



STATE OF HAWAII
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

January 17, 2019

TO: The Honorable Kenneth Uemura
Chairperson, Finance and Infrastructure Committee

FROM: Dr. Christina M. Kishimoto
Superintendent

A blue ink signature of Dr. Christina M. Kishimoto.

SUBJECT: **Committee Action on Recommendation Regarding Selection of Three Public School Land Sites to Lease Pursuant to Act 155 (Hawaii Revised Statutes Section 302A-1151.1, Pilot Program for Lease of Public School Land)**

1. RECOMMENDATION

It is recommended that the Finance and Infrastructure Committee recommend to the Board of Education (BOE) that:

Select pilot project sites to be considered for lease of public school land per Hawaii Revised Statutes (HRS) Section 302A-1151.1.

2. RECOMMENDED EFFECTIVE DATE

Upon approval of the BOE.

3. RECOMMENDED COMPLIANCE DATE (if different from the effective date)

Not applicable.

4. DISCUSSION

a. Conditions leading to the recommendation:

HRS Section 302A-1151.1 (i.e. Act 155) "*established within the Department of Education a pilot program for the lease of public school land, including facilities.*"

“The Department may lease public school land for no more than three public school land sites identified and selected by the Board of Education.”

Recommended parcels were identified through a review and analysis of the responses to the Department of Education (DOE) Request for Interest.

- b. Previous action of the Board on the same or similar matter:

None.

- c. Other policies affected:

None.

- d. Arguments in support of the recommendation:

The selection is required by law.

- e. Arguments against the recommendation:

The topic of school closures is always a concern; as the list demonstrates, no school closures are recommended at this time.

- f. Other agencies or departments of the State of Hawaii involved in the action:

The Department of Land and Natural Resources and the county governments, across the state, currently hold fee on public school lands.

- g. Possible reaction of the public, professional organizations, unions, DOE staff and/or others to the recommendation:

At this time, we have no formal comments from the affected stakeholders that would indicate what their reaction might be.

- h. Educational implications:

The public school land sites selected for the pilot program will be encumbered for up to 55 years.

- i. Personnel implications:

Approximately 40 to 330 DOE staff may be displaced from the proposed sites depending on the number of lease agreements executed.

j. Facilities implications:

The public school land sites selected for the pilot program will be encumbered for up to 55 years.

k. Financial implications:

The revenue from the lease will be deposited in a school facilities subaccount for use for new construction, to make 21st century improvements to public schools, and for the repair and maintenance of existing school facilities.

5. OTHER SUPPLEMENTARY RECOMMENDATIONS

None.

CMK:jhc
Attachment

c: Office of School Facilities and Support Services
Facilities Development Branch

Finance and Infrastructure Committee

January 17, 2019

Committee Action on Recommendation Regarding Selection of Three Public School Land Sites to Lease Pursuant to Act 155 (Hawaii Revised Statutes Section 302A-1151.1, Pilot Program for Lease of Public School Land)



Act 155

Purpose and Intent:

Act 155 (2013 SLH) allows the Department to establish a pilot program to generate revenue from underutilized public school lands to modernize and improve school facilities for 21st Century learning.

The proceeds from the pilot program shall be used exclusively for new construction, the upgrade of 21st Century facilities, and repair and maintenance of existing school facilities.



Act 155

Under the law:

The Department may lease public school land on terms it deems appropriate, provided that:

- The Board may identify and select up to five public school land sites as candidates for participation in the pilot
- During the identification and selection process, the Board shall be subject to Chapter 92, shall hold at least one public meeting in each affected community, and shall foster school and community participation
- The Department may lease public school land for no more than three sites ... under leases for a term of not more than 55 years per lease.



NOTE: The law is not clear on the procurement process that must be followed to issue a lease on non DOE-owned lands. It also does not exempt compliance with Chapter 343 HRS (Environmental Impact Statements) and County zoning.

Act 155 & 21st Century Learning Environments

To ensure equity and excellence in education, every student, teacher and administrator must walk onto a school campus and into classrooms that provide safe, ready access to world-class learning opportunities.

The Act 155 pilot projects are expected to generate lease revenue that could be used to update or renovate existing classrooms and develop new 21st Century learning environments.



As we gain a greater degree of certainty about expected revenue levels, we will be better able to demonstrate how these funds can be best utilized to carry out our mission.

