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GOVERNOR OF
HAWAII



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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 House Committee on
FINANCE

Wednesday, April 4, 2018
2:30 pm
State Capitol, Conference Room 308

In consideration of
SENATE BILL 2972, SENATE DRAFT 2, HOUSE DRAFT 1
RELATING TO LAND DEVELOPMENT

Senate Bill 2972, Senate Draft 2, House Draft 1 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 funds to BDHRA for conducting environmental impact studies and other studies required for the redevelopment of the Banyan Drive area. The current version of the measure changes the source of appropriation of the unspecified amount from the Special Land and Development Fund (SLDF) to the General Fund, and makes other technical, non-substantive changes. **The Department of Land and Natural Resources (Department) appreciates the change in the source of the unspecified amount of matching funds from SLDF to the General Fund, but must continue to oppose the measure due to the allocation of lease revenues from the 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 renovations nearly complete.
- 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 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.
- 6) Country Club: under RP; the Department is reviewing for potential issuance of an RFI for tear-down and rebuild 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/>¹

- 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.
- 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 service, a significant amount of staff time has been invested in planning for the area including attendance at the BDHRA meetings.

¹ 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.

The Department opposes transferring funds from the SLDF to BDHRA for Banyan Drive redevelopment purposes. In addition to this bill seeking 10% of the revenues from the Banyan Drive leases, there are various other redevelopment agency bills moving this session seeking to take 50% of the revenues generated from the Banyan Drive and the Kanoelehua area leases. These lands are ceded and 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. Neither this bill nor the redevelopment agency bills relieve the Department of the lease management duties. Therefore, if these measures were all to pass and become law, the Department would be left in the very unfortunate situation of having to manage all of those leases (bill, collect, inspect, procure and pay for professionals for rental and reopening valuations, and paying for rental mediation and arbitration costs) but receive very little or no revenue in return, after 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.

The Department notes that should the Department not receive viable proposals for tear-down and rebuild of Uncle Billy's and/or Country Club, redevelopment would require significant capital funds to tear down those buildings, and the County and the State should collaborate on capital funding proposals in the future to accomplish that.

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.

Harry Kim
Mayor



Wil Okabe
Managing Director

Barbara J. Kossow
Deputy Managing Director

County of Hawai'i
Office of the Mayor

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April 3, 2018

Representative Sylvia Luke, Chair
Committee on Finance
Hawai'i State Capitol, Room 308
Honolulu, HI 96813

Representative Ty J.K. Cullen, Vice-Chair
Committee on Finance
Hawai'i State Capitol, Room 308
Honolulu, HI 96813

Dear Chair Luke, Vice-Chair Cullen, and Committee Members:

Re: SB 2972, SD 2, HD 1 Relating to Development of Banyan Drive
Hearing Date: 04/04/2018 –2:30 pm; House Conference Room 308

Thank you for again addressing an issue of great importance to the economic well-being of Hawai'i County, the redevelopment of Banyan Drive. I support SB 2972, SD 2, HD 1.

As SB 2972, SD 2, HD 1 states, Banyan Drive 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 the first steps toward revitalizing the Banyan Drive peninsula. The administration, Council, community, and Big Island legislators have found common purpose; the redevelopment area has been defined; 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.

SB 2972, SD 2, HD 1 provides that "no funds shall be made available under this Act unless the county of Hawai'i provides matching funds of \$250,000 through its county budget for fiscal year 2018-2019." Please know that the Hawai'i County budget is severely strapped, and I have already had to impose increases in our property, fuel, and vehicle weight taxes. Nevertheless, this issue is important enough that, although no matching funds were included in my March preliminary budget, I will do my best to provide \$250,000 in the final 2018-2019 County budget, in order to provide the

April 3, 2018

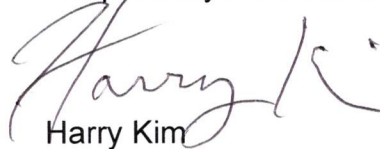
Page 2

matching funds called for. We do 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, but we recognize that the County must do its part as well, to the best of our financial ability.

