

STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES  
Land Division  
Honolulu, Hawaii 96813

May 27, 2022

Board of Land and Natural Resources  
State of Hawaii  
Honolulu, Hawaii

PSF No.: 17HD-028

Hawaii

Approve Cancellation of Request for Qualifications / Request for Proposals for Lease of Improved Public Lands; Rescind Board's Prior Action of December 13, 2019, Item D-3; Waiakea, South Hilo, Hawaii, Tax Map Keys: (3) 2-1-005: 033, 034, 035 and 045.

BACKGROUND:

At its meeting of December 13, 2019, under agenda Item D-3, the Board of Land and Natural Resources (Board) approved the publication of a Request for Qualifications / Request for Proposals (RFQ/RFP) for interested parties to submit proposals for renovating the former Uncle Billy's Hilo Bay Hotel (Uncle Billy's) under a new long-term lease.

Specifically, the Board delegated authority to the Chairperson to (i) issue an RFQ/RFP consistent with HRS §171-59(a) for the selection of the lessee; (ii) establish the criteria for evaluating and selecting the lessee; (iii) accept and evaluate the applications submitted by prospective lessees; and (iv) make a preliminary determination and recommendation to the Board of the best applicant. A copy of the Board's action of December 13, 2019, Item D-3, is attached as Exhibit 1.

REMARKS:

In accordance with the Board's approval, Land Division prepared an RFQ/RFP for the project that was published in the *Star Advertiser*, the *Hilo Tribune Herald* and *The West Hawaii Today* on August 23, 2020 and posted on Land Division's website. A copy of the published RFQ/RFP is attached as Exhibit 2.

A virtual applicant briefing was held on September 1, 2020 at 10:00 AM, at which Land Division staff discussed the goals of the project and the significant dates set forth in the RFQ/RFP, including the deadlines for submitting notices of intent, statements of qualifications (SOQ), and proposals. Two parties timely submitted a notice of intent for

the subject project by the September 11, 2020 deadline: Tower Development, Inc. (TDI) and MacDonald Ladd Development LLC (MLD).<sup>1</sup> TDI timely submitted its SOQ for the project on or before the deadline of September 30, 2020. MLD, however, decided not to submit qualifications for this project after further consideration.

On August 3, 2020, the Chairperson appointed an evaluation committee to review the SOQs.<sup>2</sup> On October 16, 2020, the evaluation committee found TDI to be qualified to progress to the second phase of the process, which is the submission of proposals.

TDI submitted its proposal for the property by the deadline of November 30, 2020. The selection date published in the RFQ/RFP was December 15, 2020. However, that date turned out to be too optimistic. Pursuant to the authority reserved by the Chairperson in the RFQ/RFP, at Land Division's request the Chairperson extended the selection date five times to July 15, 2021.

On July 8, 2021 the evaluation committee made a preliminary selection of TDI's proposal. TDI is an affiliate of WHR LLC (WHR), which holds General Lease No. S-5844 (GL5844) for the Grand Naniloa Hotel next door to the subject property.<sup>3</sup> The evaluation committee's preliminary selection was placed on the Board's September 24, 2021 agenda for approval as Item D-5, but the matter was withdrawn before the start of the meeting after one of the members of WHR filed a lawsuit against Ed Bushor and Stuart Miller who are principals of both TDI and WHR. The lawsuit alleged that TDI's submission of a proposal in response to the RFQ/RFP was a violation of WHR's operating agreement.

On December 6, 2021, Wilmington Trust National Association filed a foreclosure complaint against WHR for an alleged default on the mortgage for the Naniloa Hotel.

In view of these developments, the evaluation committee took a closer look at the qualifications TDI submitted and requested more detailed financial statements for TDI and its principals. The RFQ/RFP listed the information required to be contained in an

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1 A third interested party, Local Local Homes LLC (LLH), submitted a late notice of intent on September 23, 2020. This was 12 days after the published deadline of September 11, 2020. LLH also submitted SOQs for the project, but was notified by letter dated October 15, 2020 that its untimely submission of a notice of intent barred it from further consideration in the process.

