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October 5, 2012

The Honorable Ikaika Anderson, Chair
And Members of the Zoning and Planning Committee
530 S. King Street, Room 202
Honolulu, HI 96813

Re: Bill 65 (2012) – To Adopt the Revised 'Ewa Development Plan

Dear Chair Anderson and Members of the Zoning and Planning Committee

My name is Paul H. Brewbaker and I am the principal of TZ Economics, a Hawaii economics consultancy. I am a consultant to the developer of Hoakalei Resort, Haseko. My professional experience is in research and economic analysis of the Hawaii economy and related fields, and in financial risk analytics from 25 years as a commercial bank economist and executive. I received a Ph.D. in economics from the University of Hawaii, and an A.B. in economics from Stanford University, and also did graduate work at the University of Wisconsin, where I taught economics at the Milwaukee and Madison campuses. I have also lectured in economics at the University of Hawaii at Manoa, and around the UH system, as well as at Hawaii Pacific University. I have worked with several developers as a consultant since retiring from banking four years ago.

This testimony reports on a 2011 economic analysis by TZ Economics of the Hoakalei Resort development in Oahu's Ewa Plain. *Quantitative* economic impacts of investment outlays by the developer, Haseko, were evaluated using the State of Hawaii's input-output model. Two *qualitative* impacts also were evaluated: (1) changes as the economy transitions to full employment; and (2) privately-produced, *public* recreational amenities at Hoakalei. Contributions to Hawaii's tourism sector were also identified.

Economic impacts summarized from the more extensive report are in Table 1., below. Impacts are based on economic assumptions developed by TZ Economics, in collaboration with Haseko, using an input-output model published by the Hawaii Department of Business, Economic Development and Tourism (DBEDT).[1]

Investment has economic consequences beyond the *direct* employment of labor, capital and other inputs in the construction of housing and resort facilities. These *indirect* and *induced* consequences of investment are summarized by input-output multipliers. When economic resources are slack or underutilized, such as high unemployment after the Great Recession of 2008-09, multiplier impacts are most potent.[2] As a rule of thumb, investment can produce twice its initial impact in terms of *final* output and employment by drawing on underutilized inputs.

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Table 1. Input-output (I-O)-based Hoakalei economic impacts
(in million 2010 dollars and numbers of jobs)

	Outlay	Total output	Jobs	Tax revenue
Construction impacts (short-run)				
Hotel/resort/recreation	378.5	738.9	4,513	42.9
Housing (resident)	341.5	666.8	4,073	38.7
Short-run impacts	*$ 720.0*	*$ 1,405.8*	*8,585*	*$ 81.6*
Tourism, consumption impacts (long-run)				
Tourism	347.0	667.7	5,063	41.2
Resident consumption (incl. recreation)	55.2	103.3	767	5.7
Long-run impacts	*$ 402.2*	*$ 771.0*	*5,830*	*$ 47.0*
Total impacts	***$ 1,122.2***	***$ 2,176.8***	***14,416***	***$ 128.6***

In Table 1., Hoakalei's multiplier impacts roughly fit the rule of thumb. Short-run impacts of $720 million in construction multiply into $1.4 billion in total output and $81.6 million in State tax revenue. Longer-term impacts of $402 million in additional tourism and resident consumption translate into $771 million in total output and $47 million in State tax revenue. Total combined impacts of investment, export (tourism) and consumption at Hoakalei of $1.1 billion become $2.2 billion in economy-wide final output and nearly $129 million in State tax revenue, via these multipliers. These final impacts are conservatively framed and are genuinely accretive to the economy, all arising from *new* economic activity.[3] Most importantly, these impacts occur now, not at some distant or unknown time in the future.

In addition, Hoakalei development will generate more than $20 million in annual property tax revenue to the City & County of Honolulu, before taking into account future appreciation in property values. Roughly half of this is attributable to the portion of Hoakalei already developed, the other half to the portion yet to be developed, as in Table 2., below.

Table 2. Hoakalei property tax revenue estimates
(in 2010 dollars)

	Upon completion	Incremental
Hotel	$ 5,939,600.00	$ 5,939,600.00
Residential	13,968,000.00	3,571,200.00
Resort commercial	357,000.00	357,000.00
Country Club	77,400.00	77,400.00
Total	***$ 20,342,000.00***	***$ 9,945,200.00***

These estimates were based on 2011 property valuations and do not take into account the 10 percent appreciation in median Oahu home prices between 2011 and 2012, nor do they assume any future appreciation of property values. This probably makes the estimates low. Property tax impacts of Hoakalei Resort *augment* existing infrastructure, environmental and cultural impact mitigation, public park and open space provision, and other investment outlays that Haseko already has contributed in fulfillment of City and County development conditions.