Given the uncertainty of SB 648, which would provide us with much needed TAT funds, and the potential that Hawai'i County will not be able to approve a GET surcharge in time to take effect in 2019, I cannot guarantee that we will find the \$250,000 match. As quoted above, HD 1 currently provides that the State funds would not be available "unless the county of Hawai'i provides matching funds of \$250,000 through its county budget for fiscal year 2018-2019." If possible, we would ask that this matching requirement be deleted and that you consider an appropriation of \$500,000. If that is not possible, we would at least ask that the restrictive language "through its county budget for fiscal year 2018-2019" be deleted. That last phrase is unnecessary, and would preclude the County finding matching funds in some other way or after the 2018-2019 budget is adopted.

With such an amendment, please give SB 2972, SD 2, HD 1 your favorable consideration.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Harry Kim", with a stylized flourish at the end.

Harry Kim
Mayor, County of Hawai'i

SB-2972-HD-1

Submitted on: 4/3/2018 9:47:10 AM

Testimony for FIN on 4/4/2018 2:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Lynn Kubousek	AOAO Country Club Hawaii	Support	No

Comments:

AOAO Country Club Hawaii supports SB2972

SB-2972-HD-1

Submitted on: 4/2/2018 5:28:20 PM

Testimony for FIN on 4/4/2018 2:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
James McCully	Individual	Support	No

Comments:

Aloha Chair Luke and Vice-Chair Cullen,

I write in Strong Support for SB2972 as amended. The Banyan Drive area requires both County of Hawaii and State of Hawaii support and expertise to reverse 50 years of decline. The planning and redevelopment of the Waiakea peninsula needs to begin immediately, and the BDHRA is ready to go. Through this initial funding the BDHRA and the County Planning Dept can immediately request proposals for an EIS study. This base document would provide the basis for all the subsequent work required as Hilo reestablishes the Banyan Drive as the tourism center for East Hawaii.

Please note that a review of the Special Lands Development Fund will quickly show that HRS171-19 restricts the use of these funds:

(a) to.....only as authorized by the legislature for the following purposes:

*(2) For the **planning, developoment, management, operations, or maintenance of all lands and improvements** under the control and management of the board.....*

SB2972 will certainly aid in the Legislature's intent to improve the quality of life in East Hawaii for all it's citizens. Public lands are too precious to be "wasting assets". Let's help return Banyan Drive to it's position as the center of the Hilo community, both economically and culturally.

Mahalo,

James McCully

SB-2972-HD-1

Submitted on: 4/3/2018 9:35:34 AM

Testimony for FIN on 4/4/2018 2:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Grif Frost	Individual	Support	No

Comments:

SB-2972-HD-1

Submitted on: 4/3/2018 9:36:58 AM

Testimony for FIN on 4/4/2018 2:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
connie jacobson	Individual	Support	No

Comments:

I am in strong support of SB2972

SB-2972-HD-1

Submitted on: 4/3/2018 9:54:13 AM

Testimony for FIN on 4/4/2018 2:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Leonard Kubousek	Individual	Support	No

Comments:

SB-2972-HD-1

Submitted on: 4/3/2018 9:59:32 AM

Testimony for FIN on 4/4/2018 2:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Lanny Dyer	Individual	Support	No

Comments:

SB-2972-HD-1

Submitted on: 4/3/2018 12:15:23 PM

Testimony for FIN on 4/4/2018 2:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Jennifer Zelko	Individual	Support	No

Comments:

I support SB2972.

SB-2972-HD-1

Submitted on: 4/3/2018 2:04:11 PM

Testimony for FIN on 4/4/2018 2:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Gordon Takaki	Individual	Support	No

Comments:

I support this bill

LATE

SB-2972-HD-1

Submitted on: 4/3/2018 2:40:23 PM

Testimony for FIN on 4/4/2018 2:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	the Oahu County Committee on Legislative Priorities of the Democratic Party of Hawai'i	Support	No

Comments:

LATE

SB-2972-HD-1

Submitted on: 4/3/2018 2:13:13 PM

Testimony for FIN on 4/4/2018 2:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Glen Kagamida	Individual	Support	No

Comments:

I am writing in SUPPORT!

Mahalo!

April 4, 2018

The Honorable Sylvia Luke, Chair
House Committee on Finance
State Capitol, Room 308
Honolulu, Hawaii 96813

LATE

RE: S.B. 2972, SD1, Relating to Land Development

HEARING: Wednesday, April 4, 2018, at 2:30 p.m.