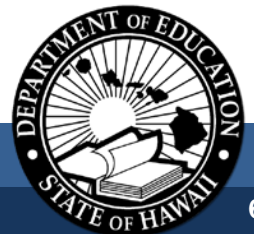
Candidate Sites

- **March 2018:** Jacobs Engineering presented a initial list of candidate sites to the Board's Finance and Infrastructure Committee (FIC).
- **May 2018:** The list was narrowed to seven potential sites:
 - 1046 Young Street
 - 1106 Koko Head Avenue
 - 3633 Waialae Avenue (Queen Liliuokalani Elementary School)
 - 4087 Diamond Head Road
 - 475 22nd Avenue
 - Kaimuki High School (1 acre along Date St.)
 - McKinley High School (1 acre Pensacola or Kapiolani)



RFI Requested

- **June 2018:** The Finance and Infrastructure Committee (FIC) directed the DOE to prepare and publish a Request for Information (RFI) on the seven sites.
- **August 2018:** DOE published the RFI.
- **October 2018:** Three letters of interest were received, and one letter with questions.
- **November 2018:** DOE briefed the FIC on the results of the RFI.

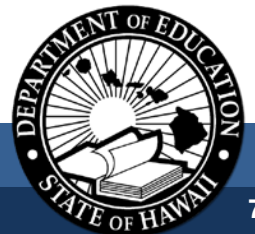


Developer Interest

Three local developers submitted letters of interest. Some of the developers showed interest in more than one site.

Listed below are the sites for which interest was shown:

- (1) – 1106 Koko Head Avenue
- (3) – 3633 Waialae Avenue
- (1) – 475 22nd Avenue
- (1) – McKinley High School (1 acre site)



Developer Comments

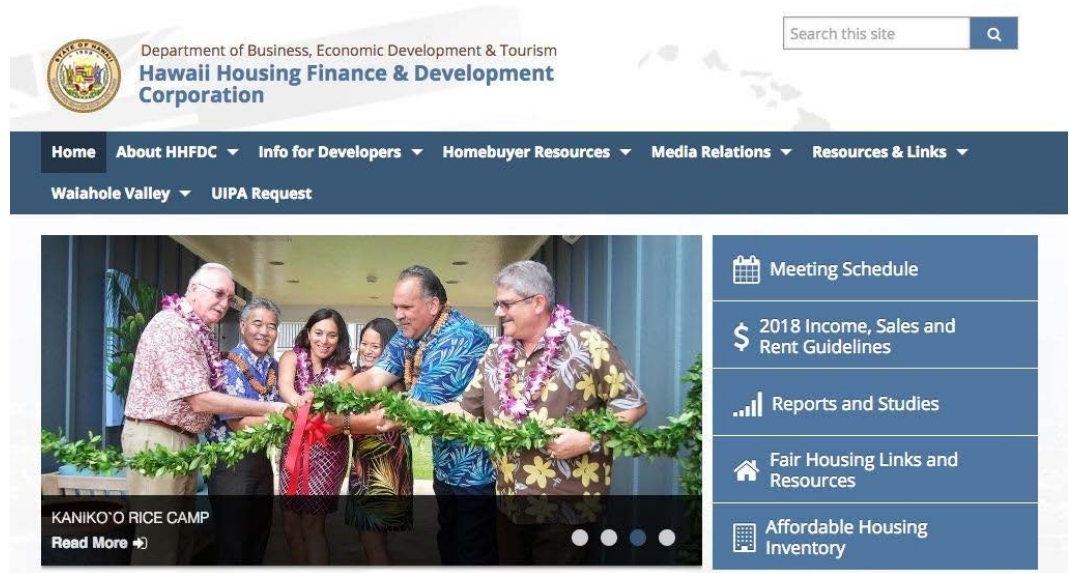
During interviews with developers there was interest in other DOE sites but there were concerns over the length of leases allowed under the law.

Developers expressed that the 55-year lease term allowed under existing law and lack of current information on infrastructure and site easements/entitlements, etc. made it difficult to offer any viable direction on the development potential of these sites.

The 55-year lease term limits financing options, which restricts development opportunities. DOE has been working with HHFDC on proposed legislation that would allow for 99-year leasehold condominiums. It is also recommended that Act 155 be amended to allow for longer lease terms.

Development Process - HHFDC

The **Hawaii Housing Finance & Development Corporation** is the primary state agency charged with overseeing affordable housing finance and development in Hawaii.



With a full array of property development staff and a track record of successful development, HHFDC's expertise will help ensure the best outcome on Act 155 pilot projects.

Given HHFDC's charge of providing affordable housing in Hawaii and the DOE's desire to develop underutilized public school lands, a close working relationship with HHFDC stands to provide greater value to the state.

DOE Pro Forma Analysis

A preliminary assessment to provide a baseline for further analysis.

