

# State of the City 2017

*The following is a transcript of Mayor Kirk Caldwell's fifth annual State of the City Address, delivered February 16, 2017 in the courtyard of Honolulu Hale:*



Good evening and aloha. You guys give me chicken skin. Hole Waimea, you all standing and clapping. I just feel so, so honored to be your mayor and I want to thank all of you for coming.

I particularly want to thank my wife Donna and our daughter Maya for being here tonight and for loving me and supporting me through thick and thin, through difficult times and good times. I want to let you know I love you very much. Thank you. (applause)

I want to thank all of the folks who have been introduced. They all are friends and helped so much the elected officials, and I want to do a special shout-out today to Mike Formby who's back in town. I got this haircut special for Mike, so Mike's special. As you know, he was the director of DTS, he was on the board of HART, director of HART. Colleen Hanabusa stole him away but we have him for the evening. Thank you, Mike.

I'm standing here looking outside and the sun is setting in what I believe is one of the most beautiful places in all the world, no doubt about it. I'm blessed and grateful to be the mayor of this place, it's incredible. It makes me think back to when I first became mayor and was sworn in in 2013. I brought my poi pounder with me. (holds up poi pounder) I showed it back in 2013. We put together a team of poi pounders. The old guys and new guys and we've been pounding poi ever day ever since. It's been four years and we haven't wavered. And I'm proud to say that because of it, our city is strong. (applause)

We have a 2.4 percent unemployment rate on O'ahu, one of the lowest of any city in the country. We have a AA+ bond rating, one of the best of any major city in the country. And most importantly, we live together, the most diverse community you'll find on earth, in harmony for the most part, and in a very, very safe manner. When you think about what's happening in Washington, D.C., in other cities around our country, we are truly blessed, and I want to thank our first responders for all that they do. (applause)

We have our six priorities, we haven't wavered from them from the day we started four years ago.

The first one, roads. We have paved over 1,300 lane miles of roads. We only have 200 left to go and we'll get there by the end of this summer (applause). University Avenue, Bishop Street [and other] downtown streets, Halekauwila Street, Kamokila Boulevard, are all going to get paved in the coming months.

Bus routes. Mike Formby reestablished many, but just recently we've added three more. We've expanded Route 55 to the North Shore. We've added a route 99 from Central Oahu to Kapolei, we've added Route 416 that links to Kapolei civic resources, and starting in March we're going to have a peak express route from 'Ewa to Pearl Harbor Naval Shipyard, one of the largest employment centers in the State of Hawaii. The folks in 'Ewa asked us to do this. We heard their call and we're doing it. (applause)

Our third priority is parks. We've repaved 121 playcourts, rebuilt 44 comfort stations and restored playgrounds, 46 of those also.

Four, sewers. We're hitting every deadline and every upgrade required. I love sewers (laughter). We built a second digester at Sand Island that allows development to occur in the urban core. We built two new force mains coming in from Waikiki to Sand Island to address capacity issues. And right now on the Windward side, we are building a 400 feet deep gravity flow, 13 foot in diameter, sewer between Kane'ohe and Kailua.

We are at a crossroads. Think back, we're all in this people's hall tonight. Think back to 1929 when this building was dedicated. Crossroads. And one of our crossroads is rail, our fifth priority. And I'm deeply troubled, as everyone else is in this room, about the escalating costs and the slip in schedule. But we have new leadership at HART. We have an aggressive HART Board. We have more accurate reporting and we are determined to complete this project all the way to Ala Moana, 20 miles, 21 stations (applause).

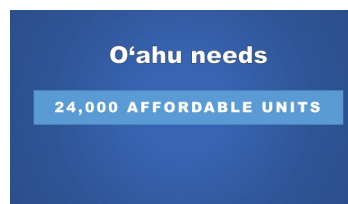
It's too important to fail and we're going to fight all the way. We have much success to report when you think about it on rail. The 43-acre maintenance facility that you see on the screen is completed, and the first ten miles of elevated track to Aloha Stadium will be finished by May, including the laying of all track. That is a lot accomplished in four years.

Our sixth priority is homelessness. It's not solved but we're learning much on how to manage the problem and to address it better. We have now housed, working with the State of Hawai'i and Governor Ige, about 1,100 folks who are no longer on the streets. We're going to continue to work closely with the governor and with our incredible not-for-profit sector, including Institute for Human Services, and the private sector folks like Dwayne Kurisu who is building a facility that will start housing homeless families, 800 of them, starting this summer.