Hoakalei Resort helps stimulate a general restoration of employment and output growth, with its construction coming now, during economic transition from recovery to expansion on Oahu. Because of the severity of The Great Recession of 2008-09 and its on-again, off-again recovery, any impetus to move the economy towards potential growth is especially important. Development at Hoakalei re-absorbs slack labor and other underutilized resources in the present and creates residential and commercial capacity upon which to build future output and employment generation. The full economic potential of Hoakalei's multiplier impacts will be realized the sooner the project moves forward towards completion.

Estimation of economic impacts of Hoakalei Resort development under full employment conditions were not included in this analysis. As is customary, input-output analysis *only* considers "before and after" impacts. As noted, the Hoakalei build-out will enjoy substantial, positive multiplier impacts for several years because tight labor markets typical of such circumstances are not expected to return until well into the decade. As one indication of the probable wait, monetary policy-makers of the Federal Reserve System have explicitly announced that a return to normal interest rates will not occur before 2015.[4]

Beyond *private* economic benefits of Hoakalei Resort's build-out that are captured in the input-output model, Hoakalei Resort uniquely makes a *public goods* contribution to benefit the community.[5] Multiplier effects are private and only quantity a *portion* of Hoakalei's complete socio-economic benefits, which should include public benefits in addition to private benefits. By providing public-access recreational and cultural amenities through its lagoon and related shoreline investments, Hoakalei is unique for modern resort development in Hawaii. Typically Hawaii resort developments provide minimal public access by constraining numbers of parking stalls and limiting public rights-of-way, showers and bathrooms only to what is required by regulatory exaction, often in gated communities. Hawaiian tradition is to provide public access to common resources like the shoreline. Hoakalei intends not only to fulfill its obligations in this

regard, but aspires to expand on this tradition by opening its private lagoon for public recreational use, commercial as well as non-commercial recreational use.

As one counterexample, Ko Olina Resort's privately-developed lagoons have limited public access constrained by numbers of parking stalls and regulated by gatekeepers. Earlier Hawaii destination tradition is exemplified by Waikiki, an open-access, public recreational resource, mixing private resort development with public shoreline access and public parks into an integrated whole. The private economic benefits of Waikiki are well-documented and observable through jobs created and incomes generated—individual and business net incomes. Public economic benefits of Waikiki arise from its character as an open-access recreational resource. The social benefits of Waikiki are the combination of private *and* public net benefits.

Ko Olina and Waikiki occupy roughly the same footprint, but Waikiki's private-public model is much more commercially successful *because* it is more publicly accessible. Hoakalei Resort does not present itself in the density or volumes represented by Ko Olina or Waikiki, but it does present itself as an open-access recreational resource, distinguishing it from most modern Hawaii destination resorts. This mix of open access for the community, and privately-produced tourism amenities for visitors, is the model Hoakalei Resort aspires to present to the residents of Ewa and Kapolei, as well as the rest of Oahu. By creating a unique lagoon/shoreline resort recreational experience that is open to the public, Hoakalei Resort intends both to serve the community while enhancing the potential for its private investors to benefit from development of its resort commercial facilities.

As is known, an alternate Hoakalei Resort configuration concept once included a traditional marina for private boat-owners. In my earlier analysis, under conventional marine construction costs assumptions, TZ Economics evaluated *private* benefits to marina users (principally boat owners) under utilization assumptions calibrated to experience in Ko Olina Marina and Koko Marina. The results of this analysis were that the original marina concept was *not* materially superior, in terms of quantitative, private economic impacts, to the new Hoakalei Lagoon recreational concept. The lagoon trumps the marina by offering public economic benefits.

In particular, quantitative economic impacts of Hoakalei Resort development are nearly indistinguishable, between marina and lagoon configurations. Short-term economic impacts of the lagoon project were not dissimilar to the marina project. (Finishing out Hoakalei Lagoon will involve $25-30 million in construction activity, along with associated multiplier impacts, amounts *not* included in the quantification of short-term economic impacts in Table 1.) Longer-term impacts were unchanged: whether there is a marina or lagoon only affects *the mix* of economic activities. Either recreational configuration yields $771.0 million in final output (including multiplier impacts). With a lagoon the community gets a public-access recreational and cultural resource, and the developer gets an amenity that helps drive the rest of the resort's commercial development. With a marina the community forgoes a public-access resource and the developer gets something that appears no longer to be commercially viable.