Annual Lease Revenue

- A return of 8% of land value for parcels zoned for commercial uses

Annual DOE displacement expenses

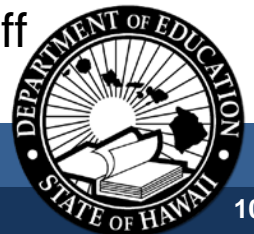
- Commercial office space lease rent at \$6,700 / person
- Commercial warehouse space lease rent at \$16.20 / sf
- Rates based on current DOE lease expense for office space and consultation with commercial rental agent

Net Revenue

- (lease revenue) – (displacement expenses)

Sunk Capital Costs

- Capital improvement expenses not fully depreciated
- Not factored into net revenue, rather, identified as fixed asset write off



Site Specific Information

1042 Young Street

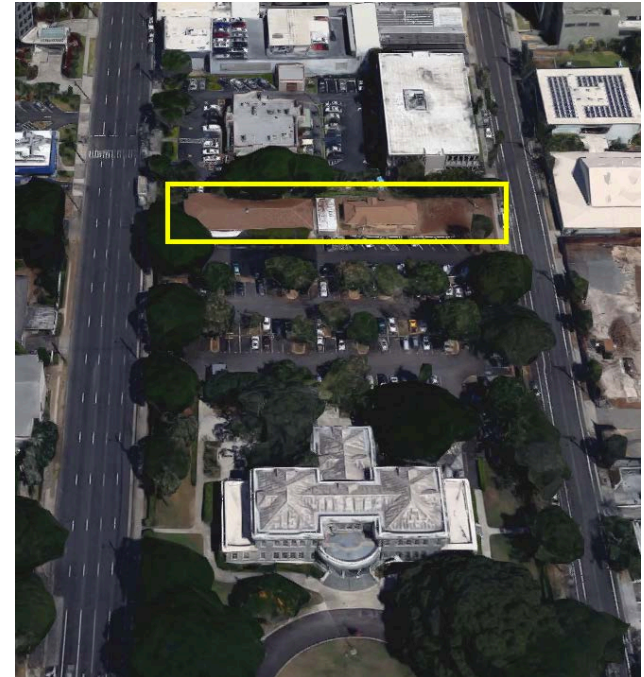
29,194 sf = 0.67 ac

Site currently houses 21 staff from the Office of School Facilities & Support Services, Auxiliary Services Branch and School Transportation Services Branch.

Estimated annual commercial office space rent for displaced staff = \$140,700.00.

Estimated annual revenue = \$642,272.00

Net revenue = \$501,572.00



Site Specific Information

1106 Koko Head Avenue

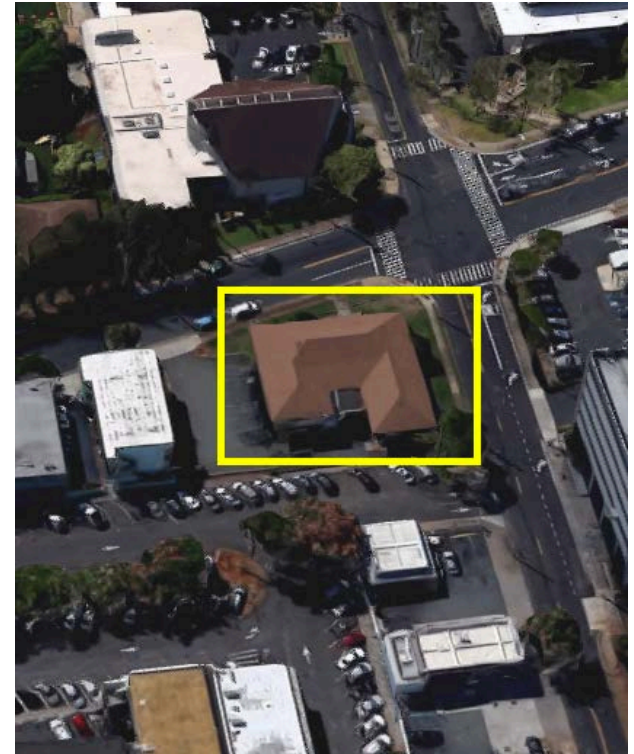
13,404 sf = 0.31 ac

Site currently houses 30 staff from the Office of School Facilities & Support Services, School Food Services Branch.

Estimated annual commercial office space rent for displaced staff = \$201,000.00.

Estimated annual revenue = \$265,936.00.

Net revenue = \$64,936.00



Site Specific Information

3633 Waialae Avenue

117,989 sf = 2.71 ac



Site currently houses 140 staff from the Office of School Facilities & Support Services, Assistant Superintendent Office, Facilities Development Branch, Project Control, Safety, Security, and Emergency Preparedness Branch, and Data Governance Branch.

The site also houses the Department's primary data center, serving all schools and offices statewide.

Estimated annual commercial office space rent for displaced staff = \$938,000.00.

Estimated annual revenue = \$879,072.00.

Net revenue = (-)\$58,928.00

Sunk capital costs:

- ~\$6.0M for the data center
- \$1.6M for the conversion of classroom spaces to office space
- \$1.3M for a pilot PV microgrid system

Site Specific Information

4087 Diamond Head Road

201,057 sf = 4.62 ac

Site currently houses 40 staff from the Office of School Facilities & Support Services, Facilities Maintenance Branch. The property also includes 36,000 sf of storage, warehouse, workshop, and staff office space and is ideally located in the urban Honolulu service area.

Estimated annual commercial office space rent for displaced staff = \$268,000.00.

Estimated annual rent for displaced warehouse functions within the urban Honolulu area is \$583,200.00.

Estimated annual revenue = \$1,900,360.00.

Net revenue = \$1,049,160.00

The site is currently designated as a staging area for the Hawaii Emergency Management Agency during emergencies.



Site Specific Information

475 22nd Avenue

284,665 sf = 6.53 ac



Site currently houses 150 staff from the Office of Curricular Services. The property also includes 40,600 sf of warehouse and meeting space.

Estimated annual commercial office space rent for displaced staff is \$1,005,000.00. The annual rent for the displaced warehouse functions within the urban Honolulu area = \$657,720.00.

Estimated annual revenue = \$2,641,744.00.

Net revenue = \$979,024.00

Site Specific Information

Kaimuki High School

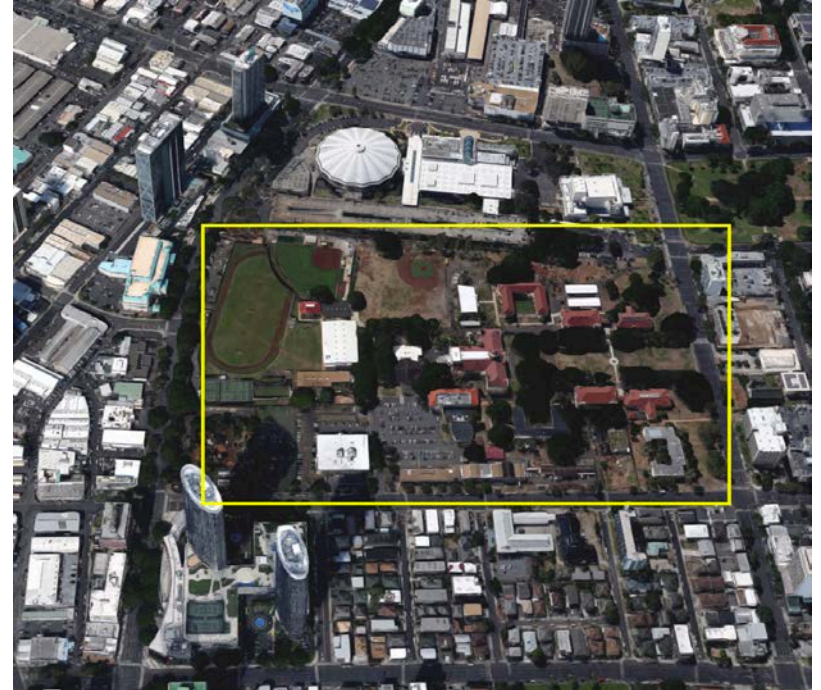
The portion of the property to be utilized has yet to be determined.



Site Specific Information

McKinley High School

The portion of the property to be utilized has yet to be determined.



Direction/Approval

Recommend that the Board approve the following three sites for “candidates for participation in the pilot program” (Act 155) and allow the department to seek further interest (either with HHFDC or internally) to develop these three sites:

[3633 Waialae Avenue](#)

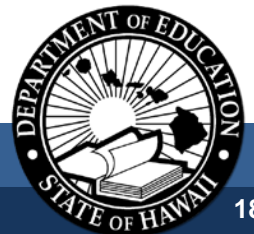
Consideration to up-zone property to BMX 4

[4087 Diamond Head](#)

Could potentially be paired with 22nd Ave parcel

[475 22nd Avenue](#)

The DOE (w/HHFDC), is in the initial phase of gathering information to prepare a formal Request For Proposals on 475 22nd Avenue



Mahalo!