2 As initially constituted, the evaluation committee consisted of five members. At the time of the SOQ review, one member was unavailable to participate. On October 13, 2020, the Chairperson approved an amendment to the designation of the evaluation committee to clarify that the committee could conduct business with only four members participating. On November 18, 2020, the Chairperson approved the addition of a sixth member to the committee and all six were involved with the review of submitted proposals.

3 TDI is the manager and, along with certain affiliates, the majority owner of WHR.



applicant's SOQ, which included, among other things, the following:

- The identity of the directors and officers of the applicant, including names and titles. Provide any additional background information about any of the directors and officers that may support the qualifications of the applicant with respect to this SOQ, including descriptions of key roles that any of these individuals will play in the applicant's renovation / operation of the Subject Property.
- Satisfactory evidence to support the financial ability of the applicant to repair, renovate and operate the property. Such evidence should include evidence of applicant's past or current debt or equity financing (such as letters from past or current lenders or financing sources confirming the amounts financed, repayment terms, and repayment status), **applicant's financial statements for the past three fiscal years**, current credit report(s), and evidence of capital resources or financing commitments. **Describe any loan or lease defaults, bankruptcies, judgments, or any litigation or other disputes that may potentially have an adverse effect on the applicant's current financial capability. A personal guarantee (or personal guarantees) will be required upon issuance of a lease.**
- **Any other information regarding the applicant, the development team, or its members that may be pertinent to establishing the applicant's qualifications.**

Equally as important, the RFQ/RFP clearly stated:

- If applicant is an **entity, its principal(s) will be required to provide personal guarantee(s)** for the project.

The evaluation committee requested personal and company income statements and balance sheets, and a pro forma of the same. However, Mr. Bushor expressed reluctance to provide personal financial information for himself and Stuart Miller. Instead, after repeated requests, TDI ultimately provided what appears to be its operating statements, a consolidated financial statement and a list of lending institutions that have extended credit to TDI. At the end of 2021, staff asked Mr. Bushor whether TDI would be willing to provide tax returns as part of the evaluation committee's continued assessment of TDI's finances. Mr. Bushor responded that this kind of information is not pertinent to how developers operate, which involves identifying an asset for investment and getting financing lined up through investors and lenders. Mr. Bushor added that he would be willing to provide staff with more information on loan commitments for the renovation of the former Uncle Billy's. However, Mr. Bushor did not provide the additional information, and even if he had provided loan commitment information, that would not

be sufficient to show financial capability.<sup>4</sup>

On March 4, 2022, a fire occurred at Uncle Billy's causing substantial damage to one wing of the property. As noted in the December 13, 2019 Board action on the RFQ/RFP, the first recommendation of the architectural report on Uncle Billy's was that the entire structure be demolished. See Exhibit 1 at page 5. The Department unsuccessfully sought a capital improvement project (CIP) appropriation during the 2019 legislative session for the demolition of the hotel. After the March 4, 2022 fire, a renewed CIP request to demolish the hotel gained legislative traction but at the last moment during conference committee the method of funding was switched from general funds to the Department's Special Land and Development Fund which does not have adequate funds to support a \$13.5 million demolition project. Nevertheless, the Department intends to proceed with expending funds on planning and permitting and seek a general fund appropriation for demolition costs during the next legislative session.

