June 22, 2016

The Honorable Ronald D. Kouchi, President
and Members of the Senate
State Capitol, Room 409
Honolulu, Hawaii 96813

The Honorable Joseph M. Souki, Speaker
and Members of the House of Representatives
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear President Kouchi, Speaker Souki, and Members of the Legislature:

With our apologies for the delay, for your information and consideration, I am transmitting a copy of the Annual Report on the State Educational Facilities Repair and Maintenance Account, pursuant to Section 302A-1151.1, Hawaii Revised Statutes (HRS). In accordance with Section 93-16, HRS, I am also informing you that the report may be viewed electronically at:

http://www.hawaiipublicschools.org/VisionForSuccess/SchoolDataAndReports/StateReports/Pages/Legislative-reports.aspx

If there are any questions, please call Kenneth Masden, Public Works Manager with the Planning Section, Facilities Development Branch at 784-5081 or by email at kenneth_masden@notes.k12.hi.us.

Very truly yours,

Kathryn S. Matayoshi
Superintendent

KSM:jmb
Enclosures

c: Legislative Reference Bureau
  Office of School Facilities and Support Services
ACT 155 was enacted on June 21, 2013 as a pilot program to allow the Hawaii State Department of Education (DOE) to explore the possibility of managing public school properties to generate revenue for modern improvements to its educational facilities. This is the third report to the legislature documenting DOE activities to date.

(1) Project timeline:

In 2014, the DOE initiated a master facilities plan to assess all DOE facilities and provide a strategic plan of facilities to be maintained and improved based on the condition of each facility, their educational adequacy, community population growth and student enrollment projections.

Act 155 requires that the DOE focuses on underutilized assets to increase the educational benefit to students statewide. To do this, the DOE originally planned to use the findings of the master planning efforts in selecting the initial sites for the three (3) pilot projects. Due to a delay on the master plan efforts, we were required to advance the implementation of Act 155 independent of the master plan findings. Without an assessment of projected student enrollments based on planned growth in existing and new urban areas, it would be premature for DOE to randomly select schools that are perceived to be “underutilized.”

For example, elementary schools in the urban corridor that are currently operating under full capacity are expected to experience tremendous growth in student enrollment once the Transit Project, and proposed redevelopment of some of the state-owned Public Housing projects, are initiated. Once it became clear that the necessary information to identify underutilized assets would not be available through the initial master planning efforts, the DOE shifted its focus to identify three (3) pilot projects on non-school DOE facilities. To that end, the initial site selection short-list does not include any portion of any school campus or other education specific facilities for development.

In shifting alignment to transit development, the DOE will be seeking funds to be used towards projecting student enrollment on Oahu over a 25 year period or longer, once the transit is operational.

The focus on non-school or education specific sites also allowed for the establishment of a process to redevelop DOE facilities that could be tested without the additional challenges of closing or repositioning an existing school. It also allowed for the DOE to present a model that could be used as an example to show communities what might be possible if a school is identified for closure in the future.

In developing the process, the DOE identified a range of possible redevelopment opportunities for sites selected under Act 155. These would include the following: a) Revenue Generation to
Fund 21st Century Schools; b) A new 21st Century School; or c) A Hybrid mixed use project with school and possibly revenue generation or some other benefit (i.e. teacher housing) for DOE.

Listed below are the initial pilot project sites currently under consideration, and a summary of work done to date to substantiate the development potential of each site.

