolition, of the existing towers.

The Revitalization Plan incorporated in our Best and Final Offer to the HPHA reflected these opportunities and constraints. The overall development plan included three distinct elements including the renovation of the Towers, the possible development of a mid-rise for senior citizens on vacant land, and the creation of new, relatively low density residential villages to replace the existing low-rise units.

Upon full build-out, we envisioned the development of a total of 1,024 dwelling units including a mix of affordable and market rate units. Among the affordable units were 748 apartments eligible for public housing subsidies, 200 rental units subject to a Section 8 Project Based Voucher contract, and 67 low income tax credit units with neither rental assistance nor operating subsidy.

Total development costs were estimated at $316 million. Financial sources primarily included construction and permanent debt and private equity derived from the sale of low income housing tax credits. Neither federal nor state soft funds, such as Hawaii's Rental Housing Trust Fund, were included as sources in the development budget.

Development was programmed to occur in 11 phases over 12 years. This rather long project schedule reflected our desire to demonstrate that development could occur without infusions of federal capital dollars. We explained, however, that we had helped several housing authorities successfully apply for federal grants, such as those available under HUD's HOPE VI Program. Securing federal funding would allow us to consolidate phase and speed up the development process.

We have identified the renovation of the Towers as the first phase of the Revitalization Program. In order to assure that the economic life of Kuhio Park Terrace Towers extends well into the future, over $45,000,000 in improvements, amounting to approximately $82,000 a unit, will be completed. At present, the Towers' concrete facades are tired-looking with evidence of fading and spalling. Under our renovation program, the concrete will be repaired and painted. In addition, the towers feature concrete entrance canopies that are oppressively low in elevation and heavy, decorative concrete vertical columns above the canopies that shadow the elevator waiting areas at each floor. These elements will be removed and replaced with more natural looking materials that allow light and air to flow through the buildings and complement each tower's open pedestrian plaza.

The ground floor of each tower presently contains several unoccupied dwelling units as well as management and severely inadequate laundry space. Until recently, there were, perhaps, four or five working washing machines available for all of the residents of the Towers. Under our program, the ground floors will be reprogrammed to remove the dwelling units, enlarge the laundries, and improve the areas dedicated to management offices and supportive services. Additionally, it is anticipated that the ground floor area dedicated to trash disposal will be relocated so that unsightly dumpsters no longer impinge on outside recreation areas.

Individual apartments will also undergo renovation. Most dwelling units now feature narrow galley kitchens at one end and a sliding door and open lanai on the other. Under our renovation program, the kitchens will be reconfigured and the lanais will be enclosed to provide more square feet for living space. All windows, doors, plumbing, and electrical fixtures will be replaced, and brand new energy efficient appliances will be installed. A number of apartments will be redesigned to allow for handicap accessibility.

The HPHA is currently engaged in a modernization program to improve elevator service, modernize solid waste collection, and install security equipment. We have agreed to assume responsibility for completion of this work, should contracts extend beyond the date of our financial closing.

With the input of the HPHA and residents, we have developed a Relocation Plan that minimizes the need for families to be moved on a permanent basis. The top 3 floors of one of the Towers have been designated as an in-house "hotel". The first step in the relocation process will be to relocate the 47 families currently living on these floors. It is anticipated that about half of these families will be able to move to vacant units within the Towers and half will be relocated to vacant public housing units in nearby properties. Once the units have been vacated, residents of the top 3 floors of the second Tower will be moved, on a temporary basis, to the in-house hotel. Upon the completion of renovations, these residents will generally then move back into their newly rehabilitated units. The residents of the next 3 floors will then move, on a temporary basis, to the in-house hotel. Again, once their units are completed, these residents will generally move back to their original apartments. This rolling schedule will continue until all of the units in both Towers have been rehabilitated and reoccupied. The relocation/renovation process is expected to occur over 24 months.

The Towers currently consist of 572 apartments, of which 541 are occupied. Upon completion of the renovations, the Towers will contain 555 tax credit units, including 349 public housing, 148 Project-based Section 8 and 58 units with neither rental assistance nor operating subsidy. Residents of the public housing and Section 8 units will generally pay (as they do today) 30% of their household incomes toward rent. Monthly rents for the 58 tax credit units will range from $746 for a 1 bedroom to $1033 for a 3 bedroom unit.

Development costs total $125 million. During the rehabilitation period, Citibank will be providing a $66 million construction loan derived from tax-exempt bonds. As the rents at KPT cannot support this level of debt, about $30 million in bonds will be paid off at the end of the rehabilitation period, leaving a permanent loan balance of approximately $36 million. About $45 million in private tax credit equity will be invested in the property by an affiliate of the Aegon Insurance company.