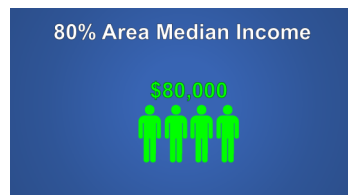
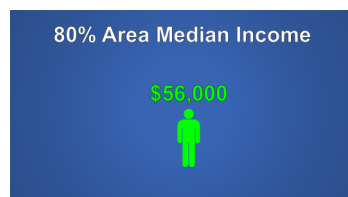
But here's the point: to solve homelessness, the answer is what? **More affordable housing.**

Ask any provider: it's providing housing for those who don't have it. And that's what we're going to talk about for the rest of tonight.

During the next four years this administration is going to focus, laser-like, on getting more affordable housing built. If we don't change the course that we've been on for a long period of time, this island becomes a de facto gated community only for the exclusive few. And we have huge challenges.



We need 24,000 additional housing units right now. And 75 percent of those need to be rentals at 80 percent Area Median Income (AMI) or below. You guys think, what is that? That is, for an individual, you have to make \$56,000 a year, and for a family of four, it's \$80,000 a year.



Think about this: a teacher just starting to teach in a public school today makes \$46,000. Think about this: 60 percent of all the employees in the City and County of Honolulu, and we have 10,000 of them, make below 80 percent AMI. We're talking about us and providing housing for us.



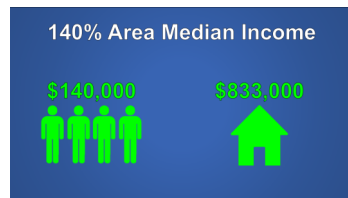
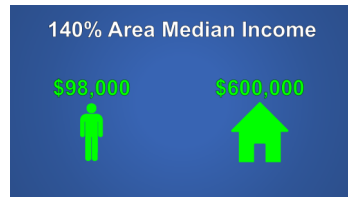
2-to-3-thousand units are built every year right now, and most of them are not affordable. And only a handful of rental projects have been built in decades. That's *with* government involvement and providing inexpensive land to get it done. There is nowhere near the difference being made to address this problem.

The fundamentals must absolutely change, and tonight I'm asking our City Council, I'm asking our State Legislature, I'm asking private developers, non-profits, unions, financial institutions, to join our administration and our effort to turn the corner on affordable housing. Not to come from *why not* to do it, but *how can*.

Already, because of the story in today's paper, I'm getting push back from folks saying *no can*. That's not the answer to solving this problem. So I'm going to present to the City Council an affordable housing strategy. It's going to change the fundamentals of housing in basic, major, aggressive ways.



Currently, if you seek rezoning on a piece of property and you're going to build more than ten units, we have a system in place that says 30 percent of the homes you build or units you build have to be at 140 percent of Area Median Income, whether it be for sale or rental. What does that mean?

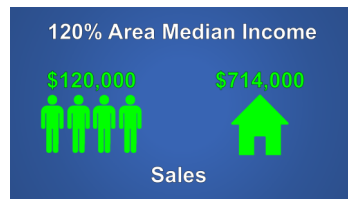
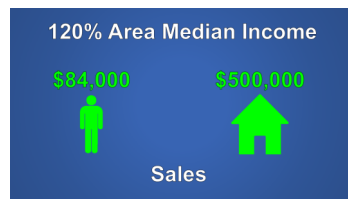


For an individual that means you're making about \$98,000 a year which means you can afford a home of about \$600,000. For a family of four, it means you're making about \$140,000 a year and you can buy a home of about \$833,000. Is that affordable? No, that's not affordable. That's all of 'Ewa, Pearl Harbor, Aiea and many other parts of the island, except maybe places like Kāhala. We need to do better.

So we have a three-prong approach to tackling this issue. One is regulatory which a lot of developers don't like. One is providing financial incentives which developers will like. And one is providing more skin in the game in providing city land which we believe developers will like.



So I want to talk about the regulatory side. Within the urban corridor, all the way from Kapolei to Ala Moana Shopping Center: We're going to require that when you pull a building permit, not when you seek rezoning but when you pull a building permit, you're going to have to build not 30 percent affordable but if it's for sale, only 20 percent. We're lowering it. If it's for rent, only 15 percent affordable. Now, that could be music to the ears of those building, saying all right, we don't have to build as much. But here's the kicker: the "for sale" units have to be at 120 percent AMI for half of them, and 100 percent for the other half. A much lower affordability level.



What does that mean? 120 percent AMI means you're making an income of an individual of about \$84,000 which means you can afford a home of about \$500,000. For a family of four, it means you're making about \$120,000 and you can afford a home of about \$714,000. For rental units in this urban corridor area, you have to build 15 percent at 80 percent Area Median Income. For an individual \$56,000, and for a family of four \$80,000.

Now we're hoping this will get product built in an area where there's great demand but no building has been done. Outside of the urban corridor in Wai'anae, North Shore, Windward side, Waimānalo, it drops lower. Only 10 percent is for sale and 5 percent rental.