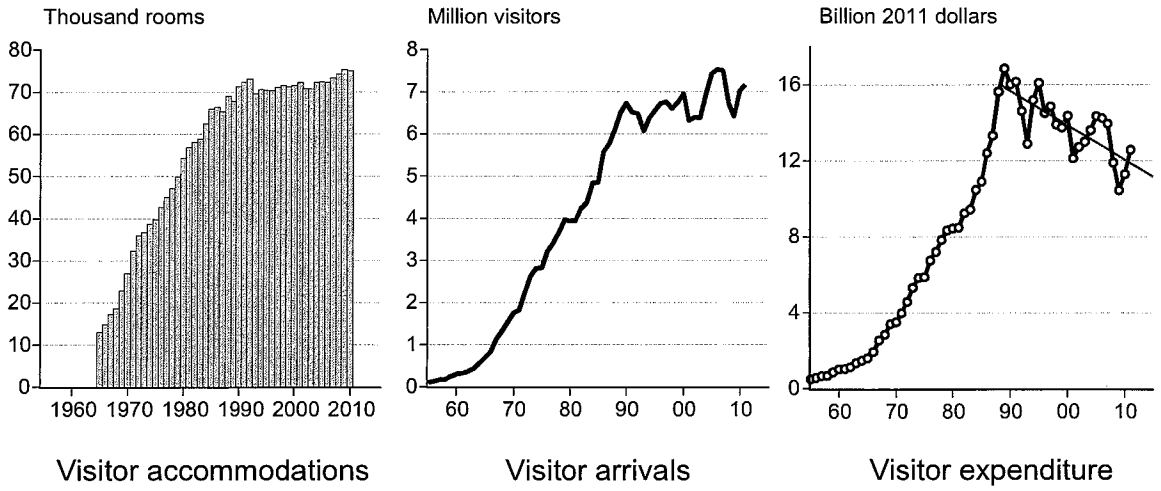
This is the crucial point. In today's market conditions with today's demographic profile, a marina concept in the 20teens or 2020s does not pay for itself. What may have been true in the 1970s or 1980s is no longer relevant. Simply because a marina *costs* more to build out than a

lagoon doesn't mean that the marina has a larger economic impact. If the marina is more costly to build than finishing out the lagoon, but it doesn't recoup its cost because of underutilized slips—if its costs exceed its benefits—its private net benefit is *negative*. It's a loser not a winner. A marina would not have generated the same public benefits as the lagoon in any event. So, the relevant comparison is not between a lagoon and a marina, it's between a lagoon and nothing. No investor (and not this investor) would build an unprofitable private marina.

No differential assumptions regarding commercial utilization (for example, retail sales per square foot) were incorporated in the economic impact analyses under alternative marina vs. lagoon concepts. That is, the amount of business generated by traffic from lagoon use was judged to be no less than its marina alternative, so the long-run economic benefits quantified from commercial development in the original study remain unchanged. I personally believe that Hoakalei Lagoon will enjoy *higher* public utilization of its private commercial facilities, *as a consequence* of its open-access public recreational and cultural amenities, than would have been true for a private marina. In my judgment, the switch from marina to lagoon is a win-win outcome for private investors as well as for the community and the general public.

A qualitative analysis of the benefits of Hoakalei Resort development to Hawaii tourism *was* included in the original report; key points are sketched here. Hoakalei contributes to future economic vitality of tourism, Hawaii's principle export, by creating additional capacity into which tourism can grow, delivering hundreds of accommodation units or "keys." Transient accommodation inventories statewide have barely budged since the 1980s, with a net change only from about 74,000 to 75,000 rooms. Partly as a consequence of limited capacity, real visitor expenditure—Hawaii's principle export receipt—*declined* during the last quarter century., as illustrated in Figure 1., below. Hoakalei adds to this capacity in a format designed to help revive tourism receipts.

Figure 1. *Hawaii tourism: visitor capacity, visitor arrivals and visitor expenditures*



Hoakalei Resort also broadens the diversity of the destination experience on Oahu. Obviously, its spatial economic contribution is to establish another node for tourism-related economic activity in the coastal Ewa Plain. Beyond that, Hoakalei Resort is a new, innovative model that turns the last half century of exclusive, destination resort development on its head. Rather than exclusivity, Hoakalei Resort is based on inclusivity. Hoakalei Lagoon and improvements to integrate the shoreline from White Sands Beach to Oneula Beach Park—a combined area comparable to Ala Moana Beach Park in shoreline frontage alone (without Magic Island), or Kailua Beach Park—are *intended* to drive private commercial activity by offering public, open access to recreational use amenities. Its vision is that what local people would like to do, tourists would like to do. It's a publicly-accessible complex of recreational amenities intended to enhance the consumer base for commercially viable business investments.

