Aloha and Good Afternoon Chair Guzman and Councilmembers,

EAR-63

My name is Martin Brass. I am a Paia business and property owner. I would like to first commend the efforts of this Committee, the Mayor's office and the various County departments involved in redeveloping the Old Maui High School property. I preface my following comments by stating I do not stand here today to question the County's intentions. However, I am gravely concerned with the financial terms of the lease being offered to Teach Development.

In my reading of EAR 63, I see a gross inequity between risk and return to Maui County in the proposed lease. Typical Public/Private Partnerships have a sharing of risk. One partner (typically the public sector) bears a disproportionate share of risk to allow the other partner (typically the private sector) to earn an accelerated return. At some point in the future an allowance is made for the public sector to "catch up" and earn its share of return.

In this case, the lease proposes a flat rent of $1/year for 23 acres of prime land for sixty years. There is no catchup for the County. Given the scope and cost of the proposed project, I don't see any participation in the project's returns at all.

Let's put this in perspective:

1) Teach Development proposes developing 200,000 sf. That is roughly 1.5x the size of Paia's current commercial square footage.

2) Long term Investment horizons usually have to pencil out in 5-7 years, and typically have to generate cash flow sooner than that. Investment horizons rarely exceed 15-20 years. This is a 60 year lease. Certainly no one believes it will take 60 years to make this investment worthwhile.

3) Approximately $60 million of investment is anticipated being made. Given that typical baseline ROIs (Return on Investments) are 10-15% and assuming the low end of 10%, implied annual returns would be $6MM/yr. That is a 10 year payback on the $60 million in capital invested. The County meanwhile has earned only $10. You can make the same assumption with a 5% ROI with a 20 year breakeven on the same $60 million investment. The County still has only collected $20 in rent.

4) Another way to look at this. Consider that the proposed lease is effectively a 60 year land lease. Based on the stated $1/year rent, a 5% cap rate could be applied that would give a $20 valuation. Effectively the County has sold 23 acres for a $20 bill with this lease.

5) A better structure is to have market rate catch-ups on the rent for the County. Let the Developer have preferred returns, for a period of time but the County and the community should benefit at some point too. The current lease seems to have too many unknowns such as subletting the property which I fear will only end up costing the County and its residents lost opportunities and revenue.

I respectfully request the Committee to defer any further action on approving EAR 63 until such time as a careful review is prepared of the financial structure, returns and risks to the County and Public. I believe we can do better, earn more revenue and deploy the monies as needed elsewhere.

Mahalo for your time and consideration.

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