**Sample Site No. 1--1037 South Beretania Street (1046 Young Street)**

This site is presently used by the DOE Auxiliary Services Branch and the Student Transportation Services Branch. Property Description:

<table>
<thead>
<tr>
<th>Auxiliary Services Facility—1048 Young Street</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Map Key</td>
</tr>
<tr>
<td>Area</td>
</tr>
<tr>
<td>Zoning</td>
</tr>
<tr>
<td>Ownership</td>
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<tr>
<td>Building</td>
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<tr>
<td>Flood Zone</td>
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<tr>
<td>Tax Assessed Value</td>
</tr>
<tr>
<td>Land</td>
</tr>
<tr>
<td>Building</td>
</tr>
</tbody>
</table>

Similar to other DOE Facilities in urban Honolulu the underlying fee on the property is owned by the City and County of Honolulu. In 1965, Act 97 transferred the authority of County schools, and their properties, from the counties to the state. The intent was to provide equity across the state for all public schools. As part of Act 97 the executive functions associated with land ownership and all responsibility for the planning, construction, improvement, maintenance of public school facilities and grounds, and the transportation of school children public schools was transferred to the DOE. In support of Act 155/2013, it was revealed that the county school lands were never transferred to the state, which means there are still public school campuses that are listed as county land and campuses with both state and county lands.

In 2003, the legislature enacted Act 154, SLH 2003, which essentially executed quitclaim deeds for Hawaii County public school lands and conveyed the lands to the State of Hawaii. Arguably, Act 154/2003 was self-executing, meaning that no further action was required to transfer the Hawaii County public school lands to the state. In that case, the lands would have become “public lands” under HRS § 171-2, under the management and control of the Board of Land and Natural Resources. However, it is likely that the specific TMKs for these lands are not listed on Department of Land and Natural Resources (DLNR’s) inventory of public lands. Quitclaim deeds are useful to eliminate confusion or conflict over jurisdiction.

In January 2014, the Managing Director’s office indicated that the Mayor would not take a position on County school land until specific sites were identified. Subsequent discussions are pending.
At a meeting with the DOE on June 30, 2015, the Honolulu Art Museum (Museum) indicated that they needed more parking and classrooms and were looking into the possibility of incorporating the DOE Young Street property into the Museum’s development plans. At the time, the Museum timeline for development was accelerated due to funding limitations and the DOE was unsure when it might be ready to move forward with the Young Street parcel. The mutual decision was to allow the Museum to proceed with redevelopment options on their state-owned leased lands and if the DOE found it was in a position to jointly develop the site, DOE would approach the Museum at a later date.

After the initial meeting with Museum representatives, the DOE commissioned a market study of the Young Street property which showed that the site would be best suited for ground floor retail/commercial with a residential rental tower and parking. As was discussed at the June meeting, the DOE disclosed that it was exploring the possibility of redeveloping the Young Street property to generate a revenue stream for the DOE to use in modernizing existing school facilities. The DOE subsequently met with the Hawaii Housing Finance Development Corporation (HHFDC) to discuss the possibility of such a development. The HHFDC suggested that the redevelopment of the site could also address the parking and classroom needs of the Museum if the two parcels were developed as one project.

On October 13, 2015, the DOE met with DLNR and the Honolulu Art Museum. DLNR was very supportive of the suggestion to joint develop the DOE property with the parking lot of the Museum to provide a stacked parking structure that both parties could use. The idea would be to remove the parking area from the Museum’s lease, set aside the property to DOE through executive order, and allow DOE to joint develop this site with their existing Young Street parcel to allow for more parking that could be shared by the Museum and DOE, while at the same time providing for additional programmatic space for the Museum.

At this, meeting Museum representatives made it clear they were not prepared to enter into such an arrangement. They believe they need the space, they currently occupy, for future expansion and were not willing to consider a joint use. Given this, the DOE selected to proceed with the initial development plans for this property.

Issues to be addressed in this pilot project:

1. How a lease will be issued by the City and County of Honolulu to allow HHFDC to redevelop the property and provide an income stream to DOE;
2. Is the disposition process used by HHFDC for selection of developers thru an Request For Proposal (RFP) process appropriate for the DOE to use in redevelopment of their facilities;
3. How will the Office of Environmental Quality Control (OEQC) process a Chapter 343 HRS document prepared by DOE based on “maximum allowable uses under the existing zoning”;
4. Will the City and County of Honolulu, Department of Planning and Permitting allow DOE to secure entitlements on the property under a maximum allowable use approach prior to selecting a developer for the site?
Sample Site No. 2—690 Pohukaina

The site is on state-owned land immediately adjacent to Mother Waldren Park in Kakaako.