Since the 1980s, Hawaii tourism performance has been sideways to down. Volatility has dominated over growth. Hoakalei tilts the balance back towards growth by expanding Hawaii tourism's physical capacity, by broadening its dimensionality and by adding a new geographic location for recreational activity and related commercial opportunity. Hoakalei Resort repositions Hawaii for renewed growth in real tourism receipts by adding an open-access public recreational amenity to help drive its private commercial viability.

Mahalo,

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Endnotes

[1] See http://hawaii.gov/dbedt/info/economic/data_reports/2005_state_io/.

[2] The National Bureau of Economic Research (NBER), designated the peak of the last economic expansion as December 2007, and the trough of the last recession as June 2009. Unemployment effects of recession linger well through economic recovery phase and into the early expansion phase of each business cycle. This is why the multiplier impacts of input-output analysis remain appropriate in the present macroeconomic setting. The existence of underutilized labor and capital on Oahu currently means that *additional* investment in Hoakalei Resort will be more extensively beneficial in the short-run than would be true under conditions of full employment. Its long-run economic benefits accrue in any event. Putting the building trades, contractors and suppliers back to work *now* will have greater multiplier impacts than redeploying them when they are already working on construction in the future. There is no benefit from waiting.

[3] Multiplier impacts sometimes are used to exaggerate the economic importance of industries at full-employment. This is *not* the case in this report. It is inappropriate to multiply an *existing* economic activity by "2" to inflate its significance, even if input-output multipliers correctly characterize its inter-industry linkages. A recent example is a study commissioned by the Hawaii Institute for Public Affairs (HIPA) and the Chamber of Commerce of Hawaii, published by RAND (http://www.rand.org/pubs/technical_reports/TR996.html). The report takes care to "associate" U.S. Department of Defense expenditures with "18 percent of Hawaii's 2009 GDP." Careful verb selection is important ("associate") because official, U.S. Bureau of Economic Analysis estimates place the value-added contribution of the federal military at 9 percent of Hawaii 2009 GDP, half the HIPA estimate. Hoakalei Resort development represents truly *incremental* investment expenditure, unlike *existing* defense expenditure. Additional economic activity under conditions of less than full employment legitimately can produce twice as much final output, via multipler effects. This is different from simply being "associated" with twice as much output under conditions of full employment, which is true for most industries, not just the military.

[4] See the statement of the Federal Open Market Committee of the Federal Reserve Board. On September 13, 2012 it announced that, "the Committee also decided today to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that *exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015* [emphasis not in original]."
(http://www.federalreserve.gov/newsevents/press/monetary/20120913a.htm)

[5] Private goods are excludable and rival. Your back yard—a private good—is not mine. You can exclude me from consuming it. Consumption rivalry means that consumption of your back yard's amenities by me and my homies reduces what is available for you to consume. Public goods are non-excludable and non-rival. My use of Ala Moana Beach Park does not exclude you from its use, and does not diminish what is available to you, at least up to congestion on a holiday or weekend. As a purer example, tsunami warning sirens confront no congestion, and the tsunami alert is non-excludable and non-rival in consumption. As a pure public good, private producers are typically unlikely to engage in its production. The *public* sector, most often, produces public goods. Technically, as a private—potentially excludable—good, Hoakalei Lagoon will be a natural monopoly (excludable but nonrivalrous). The lagoon is large enough that consumption rivalry from crowding is unlikely. However, unlike other private resorts that rely on exclusion mechanisms to exploit their monopoly position, Hoakalei Resort intends to provide extensive parking, walking and bike paths as enhanced access to the private lagoon public shoreline in order to maximize use of its public recreational and private commercial amenities. The two are complementary, just ask Kalapawai Market at Kailua Beach Park. In effect, by making the lagoon *non*-exclusive, Hoakalei intends to privately produce a public good. Typically, club goods like the Hoakalei Golf Course use membership and green fees as an exclusion or rationing mechanism, partly to modulate congestion. Though also a private facility like the golf course, Hoakalei Lagoon's more open-access character will be typical of first-come, first-served amenities like the public beach park and public shoreline with which it will be integrated, linking patrons to Hoakalei's various resort commercial facilities.