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LAND  
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STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES

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Testimony of  
SUZANNE D. CASE  
Chairperson

Before the Senate Committees on  
WATER AND LAND  
and  
PUBLIC SAFETY, INTERGOVERNMENTAL, AND MILITARY AFFAIRS  
and  
AGRICULTURE AND ENVIRONMENT

Monday, February 11, 2019  
1:15 PM  
State Capitol, Conference Room 229

In consideration of  
SENATE BILL 914  
RELATING TO LAND DEVELOPMENT

Senate Bill 914 proposes to allocate 10% of revenues collected from leases of state-owned commercial properties in the Banyan Drive area of Hilo to the Banyan Drive Hawaii Redevelopment Agency (BDHRA) presumably to expend within its authorized purposes, and to appropriate an additional unspecified amount in matching general funds to BDHRA for conducting environmental impact studies and other studies required for the redevelopment of the Banyan Drive area. **The Department of Land and Natural Resources (Department) opposes the measure due to the allocation of lease revenues from the Special Land and Development Fund (SLDF) to BDHRA.**

The Department has been working with BDHRA, and (prior to BDHRA's formation) with the Banyan Drive Task Force formed under former Governor Abercrombie, for a number of years on plans for the redevelopment of Banyan Drive area in Hilo. The Department has continually agreed to work closely with BDHRA to coordinate redevelopment of Banyan Drive leases to be consistent with the BDHRA overall planning concept for Banyan Drive.

The Department has also been working with the private sector lessees and permittees to move Banyan Drive buildings on state land into redevelopment in phases. Key state parcels in which the Department is engaged in redevelopment of Banyan Drive include:

- 1) Hilo Hawaiian Hotel: ground lease from the Department; renovated.
- 2) Hilo Bay Café (former Nihon restaurant site): ground lease from the Department; renovated.
- 3) Grand Naniloa Hotel: ground lease from the Department; \$20 million in renovations completed in 2018.
- 4) Golf Course: part of Grand Naniloa ground lease from the Department; requires participation of lessee for redevelopment.
- 5) Uncle Billy's: closed in 2017 by the Board of Land and Natural Resources (Board); under Revocable Permit (RP) to Tower Development, Inc. (TDI), who is an affiliate of the lessee of the Grand Naniloa; On March 7, 2018, the Department posted a request for interest (RFI) on its website as well as on the website of the State Procurement Office regarding the potential demolition of existing structures and reconstruction of a hotel on the former Hilo Bay Hotel site. Notice of the RFI was additionally published in several newspapers in the State on March 14, 2018 with a response deadline of April 30, 2018. One response (from TDI) was received with a proposal to substantially demolish and reconstruct a branded hotel on the site consisting of approximately 125 guest rooms, fitness room, appropriate back of house spaces and food and beverage venue. TDI additionally proposed to contribute \$1.5 million toward demolition costs (projected by the Department's consultants to exceed \$8 million in total).
- 6) Country Club: under RP; the Department is reviewing for potential issuance of an RFI for tear-down and rebuild or renovate proposals.
- 7) Reed's Bay Resort Hotel: under RP; has some remaining useful life.

Since 2014, the Department has spent approximately \$524,500 from the SLDF on consultant services and studies dedicated to the public lands at Banyan Drive.

- One consultant prepared a market study on tourism to determine if the area could support a new hotel, as well as studies on sea level rise, the viability of master leasing multiple parcels in the area, and the remaining useful life of existing structures on expiring lease premises. These studies are publicly available on the Department's website at:

<http://dlnr.hawaii.gov/ld/kanoelehua-and-banyan-drive-studies/><sup>1</sup>

- Another consultant conducted a much more detailed architectural and engineering study on whether existing improvements on the expired lease premises should be demolished or rehabilitated.
- Another consultant recently completed a study on the cost of securing the necessary permitting for demolishing the improvements on the expired leases and completing the demolition.

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<sup>1</sup> This link also includes consultant studies on the Kanoelehua Industrial Area of Hilo. The Department has spent approximately \$138,000 on planning studies for the Kanoelehua Industrial Area.

- Additionally, the Department procured an engineering consultant to assist in reviewing the renovation plans for the Grand Naniloa Hotel.
- Apart from the fees for consultant services, a significant amount of staff time has been invested in planning for the area including attendance at the BDHRA meetings.