Some may question why the State is responsible for the cost of the demolition instead of the lessee who constructed the improvements. The answer is that the long-term leases for Uncle Billy's and other Banyan Drive properties were based on old forms providing that the State owned the improvements at lease expiration. Several of these long-term leases expired in 2015-2016, and the lessees requested revocable permits to continue use of the properties. When the Board considered a revocable permit request for one of the properties, staff recommended that a condition be included in the permit giving the State the option of accepting the improvements upon expiration of the permit or making the permittee remove them at its cost—similar to the Department's current leasing practice and standard lease form. However, the Board did not approve the recommendation, finding it was inequitable to require a permittee to incur such a substantial monetary obligation in exchange for a revocable permit, which is a short-term disposition—even though the applicant/permittee may have been the same lessee that built or owned the improvements throughout the term of then expiring 65-year lease.<sup>5</sup> As a result, when a revocable permit was issued to Savio HBH Development Company LLC (Savio HBH), who was the last entity to operate Uncle Billy's as hotel (under the name Pagoda Hilo Bay Hotel), the revocable permit did not require the permittee to remove the improvements upon expiration.<sup>6</sup>

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4 More recently, WHR sought rent relief from the Board requesting that WHR be allowed to pay the semiannual rent due on February 1, 2022 under General Lease No. S-5844 in the amount of \$290,135.22 in installments over six months. The Board approved that request at its meeting of February 25, 2022 under agenda Item D-1. WHR failed to make its March 1, 2022 installment due under the payment plan approved by the Board and a Notice of Default was issued to WHR on March 4, 2022. WHR later delivered a check in the amount of \$290,135.22 to the Hawaii District Land Office on March 28, 2022.

5 See Board action of December 12, 2014, Item D-5, relating to the issuance of a revocable permit to Reed's Bay Resort Hotel, Ltd.

6 See Board action of February 12, 2016, Item D-3.



In view of the litigation and financial challenges affecting TDI, its reluctance to provide financial information to the level required by the RFQ/RFP, and the March 4, 2022 fire at Uncle Billy's, the evaluation committee unanimously agreed on March 22, 2022 to recommend to the Board that the RFQ/RFP for Uncle Billy's be cancelled in the best interests of the State. The RFQ/RFP reserves to the Department the right to "cancel this RFQ/RFP and reject any and all submissions when it is in the best interest of DLNR or the State of Hawaii." See Exhibit 2 at pages ii and 23.

By letter dated April 8, 2022, staff notified TDI of its intention to present the recommendation for cancellation of the RFQ/RFP to the Board. A copy of the letter is attached as Exhibit 3. TDI objected to the proposed cancellation and requested an opportunity to address the Board. A copy of TDI's response is attached as Exhibit 4.

Staff is recommending that the Board approve the cancellation of the RFQ/RFP and rescind its prior action of December 13, 2019, Item D-3, finding that such cancellation and rescission are in the best interests of the State based upon the aforementioned facts and circumstances. Instead, as noted above the Department will pursue planning and permitting and seek a general fund appropriation for the demolition costs during the next legislative session. Finally, the Department may also consider a separate redevelopment of the land in the future if an environmental assessment/environmental impact statement is first conducted for the property.

RECOMMENDATION: That the Board:

1. Approve the cancellation of the RFQ/RFP for the subject property published on August 23, 2020, finding such action to be in the best interests of the State.
2. Rescind the Board's Prior Action of December 13, 2019, Item D-3.

Respectfully Submitted,

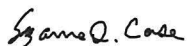


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Kevin E. Moore  
Assistant Administrator

APPROVED FOR SUBMITTAL:

RT



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Suzanne D. Case, Chairperson

# EXHIBIT 1



D-3

STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES  
Land Division  
Honolulu, Hawaii 96813

December 13, 2019

Board of Land and Natural Resources  
State of Hawaii  
Honolulu, Hawaii

PSF No.: 17HD-028

Hawaii

Authorize the Issuance of a Request for Qualifications / Request for Proposals for Lease of Improved Public Lands; Waiakea, South Hilo, Hawaii, Tax Map Keys: (3) 2-1-005: 033, 034, 035 and 045.

REQUEST:

Authorize the issuance of a Request for Qualifications / Request for Proposals (RFQ/RFP) to select a potential lessee of improved public lands at Waiakea, South Hilo, Hawaii.

APPLICANT:

Department of Land and Natural Resources (Department or DLNR), Land Division.