Typically, in mixed-finance transactions, the developers create a new, single asset entity to own and operate the revitalized residential community. Housing authorities enter into a long term ground lease with these entities. To facilitate the rehabilitation of KPT, the HPHA will enter into a ground lease for the land and an agreement-of-sale for the existing buildings. Although the fair market value of the buildings is just under $47 million, the property, given its restrictions on income and rents, can only support about $3 million in cash proceeds at closing. The approximately $44 million balance will be provided by the HPHA in the form of seller financing. To repay this debt, we anticipate that the HPHA will be entitled to 75% of net cash flow each year.

Please note that neither state nor federal dollars are being tapped as sources for the acquisition and rehabilitation of the Towers at KPT. Although the financing anticipates the sale of state low income housing tax credits, no Housing Trust Fund or other state subsidies are required.

Senate Bill 604 calls for a report to evaluate the relative merits of renovating the Towers at Kuhio Park Terrace versus demolition of the Towers and their replacement with low rise structures. In cities such as Chicago, the Michaels Development Company has worked with the local public housing authority to demolish high rise structures and replace them with lower density buildings. In other cities, we have worked to preserve existing structures.

As previously noted, it was the preference of the HPHA that the Towers be preserved, rather than demolished. Michaels is not fully knowledgeable about the decision making process the

HPHA followed in stating a preference to retain the Towers. However, arguments in favor of retaining the Towers would include:

a. The Likelihood of Needing One:for:One Replacement Housing Federal regulations do not currently absolutely require the replacement of one new public housing unit for each unit demolished. However, one:for:one replacement is a requirement under the HOPE VI Program, which is the main financial source used by housing authorities to finance the revitalization of public housing. Even if the HPHA were to adopt a revitalization program requiring less than strict one:for:one replacement, as there are 748 units of housing at KPT and Kuhio Homes today, the number of units to be replaced would likely remain high.

b. Options for Replacement Housing: The HPHA may have felt obligated to develop all of the replacement housing on-site. If so, tearing down KPT's 16 story towers, and replacing their 572 units on-site, would have resulted in no reduction in density. Instead of two 16 story towers and a neighborhood of low rise structures, the site would have to contain a series of 6 to 12 story structures all with elevators. Mid-rise structures at the boundaries of the site would seem out of scale with the surrounding community. With less air space, the site would feel more crowded than it does presently.

   We should note that there is no federal requirement that all replacement units be located on-site. In fact, a program could be adopted to produce replacement units, in clusters, or within mixed income communities, throughout Honolulu, the Oahu or even the State of Hawaii. However, a massive, cooperative effort by housing authority, local and state government officials would be required to identify, evaluate and secure control of alternative sites. Each site would require separate land use and environmental approvals. Each mixed income property would require its own financing plan. Financial commitments would have to be secured independently. Reaching community consensus, obtaining land use and environmental approvals, and securing financing for multiple sites could take decades to achieve.

   In the meantime, conditions at KPT would continue to deteriorate and drain the state's resources. Due to innumerable leaks in old faucets and pipes, the costs of water and sewer service exceed costs in comparable multifamily properties in Honolulu by about 40%. Solar water panels on the roof of one of the Towers would be reducing the costs of hot water, if only they were fully operable. As noted above, the size of the laundry facilities in the Towers is wholly inadequate, given the number of residential units. And. at the present time, there are no accessible units in the Towers for the physically, visually or hearing impaired.

   The lack of accessible units was just one of the claims cited in the class action lawsuits filed by tenants against the HPHA. With a lawsuit over the physical conditions at KPT pending, the HPHA may have felt constrained by time and cost considerations to state a preference for on-site revitalization through rehabilitation, rather than new construction.

c. New Construction Costs: Depending on the type of residential unit and degree of new infrastructure needed, our estimated construction costs of the 469 units proposed on-site, ranged in cost from $242,000 to $392,000 per unit. In contrast, rehabilitation costs for the Towers were originally estimated at $77,000 per unit. Total hard costs in our proposal total $194,138,600. Under an all new construction scenario, hard costs would total $330,024,065. To this $136 million cost differential, the costs of demolition, design, finance and other fees (generally about 20 to 30% of hard costs) and the sales prices of alternative sites would have to be added. The total cost differential between Tower renovation versus demolition and low rise new construction would be, at least, $180 million. Grants of federal public housing capital funds, such as those available through the HOPE VI Program, generally average about $20 million per award. Even multiple grants would be inadequate to cover the additional costs associated with new construction. And it seems unlikely that the State of Hawaii would have sufficient funds to cover the shortfall.

d. The Challenges of Relocation: As discussed previously, the Relocation Plan for the Towers involves minimal displacement and relocation. We have estimated that 25 families initially and, perhaps, 30 families over the course of the renovations, will require permanent, off-site relocation. The HPHA has struggled to identify vacant, available units in its inventory to house these 30 families. An all-new construction program, unless all replacement units were built prior to the demolition of KPT's existing units, would involve much more extensive relocation. Finding suitable relocation housing for the 541 families currently living in the Towers would be extremely challenging.

e. Public Investment at KPT: In recent years, the HPHA has invested significant resources into improvements at KPT. The elevators, camera security system and waste disposal equipment in the Towers are undergoing substantial upgrades. The HPHA may feel a responsibility to assure that public resources are not wasted.