Aloha Chair Luke, Vice Chair Cullen, and Members of the Committee,

I am Ken Hiraki, Director of Government Affairs, here to testify on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i, and its over 9,500 members. HAR **supports** Senate Bill 2972, SD2, HD1 which requires the Department of Land and Natural Resources to allocate 10 percent of revenues collected from commercial properties within the Banyan Drive redevelopment area to the Banyan Drive Hawai'i Redevelopment Agency. Appropriates funds to the Agency for conducting environmental impact studies that are necessary to complete the Agency's redevelopment plan for the Banyan Drive redevelopment area. Requires matching funds from the County of Hawai'i.

The State currently leases state land to many entities for commercial, industrial, hotel and resort purposes. Unfortunately, lessees have virtually no economic incentive to invest in the property over the last 10 to 15 years, knowing their lease will expire. In turn, with uncertainty of one's lease extension, it has led to public lands that are underused and deteriorating.

Many of the circumstances that faced the State of Hawai'i and the City & County of Honolulu when the future of Kaka'ako was at risk can be related to the issues of the Waiakea Peninsula (Banyan Drive) and Kanoelehua Industrial Area. Existing regulations and state policies do not address the needs of the Hilo businesses operating on Public Lands resulting in a less-than-thriving commercial zone.

This measure will encourage revitalization of public lands. As a result, from a taxation perspective, this measure will enhance the revenue generating potential of these properties, including increases in the Transient Accommodations Tax from revitalized hotel and resort areas.

Mahalo for the opportunity to testify in support of this measure.

April 3, 2018

HOUSE COMMITTEE ON FINANCE
Representative Sylvia Luke, Chair
Representative Ty J.K. Cullen, Vice Chair

LATE

Testimony in Support of SB 2972 SD 2 HD1

Aloha Chair Luke, Vice Chair Cullen and Committee Members,

Thank you, for the opportunity to voice our support for **SB 2972 SD 2 HD1**. If passed, this bill will provide meaningful assistance from the state to help with the redevelopment of the Banyan Drive peninsula, a vitally important economic, cultural and recreational cornerstone of the Hilo community.

As you know, this area has suffered from a weak and outdated leasehold process, allowing dilapidation and neglect of a once beautiful and thriving area. The bill before you will assist in moving forward with redevelopment of the area by allocating ten percent of revenue, with matching funds from Hawaii County for the necessary impact statement. This is the next step in realizing the goal of actual revitalization of the Banyan Drive peninsula and would remove a major hurdle for revitalization. Since the State owns much of the land, the State should commit funds in this bill.

We ask for your support of **SB 2972 SD 2 HD1** and thank you for your consideration.

Mahalo,



Robert M. Fujimoto, Chairman of the Board Emeritus



Michael K. Fujimoto, Chairman and Chief Executive Officer



Jason R. Fujimoto, President & Chief Operating Officer

April 3, 2018

HOUSE COMMITTEE ON FINANCE
Representative Sylvia Luke, Chair
Representative Ty J.K. Cullen, Vice Chair

LATE

Testimony in Support of SB 2972 SD 2 HD1

Aloha Chair Luke, Vice Chair Cullen and Committee Members,

Thank you, for the opportunity to voice our support for **SB 2972 SD 2 HD1**. If passed, this bill will provide meaningful assistance from the state to help with the redevelopment of the Banyan Drive peninsula, a vitally important economic, cultural and recreational cornerstone of the Hilo community.

As you know, this area has suffered from a weak and outdated leasehold process, allowing dilapidation and neglect of a once beautiful and thriving area. The bill before you will assist in moving forward with redevelopment of the area by allocating ten percent of revenue, with matching funds from Hawaii County for the necessary impact statement. This is the next step in realizing the goal of actual revitalization of the Banyan Drive peninsula and would remove a major hurdle for revitalization. Since the State owns much of the land, the State should commit funds in this bill.

We ask for your support of **SB 2972 SD 2 HD1** and thank you for your consideration.

Mahalo,



Robert M. Fujimoto, Chairman of the Board Emeritus



Michael K. Fujimoto, Chairman and Chief Executive Officer



Jason R. Fujimoto, President & Chief Operating Officer