LEGAL REFERENCE:

Sections 171-6, -16, 18, 17, 19, 35, 36, 41, 59, and other applicable sections of Chapter 171, Hawaii Revised Statutes (HRS), as amended.

LOCATION:

Portion of Government lands situated at Waiakea, South Hilo, Hawaii, identified by Tax Map Keys: (3) 2-1-005: 033, 034, 035 and 045, as shown on the attached maps labeled Exhibit A.

AREA:

1.83 acres, more or less.

ZONING:

State Land Use District:      Urban

APPROVED BY THE BOARD OF  
LAND AND NATURAL RESOURCES  
AT ITS MEETING HELD ON  
December 13, 2019 *Go.*

EXHIBIT 1<sup>D-3</sup>



County of Hawaii CZO: Hotel and Resort (V-.75)

The parcel is also located within the Special Management Area and tsunami inundation zone.

TRUST LAND STATUS:

Section 5(b) lands of the Hawaii Admission Act

DHHL 30% entitlement lands pursuant to the Hawaii State Constitution: NO

CURRENT USE STATUS:

Under Revocable Permit No. S-7905 to Tower Development, Inc. for security and property management purposes.

PROPERTY CHARACTERISTICS:

Utilities – Electricity, water and sewer

Elevation – Approximately three to eleven feet above sea level

Legal access to property – Staff has verified that there is legal access to the property from Banyan Drive.

Subdivision – Staff has verified that the subject property consists of four legally subdivided lots. However, existing structures cross lot lines.

Encumbrances – Staff has verified that the following encumbrances exist on the property:  
Revocable Permit No. S-7905 to Tower Development, Inc. for security and property management purposes.

STATUTORY AUTHORITY:

HRS §171-59(a) provides that a lease of public land may be disposed of through negotiation upon a finding by the Board of Land and Natural Resources (Board) that the public interest demands it and provides a process under which the Board may select the lessee.

The process requires that public notice of the disposition be given, that applications be solicited from prospective lessees, and that the Board evaluate the applications according to criteria established by the Board and determine which applicants meet the criteria. If only one applicant meets the criteria, the Board may dispose of the lease by negotiation. If two or more applicants meet the criteria, the Board shall select the lessee who submits the highest offer contained in a sealed bid deposited with the Board. Relevant excerpts of HRS §171-59(a) are attached as Exhibit B.

CHAPTER 343 - ENVIRONMENTAL ASSESSMENT:

In accordance with Hawaii Administrative Rules (HAR) §11-200.1-15 and the Exemption List for the Department of Land and Natural Resources reviewed and concurred on by the Environmental Council and dated June 5, 2015, the subject request is exempt from the preparation of an environmental assessment pursuant to:

- Exemption Class No. 1 that states, "Operations, repairs or maintenance of existing structures, facilities, equipment, or topographical features, involving negligible or no expansion or change of use beyond that previously existing," Item 47 that states, "Leases of state land involving negligible or no expansion or change of use beyond that previously existing;"
- Exemption Class No. 7 that states, "Interior alterations involving things such as partitions, plumbing, and electrical conveyances," Item 1 that states, "Interior alterations and renovations to offices, buildings or structures that do not increase the floor area or change the maximum occupancy to include:
  - a. installation of office partitions, utility outlets or connections, air conditioning, lighting, and security systems;
  - b. renovations required to bring existing structures into compliance with current building codes and applicable health, safety, and access regulations;
  - c. renovations that will result in energy or other operational/cost savings; or
  - d. other similar interior alterations;" and
- Exemption Class No. 8 that states, "Demolition of structures, except those structures located on any historic site as designated in the National Register or Hawaii Register as provided for in the National Historic Preservation Act of 1966, Public Law 89-665, or Chapter 6E, Hawaii Revised Statutes," Item No. 2 that states, "Demolition and removal of existing structures, facilities, utilities, and other improvements on state lands, except those structures located on any historic site as designated in the National Register or Hawaii Register as provided for in the National Historic Preservation Act of 1966, 16 U.S.C. §§470 et. seq., as amended, or Haw. Rev. Stat. Chapter 6E."