In contrast to the numerous challenges that would face the HPHA in proceeding with a tear down and new construction scenario, the benefits of proceeding with the renovation of the Towers are immediate and tangible.

1. The KPT and Kuhio Homes Revitalization Plan is a practical, financially feasible approach to meeting the needs of the largest and most visible of Hawaii's public housing developments. Over the years, numerous well-meaning but ultimately ineffectual plans have been advanced to turn around the property. Finally, there is a plan in place that is ready-to-go.

2. In a sluggish economy, the Towers at KPT represent $42 million of shovel-ready construction. A well-respected, long-standing, Hawaii-based general contractor is on the development team and primed to begin the renovations.

3. Major national and international private corporations are committed to investing in KPT. Citibank has provided a commitment letter for $66 million in construction and $36 million in permanent debt. An affiliate of Aegon Insurance is investing over $45 million in equity to the development. These institutions believe in the future of KPT.

4. The acquisition and rehabilitation of the Towers at KPT carries a $125 million price tag, but requires <u>no</u> state capital funding. Moreover, for many years, the State of Hawaii has been subsidizing operations at KPT. Upon the sale of the property to its new owners, annual subsidies for Tower operations will cease.

5. Similarly, no federal capital funding is required for the acquisition and rehabilitation program at the Towers. As public housing subsidies and Section 8 rental assistance will continue, HUD must approve the transaction. Three separate approvals are required. One of the approvals has already been received, and applications for the others are being processed. Full approval is expected within 30 days.

6. An agreement was recently executed settling the class action lawsuits filed by residents concerned about the physical condition of KPT and Kuhio Homes. The Settlement Agreement expressly acknowledges the Revitalization Plan proposed by the Michaels/Vitus team. If implementation of the Plan is significantly delayed, the parties are required to renegotiate equitable relief. Failure to proceed will subject the state to a re-opening of the claims that it had settled.

7. The residents of KPT strongly support the Revitalization Program. The Michaels Development Company has been attending monthly meetings of the Resident Association since July of 2009. Recently, the Association invited the HPHA and Michaels to a resident meeting to review the renovation program and Relocation Plan. About 200 residents were in attendance. There was not a single word in opposition. Residents were clearly pleased to hear how close we are to making their dreams of a transformed KPT a reality.

We once again thank this Committee for the opportunity to express our views regarding pending Senate Bill 604.

LATE

The Pacific Resource
PARTNERSHIP

Testimony of C. Mike Kido
External Affairs
The Pacific Resource Partnership

Senate Committee on Human Services
Senator Suzanne Chun Oakland, Chair
Senator Les Ihara, Jr., Vice Chair

SB 604 – RELATING TO KUHIO PARK TERRACE
Thursday, February 3, 2011
1:15 P.M.
Conference Room 016

Chair Suzanne Chun Oakland, Vice Chair Les Ihara, Jr and Members of the Committee:

My name is C. Mike Kido, External Affairs for the Pacific Resource Partnership (PRP), a labor-management consortium representing over 240 signatory contractors and the Hawaii Carpenters Union.

PRP would like to comment on SB 604 – Relating to Kuhio Park Terrace which requires the Hawaii public housing authority to review the redevelopment project at Kuhio park terrace. This bill also requires report to the legislature no later than September 30, 2011.

As you deliberate over the substance of this proposed legislation, PRP respectfully ask you to consider the fragile nature of the current living environment as well as the critical economic consequence of an arbitrary delay in the start of a "shovel ready" construction project. The Kuhio Park Terrace redevelopment project represents hope, not only for those who reside there, but for those we are anticipating to be employed on this particular construction project.

Thank you for allowing us to share our opinion and we kindly ask you to consider our comments as you make your deliberation on SB 604.

1001 Bishop Street • Suite 1501 • Honolulu, Hawaii 96813

Testimony
2/3/2011
RE: S.B. 604

LATE

Senator Chun Oakland and members of Human Services.

I urge your support for SB 604.

As you know many aspects of the current renovation plan for Kuhio Park Terrace are very similar to the last HOPE 6 application submitted by the State. The exception to HOPE 6 is the renovation of Bldgs A & B — the high rises.

With the growing need for housing and with Kuhio Park Terrace being the largest project in the State. Careful long range planning is essential.

Thank you for the opportunity to testify,

Tory Wattand,
Resident of Kalihi