Property Description:

<table>
<thead>
<tr>
<th>690 Pohukaina Street</th>
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<td><strong>Tax Map Key</strong></td>
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<td><strong>Area</strong></td>
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<td>$10,958,200</td>
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<tr>
<td><strong>Building</strong></td>
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In November of 2014, DOE met with Hawaii Community Development Authority (HCDA) to discuss the possibility of developing a public school in Kakaako. The meeting was prompted by HCDA’s interest in redevelopment of a portion of McKinley High School Campus. At the meeting HCDA suggested that DOE contact Forest City, the developers who were selected for the 690 Pohukaina development in Kakaako. Forest City may be open to the idea of including a public school in their project based on requirements in the RFP for:

- 25,000 sf Civic Space
- 10,000 sf Community Space
- 30,000 sf High Tech Business Incubator and Innovation Space
- 30,000 sf Commercial Space
- 95,000 sf (non-residential space)

On December 1, 2014, the DOE met with Forest City to discuss the possibility of including a new public school in the 690 Pohukaina project. The DOE provided the background on the project and how the need for an elementary new school was identified in ongoing discussions between DOE and the HCDA. The Superintendent was briefed and in-turn briefed the Board of Education Chairman. The transition team for Governor Ige was also briefed. None of the parties expressed any concerns about moving forward with Forest City to determine if a school could be included in their project.

The DOE provided some general educational specifications for traditional, non-vertical schools, for student enrollments up to 750. Approximate range of area required was between 95,000 and 114,000 for the projected enrollment. Providing Forest City with these ranges was to allow them to assess what might be feasible (i.e. classrooms, cafeteria, administrative offices, etc.) within the proposed development and project estimated construction costs.
On December 8, 2014, the DOE and Forest City met with HCDA to discuss the inclusion of a school in the 690 Pohukaina Project and the disposition process (i.e. roles and responsibilities) on negotiations for a new public school in Forest City’s proposal for the project. The DOE informed HCDA of the initial discussion with Forest City. HCDA indicated that it would allow Forest City to negotiate directly with DOE on what the specific needs for the school would be. Once an agreement was reached between Forest City and the DOE on the size, configuration and cost of the new school, HCDA would need to assess the agreement to determine if it meets the requirements of the RFP.

The DOE made it clear that HCDA would need to remain involved in the disposition process since the DOE does not have a contractual position from which to negotiate directly with Forest City. The DOE stated that from their understanding of the existing agreement between HCDA and Forest City, the changes essentially would be as follows:

Replace the, yet fully defined, 90,000 square feet of civic, commercial, community space, that Forest City was to provide with +/- 100,000 square feet of space for the new Pohukaina Elementary School (to be funded thru a 65 year land lease credit and direct appropriation from State Legislature).

HCDA indicated that the initial RFP, which provided for one 600 foot+ tower, had already been modified based on the legislature’s imposition of a height limit in Kakaako. Forest City would be allowed to revise its proposal based on the reduced height. Forest City reconfigured their project proposal to accommodate a vertical elementary school with one housing tower and joint use parking. Forest City’s initial assessment suggests there will be less rental units in the final project given the height reduction and the inclusion of the school. Forest City has begun meeting with potential investors to further define what would be the most viable project scope.

HCDA also shared that they intended to use a portion of the civic space, identified in the original RFP, to support Library Services in the project. HCDA indicated that the library was to receive 15,000 square feet in administrative office space in the project and 5,000 additional square feet for an electronic library/community room in the project. The DOE indicated a commitment to finding a library replacement space if the school project impinged on available square footage; and work with Forest City designers to see if a shared use with the schools’ library could be feasible.