The Department opposes transferring funds from the SLDF to BDHRA for Banyan Drive redevelopment purposes. These lands are ceded and the Office of Hawaiian Affairs (OHA) is currently receiving 20% of the revenues and is seeking to increase its share by more than 100% from \$15.1 million to \$35 million annually, thereby potentially increasing the percentage the Department pays to OHA to 40%. Accordingly, if both measures were to pass and become law, the Department would be required to manage the Banyan Drive leases (bill, collect, inspect, procure and pay for professionals for rental and reopening valuations, and pay for rental mediation and arbitration costs) while receiving only 50% of the revenue in return, less expenses.

As to planning in the area, the County of Hawaii (County) and the State have cooperated, and should continue to cooperate, in planning for redevelopment at Banyan Drive. Given that the primary redevelopment work for the properties on State land has already required significant investments from the SLDF, and will require future significant investments, the County should fund its own portion of the redevelopment efforts.

As noted above regarding Uncle Billy's, TDI (the sole responder to the RFI) indicated it would only be able to absorb about \$1.5 million of the State's estimated 8-10 million in demolition costs for the shuttered hotel. In a separate bill before the Legislature this session (Senate Bill 1142), the Department is requesting a general fund appropriation of \$2 million this fiscal year and \$4 million next fiscal year for demolition of the dilapidated improvements.

The Department and the Board are responsible for managing approximately 1.3 million acres of public lands comprised of sensitive natural, cultural and recreational resources. The Department's responsibilities include managing and maintaining the State's coastal lands and waters, water resources, conservation and forestry lands, historical sites, small boat harbors, parks, and recreational facilities; performing public safety duties (e.g., flood and rockfall prevention); issuing and managing leases of public lands (agriculture, pasture, commercial, industrial, and resort leases); maintaining unencumbered public lands; and enforcing the Department's rules/regulations.

To properly perform these fiduciary duties, the Legislature and the Board determined that the Department should utilize a portion of the lands it manages to generate revenues to support the Department's operations and management of public lands/programs. Annual lease revenues currently support the SLDF, with revenues coming primarily from leases for commercial, industrial, resort, geothermal and other renewable energy projects.

The SLDF is a critical and increasingly important funding source for various divisions within the Department to deal with emergency response to natural catastrophes such as fire, rockfall, flood or earthquake and hazard investigation and mitigation. The SLDF also is critical for staff support of various programs and funding conservation projects on all state lands. It has also

become an important source of state match for federally funded endangered species and invasive species initiatives that otherwise would not go forward. Diverting lease revenues from the Banyan Drive area to BDHRA or another redevelopment agency would negatively impact the Department's operations, and would not be a fair allocation of resources between the State and the County for these efforts.

Thank you for the opportunity to comment on this measure.

**SB-914**

Submitted on: 2/10/2019 12:40:17 AM

Testimony for WTL on 2/11/2019 1:15:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
andy levin	Testifying for county of hawaii, Mayor's office	Comments	No

Comments:

Thank you for this opportunity to comment on SB 914 and the Waiakea Peninsula in Hilo, Hawaii.

Simply stated, we support any legislation that will help the revitalization of Banyan Drive and the rest of the Waiakea Peninsula. Virtually everyone familiar with this area agrees that it is underutilized and in disrepair. It is the center of tourism in East Hawai'i, but it is a jewel that is quite tarnished at the present time.

Hawai'i County has taken first steps toward revitalizing the peninsula. The administration, Council, community, and Big Island legislators have found common purpose; the redevelopment area has been defined; the Banyan Drive Hawai'i Redevelopment Agency (BDHRA) is functioning, and a conceptual master plan has been created as a starting point. Now funds are needed to conduct the environmental impact statements necessary to complete the redevelopment plan and move forward.

The Hawai'i County budget is severely strapped, and I have already had to impose increases in our property, fuel, and vehicle weight taxes. Therefore, I am hoping the State will provide funds for the EIS. We believe that it is just and proper to ask the State to share in the EIS expense, given that the redevelopment area consists almost entirely of State land. It will be difficult for the County to find the matching funds, so I would ask you to be as generous as you can.

There may be other paths forward that build on work already done, and we do not want to risk having this Legislature take no action at all. Therefore, we will support any measure that directs resources, both statutorily and financially, toward the redevelopment of Banyan Drive.

I hope you will act favorably on SB 914, and move it along for further discussion.

Respectfully submitted,

Harry Kim, Mayor

**SB-914**

Submitted on: 2/10/2019 12:07:48 PM

Testimony for WTL on 2/11/2019 1:15:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Melodie Aduja	Testifying for O`ahu County Committee on Legislative Priorities of the Democratic Party of Hawai`i	Support	No

Comments:

**SB-914**

Submitted on: 1/31/2019 8:00:37 PM

Testimony for WTL on 2/11/2019 1:15:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Erica Scott	Individual	Support	No

Comments: