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Report
to the
Honolulu City Council
on
The Proposed Sale of City Housing Properties

Prepared By
The
Council Task Force
to
Review Utilization of All City Property
(Task Force)

January 2005

Disc. Com. No. 267

Executive Summary

Pursuant to a proposed sale of City Housing Properties, the Honolulu City Council adopted Resolution 04-135 which established a "Council Task Force to Review Utilization of All City Property" (Task Force) and make recommendations on the proposed sale of City Housing Properties. The stated objective of the sale was to provide home ownership opportunities, reduce the City's outstanding housing and debt service, establish a Rent-to-Own Conversion Fund and increase the City's Special Reserve Fund.

Initially 973 residential units spread amongst 8 properties were selected for disposition. In their analysis, the City had projected to receive \$173.8 million from the sale (of both initial and subsequent properties) which could reduce the City's overall debt by \$116.6 million. However, the Task Force expressed concerns about the impact of displacing over 900 families as well as the finite reduction of affordable housing inventory on Oahu. Subsequent discussions raised questions about the lack of accountability and performance measurements, which seem to have resulted in operational deficiencies prompting the proposed sale. From a broader perspective, it appeared to the Task Force that the City further lacked uniform standards and criteria for optimal asset management for all City-owned properties and inventory.

With regards to the proposed sale of City Housing Properties, the Task Force supports the sale but strongly recommends that conditions for each sale ensure future affordability and rental inventory. The Task Force further recommends that the City review the findings and options offered from the multitude of feasibility studies and assessments conducted in the past, determine optimal asset management strategies and establish clear lines of departmental accountability.

The Sale of City Housing Properties

In March of 2004, the Honolulu City Council received proposed Resolutions and Bills from the City and County of Honolulu to sell City Housing Properties. The stated objective of the sale was to:

- Provide home ownership opportunities
- Reduce the City's outstanding housing and debt service
- Establish a Rent-to-Own Conversion Fund
- Increase the City's Special Reserve Fund

Initially, eight (8) properties were selected for disposition, which consisted of 973 residential units and included:

- Chinatown Gateway Plaza – 200 units
- Harbor Village – 90 units
- Marin Tower – 236 units
- Manoa Gardens – 41 units
- West Loch Elderly – 150 units
- Kulana Nani Apartments – 160 units
- West Lake Apartments – 96 units
- Foster Gardens – commercial property

The City also proposed subsequent property dispositions, which included:

- Bachelor's Quarters – 10 units
- Chinatown Manor – 90 units
- Kanoa Apartments – 14 units
- Pauahi Hale – 77 units
- Winston Hale – 94 units

The City's proposal also included complimenting Rent-to-Own Loan Programs to assist existing occupants through transition.

In May 2004, the Honolulu City Council adopted Resolution 04-135, which established a "Council Task Force to Review Utilization of All City Property" (Task Force) and make recommendations on the proposed sale of City Housing Properties.

The Task Force

Council members recommended various representatives from both public and private sectors to participate on the Task Force. The administrative, property management, development and financial background of the participants allowed for healthy discussions and analysis on the proposed disposition. Members of the Task Force are listed in the closing segment of this report.

Issues and Concerns

The initial meetings of the Task Force focused on developing a clear understanding of the task at hand set forth by the Honolulu City Council. The Task Force raised many issues and queries centering the City's proposed sale. A composite listing of issues is provided to recapture the thought process.

- Developing a mission statement for the Task Force
- Identifying models from other cities for disposing government properties.
- Identifying City property inventory
- Performing an analysis of City assets and fixed land inventory
- Conducting a Request For Proposals to assess and develop recommendations
- Community aspect – How does the City intend to fit in with the sustainable plans and regional plans so that it compliments Community plans
- Development of public / private partnerships to resolve issues
- What was the original purpose and objective for the City getting into the housing projects
- Maximized use of City's real estate (office space, parking facilities, parks, remnant parcels)
- Should the City sell the portfolio of properties with the idea that what is sold remains affordable?
- Who is accountable for the properties in question and who is enforcing the sustainability?
- What assessment criterion is used to determine disposition?
- What global criteria should be included to assure effective and optimal asset management?

- Should the City continue to be involved in the management of housing properties?
- Should the City re-establish a Housing Department?
- Initial "conflict of interest" concerns from Task Force members who may be interested in the proposed sale of City Housing Properties.

Mission Statement

While it was evident for the Task Force to assess the proposed sale of City Housing Properties, much deliberation was spent on "why" it was necessitated. In order to assure that it served in an advisory capacity only, the efforts of the Task Force were limited to developing broad recommendations to the City Council, subject to final considerations of both Council and City Administration. Subsequent discussions lead to the development of a mission statement:

"Provide guidelines, criteria and suggestions to determine the "best use" for the City and County of Honolulu's properties in order to optimize financial and or social utilization."

Analysis

On July 21, 2004, Malcolm J. Tom, Managing Director for the C&C of Honolulu, provided a review of the proposed sale and supporting strategies. In their analysis, the City had projected to receive \$173.8 million from the sale (of both initial and subsequent properties) which could reduce the city's overall debt by \$116.6 million. While financially possible, concerns of the sale were more about the impact of displacing over 900 families and the finite reduction of affordable housing inventory. The Task Force was also made aware of similar disposition strategies under consideration by the State's Housing and Community Development Corporation of Hawaii for its housing stock.

According to the Hawaii Housing Policy Study 2003 Update prepared by SMS Research, 20,000 affordable rental units for households earning less than 80% of the state's median income are needed for the period between 2003 to 2007, of which 10,000 units are for households earning less than 50% of median income. 13,000 affordable sales units for households earning between 80 and 140% of the state's median income are also needed for the period between 2003 to 2007. With the possibility of both County and State reducing its housing inventories, coupled with the increasing demand for affordable housing, the Task Force could not support the proposed disposition on the basis of financial solvency alone. With

relation to its mission statement, the Task Force believes that the City's proposed sale falls short in addressing the social impact. A possible solution could be a sale to private nonprofit organizations. Nonprofits can utilize tax credits, CDBG, HOME Funds and Section 8 Rental Assistance, most of which government (city and state) is precluded from using. City owned properties with positive cash flows could generate sales revenues. The Task Force suggests that at the very least, the City should have a rental distribution policy (e.g. set aside for less than 50%, 50-80%, 80-100%, etc) with a maximum income limit for tenants. A maximum would ensure a continuous supply of affordable rentals. Since many City properties are located in prime downtown locations, some residents may never vacate no matter how high their income becomes. A reasonable policy would allow over income residents a reasonable time period to vacate

Discussions further lead to concerns as to how the City got to this stage of housing debt and prompted questions about overall accountability of properties in affordable housing. Since the dissolving of the City's Housing Department, it was unclear as to who had primary responsibility to ensure that property managers were being guided to maximize in order to offset operational increases. The Task Force discussed various housing programs supportive of the City's housing inventories, particularly government subsidy programs. The Task Force expressed concern about the City's diligence in monitoring and enforcing income reviews, and where possible, pursuing rent increases commensurate to rises in income. In short, the Task Force finds that a portion of the current City's debt for housing could have been prevented with better program oversight and accountability. Though it may occur late in the oversight process, it was suggested that issues relating to effective and efficient use of City properties could be left under the purview of the City Auditor, who also reports to the City Council.

The procurement process for property managers was also discussed and the Task Force felt that the current "low bid" process and short contract term did not necessarily result in securing the "best service" and continuity for residents. Accordingly, the Task Force believes the City should review this process to ensure quality and stable property management services.

The inquiry on accountability for the management of housing properties led to a global discussion about the accountability of overall asset management within the City. It was not clear to the Task Force if there was a defined, single entity within the City's current administrative hierarchy responsible for the overall coordination of asset management of City properties other than the broad responsibility of the Managing Director or the Mayor. It appears that property asset oversight is fragmented. Each department within the City's structure manages their own respective property inventories in accordance to their mandates and

program parameters. The Task Force further questioned the under-utilization of City office space combined with the City's renting of office space from the private sector. It also questioned the current use of City properties within prime, market areas (i.e. BWS service vehicle parking facility) instead of revenue-producing alternatives. The Task Force believes that the City should review prior recommendations and options offered from the multitude of feasibility studies and assessments conducted in the past, determine optimal asset management strategies and establish clear lines of departmental accountability.

The Task Force solicited input on asset management, to include strategies and criteria in determining disposition. A prime consideration for the City would be to consider the development of a "Tactical Plan". Such plan may include:

- A clear statement of vision, mission, values and objectives of the City Council and new Administration. This base will provide strategic principles and direction for either a task force or department to develop a business model to assess specific properties for development, sale and property management. Land assets could be categorized, for example, residential, commercial and vacant. Business models could be developed for each category with specific weights for options dependent on mission statements and objectives of the Council and/or Administration.
- A current inventory of all land assets and resources necessary to develop or manage these assets. This should include in addition to land asset categories, the current state of people (headcount and skill level to determine in-source or out-source); day to day processes for property management, processes for public/private residential or commercial development, and processes for sales/auctions of properties; an economic cost/benefit analysis to include operating costs, LOST property tax revenues on City owned and operated properties and the liability costs of ownership of passive parks and walkways; and an assessment of technology currently employed to track and retrieve real time data necessary to manage assets on a continuum.
- Identification of best municipality practices and benchmarks used to assess real property assets, to determine buy, sell and hold strategies and to plan for asset allocations other than real property to provide recurring revenue exclusive of additional taxation of constituents.
- A defined desired future state of city owned or operated real property assets. This includes a business case for change, a definition of the desired state with recommendations for enhancing people, processes, economic cost/benefits and technology.

These are but surface recommendations the Task Force discussed. With relation to its mission statement, the Task Force finds the City fragmented in its OVERALL asset management and lacking a collective process to determine best and optimal use.

Recommendations

With reference to the proposed sale of the City's housing properties, the Task Force concurs that the City should sell its supply of affordable rental housing but strongly recommends that conditions for each sale ensure future affordability and rental inventory. The Task Force further recommends the City consider selling to non-profit entities who could leverage additional financing and subsidies for sustainability. The solicitation process for disposition must result in quality and stable property management services as well. Effective and efficient oversight, of these properties after a sale could be left under the purview of the City Auditor, who also reports to the City Council.

The Task Force further recommends that the City review the findings and options offered from the multitude of feasibility studies and assessments conducted in the past, determine optimal asset management strategies and establish clear lines of departmental accountability. With reference to overall asset management activities, the Task Force recommends that the City develop a "Tactical Plan" that includes:

- A clear statement of vision, mission, values and objectives of the City Council and new Administration,
- A current inventory of all land assets and resources necessary to develop or manage these assets
- Identification of best municipality practices and benchmarks used to assess real property assets, to determine buy, sell and hold strategies
- A defined desired future state of city owned or operated real property assets.

Closing

In closing, the members of the Task Force wish to thank each respective Councilmember sponsor of Honolulu City Council for the opportunity to serve in an advisory capacity to "Review Utilization of All City Property".

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