

EDB Committee

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To: EDB Committee
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Attachments: EDB-187 Information.pdf

Importance: High

Please share this information with the Economic Development and Budget Committee prior to their meeting on Thursday, February 28, at 9 am. It is in support of Item EDB-187.
Please confirm your receipt of this information.

mahalo,

Susie

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Lokahi Pacific's Mission is to improve the quality of life, both economically and socially, for residents of the County of Maui and other rural Hawaii communities.

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Lokahi Pacific Background Information for Budget Committee meeting on 2/28/19

In support of agenda item (EDB-187)

In 1999, in response to an RFP from Maui County, Lokahi Pacific developed a project to reconstruct a dilapidated structure in the heart of Old Wailuku town known as the Blue Hawaii Building. This proposal was part of an overall vision by the County to revitalize Wailuku town. The lease required that three things would be included in this renovated/new building: a commercial kitchen, an incubator office space and affordable apartments. I'm told this was a concept to be used by the County for future projects if it proved successful.

The original two-story, 5,000 square foot building on the site was constructed in the 1920s. While the property is owned by County of Maui, Lokahi Pacific received a thirty-year lease, at \$1 per year, to facilitate this project. The building had been vacant for many years and was rapidly deteriorating which led to it having to be totally demolished when the front facade fell in November, 2003.

The new building's facade was constructed to reflect its original appearance, including fabrication of the original canopy over the sidewalk, to maintain the turn of the century street-front appearance of old Wailuku town.

The Harry and Jeanette Weinberg Pono Center now consists of 9,700 square feet and has three floors incorporating the following spaces:

1. Ground floor street frontage space houses a restaurant situated along the promenade between the historic Iao Theatre and the new Pono Center. The ground level rear is the home of Maui's first shared-use, licensed commercial kitchens. These fully equipped two-station kitchens are operated by Lokahi Pacific as part of its small business incubation program. The stations are available for use by the community of Maui.
2. The second floor is residential and includes four one-bedroom apartments with a laundry facility, storage and a community room for the residents.
3. The top floor houses the small business incubator offices, comprising a shared office space concept for up to 10 start-up businesses, with a conference room and state-of-the-art training center.

The original project cost was estimated to be just over \$900,000. However, with the rebuilding of the front facade and other cost overruns, the final total to construct was just over \$4,000,000 when it was completed in the Fall of 2007.

Funding sources for the construction included various federal, state and county grants as well as local foundation grants and corporate donations. The Harry & Jeanette Weinberg Foundation also participated in the financing. The final

funding came from a loan from Central Pacific Bank in the amount of \$500,000. Lokahi Pacific also invested more than \$1,000,000 of its own funds in the project.

During the first three years of operation of this multi-use building, the net loss accumulated was just over \$800,000 as Lokahi Pacific tried to meet all the expectations created for this project's success. Three things contributed to these losses: too much being spent on personnel for the Pono Center activities; a bad restaurant lease that was more than favorably written to the benefit of the lessee; and unexpected high cost of utilities to operate the building.

In the fourth year, some costs were saved by reducing the number of personnel, however, the utility costs continued to spiral out of control and there was no change in the terms of the restaurant lease.

At the end of the fifth and final year of the original restaurant lease, a new restaurant opened with much improved lease terms and while the overall income dropped for the next few years, the cost to provide services also dropped with careful re-direction of personnel time available only as needed. The utility costs began to be shared with the restaurant tenant, thus also reducing some of the expenses of operation. These improvements were made under the direction of a new executive director at Lokahi Pacific.

Costs continued to be watched and worked on until last year, when in its tenth year of operation, equipment began to fail and maintenance and replacement became a major issue for the property. Being in an area of salty air from the ocean, much of the equipment on the roof of the building was disintegrating before our eyes. With all the years of net losses from operations, there were no funds being set aside for repair and replacement. This is the reason for this request for help from the County of Maui.

Our analysis of the losses for the first half of fiscal year 2019 are more than for the entire fiscal year 2018. And, this number will only get worse as there is much that needs to be fixed or replaced. We began talking with OED last February about how we could get some help with this matter. Thru many meetings with them, the County Administration, etc., we were about to take the major step of cancelling our lease with the County (per the terms of the lease) and turn the building over with a 30-day letter of notice in September.

It was then that we, collectively, came up with the idea of turning the third floor into more apartments rather than the incubator offices. That is part of what the funds we are requesting will go toward. A feasibility study for constructing four one-bedroom, one two-bedroom, and one studio, apartments. We have discussed this possibility with Jim Niess, who was the original architect on this

project and he believes we could add as many as six new apartments with this plan.

Between the additional income from the six new apartments and the reduction in cost to operate the third floor as apartments, the project could become financially stable for the first time.

With 13 years to go on the County lease for this property, Lokahi Pacific looks forward to turning around this project and giving the County a successful project on its books.

The bottom line is that according to the current lease, in 2032 or sooner, the County of Maui gets this \$4,000,000 building free and clear.

Thank you for considering our request.

Susie Thieman,
Executive Director

**Current Estimates for Repairs and Replacement
Items in Pono Center Grant Request**

1. Replacing 15 windows in apartment units and ground floor restaurant space– old windows have rusted and become inoperable.	\$15,320.65
2. Replacing Rooftop air conditioning unit – in a severely deteriorated condition	\$29,886.67
3. Replace Factory condenser coil in training room air conditioning system	\$ 6,884.86
4. Replace elevator door driver – existing door operator drive is obsolete and cannot be repaired	\$ 9,895.77
5. Repair steel framing on exterior of back wall that houses the air vents from the three kitchens	\$ 7,860.00
6. Replace numerical keypad locks on all exterior and coded interior doors – parts are no longer available for the original locks	\$33,057.40
7. Repair/replace roofing material – roof leaks are being patched only	\$35,000.00
Estimated total	\$137,905.35