I just saw a guy yawn, I know, this is kind of boring and dense, but it's important to lay out the facts.



The same standard applies for these homes and here's a major component: Whether for sale or rental, **it has to remain affordable for 30 years**. Right now the requirement is only ten years, and so you build affordable, it falls out of affordability into market housing and we never build an inventory for demand. We want to build that inventory and that's the goal. (applause)

It's going to be phased in. It's not going to happen overnight. We're going to phase it in over three years, except in the hot market areas of Ala Moana and Downtown. We believe the developers can do this now because the market, as you can see the type of construction going on, there's a demand there. And we're going to allow developers to build offsite if they don't want to build on their site, but the percentages are higher for that to happen. Because we're encouraging them to build this affordable housing when they are building their market place housing too, so to gets done quicker.

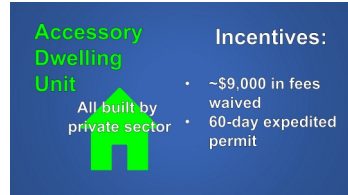
Now, guys are already telling me, "Inclusionary housing doesn't work." "Mayor, you shouldn't do this, get out of the way and let us do what we want." But hey, has it made a difference so far? It does work. Absolutely. 500 communities around our country have inclusionary housing and it's making a difference.

But here's the second prong, incentives. We recognize, yes, there's a greater burden on those who are going to build, but perhaps if we provide you incentives, you'll build to that market. Because at the end of the day all of us legislators and elected officials could pass very stringent inclusionary zoning requirements, go home, tell our spouses, guess what, I made a big difference, I'm going to make everybody build to 60 percent Area Median Income and then what happens? Builders don't build anything. Because they don't make any money. And then what happens? Those homes that we do own go up in value because demand goes up for limited

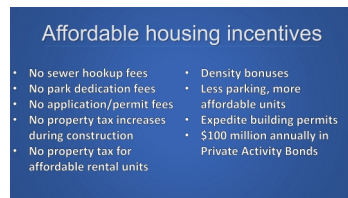
supply. That doesn't address the problem. So we're going to provide significant, first ever incentives to get the developers hopefully to build to this market.



We want the private sector to do it, not government. And we have an example of that happening right now in our accessory dwelling units, something the Honolulu City Council and this administration worked on together. We made it legal to have a second small home on your property. There are 120,000 lots around this island that could have it. 400-800 square feet, so that's going to be an affordable rental.



We waived all permit fees, sewer hookup fees, and it adds up to about 9-10-thousand dollars in terms of helping a developer or a homeowner. We promised we'd get the permits done in 60 days, and guess what happened, folks. 116 units have now been permitted, 116 all by the private sector with no government involvement. So we know this works.

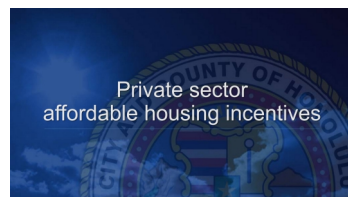


What are we going to do under this inclusionary housing program we just announced? For all portions of a project that fall within affordable housing thresholds, we're going to waive sewer hookup fees per unit. That can be up to 3-4-thousand dollars per unit.

We're going to waive all park dedication fees. We're going to waive all Department of Planning and Permitting application and permit fees. We're going to waive real property tax increases during construction for entire projects, because if you start to build a denser project, your value goes up, and we get that tax. We're going to forgive that. We're going to waive all Real Property Taxes for all affordable rental units for the 30 years that they remain affordable, every year, year in and year out.

We're going to provide density bonuses and reduced parking requirements. Expedite permit processes so you can get your permit quicker so you can get your project built. And I'm going to be meeting with the Board of Water Supply to ask them to waive their water hookup fees as well.

An additional city incentive we haven't done in a long time: we're going to provide annually \$100 million in private activity bonds, which federal taxes are forgiven on, to help developers build enough capital stack to build to this market that we're talking about. This private equity bond function will be managed by our new Department of Land Management that all of you voted for in our charter amendments.



The third of the incentives has to do with the private sector. Out of the blue, we got a knock on the door from a group of developers and union folks who said we want to work with your city to build 100 percent affordable rentals but it's 140 percent AMI and below for 80 percent of it, and for the remaining 20 percent at 80

percent AMI and below. We are saying yes, we want to work with you. They are doing it because they've gotten the union workers to agree to reduce their wages and asked financial institution to reduce their fees and architects and engineers and contractors to do the same. All give-backs from the private sector to address our affordability problem. 100 percent affordable. All voluntary. This is amazing. I know they've reached out to the Governor and to the leadership in the House and Senate.



Finally the third prong deals with city lands. How can we encourage developers to build more by giving land to them for \$1 a year, or in some cases maybe a little bit more depending on the financing aspects. We want to partner up with the private sector. We're going to be building a project on River Street, city lands, 150 units, all affordable for seniors. We also put out a Request for Proposals for Verona Village to build more housing out there in addition to the housing that we have.

As I mentioned, dollar year leases or highly reduced rates depending on financial incentives. Here's the other part: We want to share the infrastructure cost. Most times now when someone build a new project, the city, the state, says you have to pay for all of the infrastructure. The developers pay for it and then they add it on to the cost of the unit which affects the affordability.

We're saying we'll share in those costs. We'll build roads. We'll build the sewer. We'll build the storm drains or water mains for you or share in those costs in some way that adds that capital stack that you need to build affordability. So we're going to be asking for proposals from developers on a number of city properties and asking the city council to help work with us on this. I want to run through some of them.



Out in Kapolei we have 17 acres of land. We're going to connect the roads that need to be connected, something that I know Councilmember Kym Pine wants, and something a lot of legislators want, and we can build medium density affordable housing there.



The second one is Pearlridge. We're looking to have transit for a rail and bus station with affordable housing on top of it. We'll be putting out a request for bids from that.



Ala Moana Shopping Center, we're looking to build a major rail station there. We're going to have 20,000 disembarkations just at that transit site every single day when rail is finished. Most people getting off there are heading to Waikiki. We're looking to do a massive bus station there and we can build a 400 foot tower on top of it.







Leeward Community College by Pearl Harbor where a maintenance facility is for rail. It is 18 acres, fantastic views of Pearl Harbor. We want to put that out to bid.



Five, West Loch. We have eleven acres remaining from a project initiated by Frank Fasi. It's been idle for decades, we want to have mixed use affordable rental housing project out there.



Number six, the Aiea Sugar Mill, processing cane when I was a kid. Seven acres, and we talked about for years, about what to put there. We want to put out a request there to build affordable senior housing.



Seven, A'ala park, we're talking about taking a section of the park, the corner not heavily used, and not very inviting, and building 90 affordable units there. The state owns the Diamond Head side. It will stay open and for a park. We're hoping with an American Savings Bank, building their new headquarters mauka, we think it will bring things together very well.



Eight, Ali'i place, where my law firm used to be before I became mayor. It's 24 stories. The city owns the land underneath it. We're looking at just the commercial tower: retrofitting it, developers have approached us, and putting in new residential housing to bring new life in an area that's dead once night falls.



Number nine is Kalaheo. We have ten acres on the windward side. It's zoned residential with a slight slope. We're going to put out a bid to see if any developers are interested in a rental project there.



Before I conclude, I got to talk about rail one more time. I want to restate we're fighting for the full 20 miles, 21 stations. It's the fourth and final segment, under five miles with eight stations, we're before the legislature right now asking for support and funding. And those stations are among the most heavily used: the Downtown one, the Ala Moana Shopping Center one.

You can't have transit development without rail, they go hand-in-hand. Yes, it will make a faster commute. But what I like is around these stations, we're talking about building affordable housing while at the same time reducing transportation costs because to own a car on this island costs about \$11,000 a year. Paying your promissory note and all of the other fees. Think about that \$11,000 going to pay rent or to pay your mortgage. It goes to affordability. (applause)

It is a mutual relationship. Affordable housing and rail go hand in hand. That's why it's so critical to proceed. And through TOD [Transit Oriented Development], working with State Public Housing Authority, Kamehameha Schools, Castle and Cooke, and Stanford Carr to redevelop the Iwilei-Kapalama development for affordable housing, we're installing massive sewer improvement project at Awa Street. \$120 million to redirect sewage flow, so projects like the Mayor Wright Housing project is going to have thousands of new units there.

In closing, the bottom line is we have to focus with conviction on affordable housing. Keep it affordable over the long-term. Reverse the trend that has existed from before I was born and before all of you were born. Otherwise the problem just compounds, and we have a community where our keiki cannot afford to live here. We need to facilitate and stimulate 800 units of housing that's affordable every year, and this administration is committing to do that for the next four years. (applause)

It doesn't matter who builds it. What matters is it's built sooner and stays affordable for longer. We're asking the state to match it and to step up and build another 800 themselves for 1,600 such units every year, going on for a long time to come. This is a big game-changer: rail and affordable housing. Combining transportation infrastructure with housing infrastructure in my mind and I think you would all agree, creates the strongest, longest lasting foundation to our economy and our culture. (applause)

That's why affordable housing is so important to me. I hope that we'll all join and work together to make it happen for all of us.

I want to thank each and every one of you, send out my fondest aloha. Good evening. Enjoy President's Day. Love you all. Thank you. (standing ovation and applause)