In discussions with DLNR, the DOE proposed applying the rent from the project to the new school construction as opposed to direct payment to DLNR. It was determined that the standing agreement for a lease payment from Forest City to DLNR would remain.

On June 16, 2015, DOE and Forest City met with the HCDA staff to discuss the progress of negotiations to date and an update on the collaboration between Forest City and the DOE. The meeting established the need for a Memorandum of Understanding (MOU) between the DOE and HCDA to clearly establish roles and responsibilities to allow Forest City to negotiate directly with DOE on the school design and school related improvements within the project. The MOU, produced and signed by both parties, establishes an escrow account to allow DOE to transfer
Capital Improvement Program funds to compensate Forest City for design and construction of the new school.

On October 29, 2015, the HCDA was briefed on the project in an Executive Session. We understand that the HCDA staff clarified that the lease cannot exceed the 65 years that was specified in the RFP. The lease would be from HCDA to Forest City. HCDA also indicated that its Deputy AG would ensure that the existing deal that Forest City has with the reduced number of affordable rentals and the school conforms with the RFP.

Issues to be addressed in this pilot project:

1. How a lease will be issued by the DLNR thru the HCDA to Forest City, which will allow DLNR to collect the lease rent over the 65 year lease term;
2. How will a project comprised of affordable rentals and a public elementary school be viewed by prospective renters of the project and adjacent property owners;
3. Can the first vertical elementary school in Hawaii be replicated and used in other locations/communities around the state;

Sample Site No. 3-- 475 22nd Avenue (Office of Curriculum, Instruction and Student Support)

The site is encumbered by the Department of Education through Executive Order No. 4290 which set aside the lands for “Public Education Purposes.” The site is presently used by the Office of Curriculum, Instruction and Student Support.

Property Description:

| 475 22nd Avenue (Office of Curriculum, Instruction and Student Support) |
|-------------------------|--------|
| Tax Map Key             | 3-1-042: 035 |
| Area                    | 284,665 sf (6.535 Acres) |
| Zoning                  | Residential |
| Ownership               | State of Hawaii |
| Tax Assessed Value      |         |
| Land                    | $41,132,400 |
| Building                | $346,200 |

Potential development of this site has been discussed with HHFDC, which indicated that “Market Rentals” would be an appropriate use for the site. HHFDC would assist in the redevelop using its RFP selection process to assist the DOE in selecting a developer. A ground lease would be paid to DOE, for the use of the property, creating a revenue stream for 21st Century improvements to public schools.

An infrastructure assessment to determine the existing sewer and water capacity is currently being conducted on the site.

Issues to be addressed in this pilot project:
1. In view of the fact that the DOE cannot hold fee title to the property, how will the land disposition be handled on the redevelopment of the site;
2. What type of income stream might the DOE expect from a ground lease of the site to be used for “market rental housing”;
3. How will the OEQC process a Chapter 343 HRS document prepared by DOE based on “maximum allowable uses under the existing zoning”;
4. Will the City and County of Honolulu, Department of Planning and Permitting allow DOE to secure entitlements on the property under a maximum allowable use approach prior to selecting a developer for the site?

Research on the three (3) Pilot sites is ongoing. The DOE is evaluating the basic infrastructure capacity and other off-site issues that may prevent or preclude proceeding with the sites as a Pilot Project. While the DOE is eager to fulfill the goals of ACT 155, the DOE is proceeding carefully to ensure success rather than rush into a project without strategic consideration and investment.

The DOE is committed to public engagement and will be transparent in its project efforts. As the site selection process becomes more certain, the DOE will commence formal meetings and discussions. Until then, the DOE is holding preliminary briefings with elected officials and representatives of the potentially affected communities. The selected site community will be informed of the project progress and outcomes.

(2) Summary of DOE activities, results, and recommendations to optimize the use of public school lands as a means to build or renovate 21st century schools and school-centered communities:

Since the enactment of ACT 155, the DOE has worked diligently to develop a process that is transparent, and objective, in how sites are selected and subsequently developed.

A. Site Selection:

• Process Oriented and Market Driven:

The DOE has invested considerable time in developing a process of not only how to select sites but more importantly, how the sites would then be developed or redeveloped. Meetings have been held with numerous private developers to better understand what investors consider in developing or redeveloping sites. Through these discussions it was determined that site location and size, zoning, market demand, and community support are vital concerns that developers consider in any such project.

The DOE has also consulted with government regulatory agencies to determine the process for compliance with Chapter 343 HRS, county zoning, and the disposition of public lands (i.e. DOE Facilities). This fact finding and analysis will be used in the development, or redevelopment, of the pilot project sites.
Given the non-school nature of the initial pilot project selection, and that we are still in the early stages of the process, the DOE has yet to formally engage in community discussions. The intent has been to work out the mechanics of the process to determine each site’s development potential, and all foreseeable obstacles, to ensure the viability of the projects before engaging with stakeholders.

The DOE continues to vet the various processes required in the selection, and potential development, of any DOE facility. These processes will be revised and improved as the DOE continues to advance the initiative.

II. Program Communication:

Internally, the DOE is developing a communication plan for each step of the project process to insure the information regarding the implementation of Act 155 is conveyed accurately and in a timely fashion. Once the initial sites have been established, the Department’s Office of Communications and Community Affairs will coordinate all aspects of the project with the identified communities.

III. On-going Consultation:

The DOE will continue its efforts to involve all pertinent entities on the site selection and development/redevelopment process.

Similarly, the DOE will formally engage in conversations with specific communities once the initial short-list of sites has been fully established. This would involve a broader representation of stakeholders, including educators, community leaders, community program providers, real estate developers and investors, elected officials, and municipal leaders, etc. This group will review the short-list of sites, the process and criteria for selection, and make recommendations for final three (3) sites to be selected. The DOE will take recommendations under advisement and will make final recommendations to the Board of Education.

(3) Summary of all school and community engagement efforts undertaken or that will be undertaken by DOE in carryout of the pilot program:

As stated earlier, no current school sites are presently being considered in the initial short-list of pilot sites. Should information become available, that helps to identify any specific school assets for consideration, community engagement will be front and center in the discussions. Since the initial enactment of ACT 155, it has been understood that community engagement is key to the success of the program. The on-going consultation, described above, represents one level of engaging key stakeholders who can provide specific information and oversight to guide the process.

(4) Summary of DOE’s current and project budgeted expenses, including the identification of any contracts with third parties and the creation of temporary positions within the department in carrying out the pilot program.
Act 155 provided $100,000 in appropriations for the first year of the program. An additional $200,000 has been obligated, to date, to continue consultant support and provide for the initial program set up. Given the effective scope of the program, extended appropriations to ACT 155 for an additional $4,000,000 for FY2017 is requested. This funding will be used to support the balance of the program requirements leading to the successful implementation of the three (3) pilot projects.

The additional funds requested will support the preparation of an environmental assessment (EA) or environmental impact statement (EIS) for each of the three (3) pilot sites to comply with Chapter 343 HRS, cost associated with additional market studies, cost associated with projecting student enrollment on schools on Oahu given the impact of the Oahu Rail Transit project on areas identified for future growth, and the cost of developing and managing the RFP process.

To offset this cost to the State, perhaps the Legislature could advance the funds with the requirement that these funds be replaced from revenue generated from each of the three projects. Without the funding for the environmental documents, none of the three pilot projects will be able to move forward from the initial selection.

(5) Summary of any capacity and funding issues or challenges the DOE has encountered in carrying out the pilot project:

To initiate the program, the DOE has been able to subsidize its capacity with consultants funded through the legislative appropriation. As the program begins to take on a greater dimension there will be a greater demand on DOE staff to effectively support the program. Funding levels, as described in paragraph (4), will allow the DOE to continue to receive support from consultants throughout the program. The expectations on DOE staff may require additional staffing or an adjustment of DOE priorities.