See Exhibit C attached.

BACKGROUND:

The subject property was previously encumbered under General Lease Nos. 3265, 3266, 3267 and S-4252 issued through mesne assignments to William J. Kimi, Jr., dba Uncle Billy's Hilo Bay Hotel. The hotel was operated as a sole proprietorship until October 1967 when Mr. Kimi incorporated the business as Hilo Bay Hotel, Inc. As a result of this action, the Board, at its meeting of June 27, 1969 (supplemental agenda), consented to the assignment of lease from William J. Kimi, Jr., as assignor, to Hilo Bay Hotel, Inc., as assignee. The four leases were set to expire on March 14, 2015.

At its meeting of February 27, 2015, item D-3, the Board authorized a one-year holdover



of the four leases to be immediately followed by the issuance of a month-to-month revocable permit.

At its meeting of February 12, 2016 under agenda item D-3, the Board consented to the assignment of General Lease Nos. 3265, 3266, 3267 and S-4252, Hilo Bay Hotel, Inc., assignor, to Savio HBH Development Company, LLC (Savio), assignee, and approved the issuance of a single month-to-month revocable permit to (RP S-7879) Savio upon the expiration of the leases. The revocable permit was intended as an interim measure to keep the hotel in operation until such time that the Banyan Drive Hawaii Redevelopment Agency (BDHRA), organized under the supervision of the County of Hawaii, Planning Department, developed a long-term conceptual plan for the future of the Banyan Drive resort area.<sup>1</sup>

The Department procured the services of Erskine Architects, Inc. to conduct a detailed analysis of the property to determine whether to demolish or rehabilitate the existing structures on the property. In the June 2016 report prepared by Erskine Architects, Inc. (Erskine Report), a number of life and safety issues at the property were identified including unsafe stairwells, fire safety issues and advanced termite damage throughout the common areas and much of the lodging areas.

The Department provided a copy of the Erskine Report to the Planning Department. This resulted in the County conducting an inspection of the property through its Department of Public Works (DPW), Building Division. In addition, the Fire Department also conducted an inspection based on information provided in the Erskine Report.

At its meeting of June 9, 2017, under agenda Item D-5, as amended, the Board approved the after-the-fact renewal of RP S-7879 to Savio from March 14, 2017 to June 9, 2017, at the then current ground rent of \$2,984.00 per month. During discussions regarding the condition of the property, the Board determined that the hotel should cease operation sooner than later. With that in mind, the Board approved an extension of RP S-7879 from June 10, 2017 to the close of business on July 14, 2017, at no cost. This would allow the permittee, Savio, a reasonable amount of time to close the hotel, lay off staff, remove personal property from the premises, and to perform all other actions necessary to shut down the operations of the hotel. The Board further specified that in the event the County inspectors provided notice to the Department of an urgent health and safety concern or violation at the hotel, then the Chairperson would be authorized to immediately shut down the hotel.

Also at its meeting of June 9, 2017, under agenda Item D-6, the Board authorized the publication of a Request for Interest (RFI) to gauge whether there is interest among prospective developers in obtaining a long-term lease of the subject land for hotel-resort

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<sup>1</sup> The BDHRA approved a conceptual plan at its meeting in November 2016. However, the plan has not been presented to the Planning Commission or the County Council for confirmation.



purposes that would include an obligation to conduct an environmental assessment (EA) or environmental impact statement (EIS) for the demolition of the existing structures on the site and construction of a new hotel thereon, secure the permitting and approvals needed for the demolition and new construction, complete the demolition, and construct a new hotel.

As a result of the County DPW Building Division and Fire Department inspections, Mayor Harry Kim wrote a letter to the Chairperson dated June 16, 2017 with the recommendation that the hotel should be vacated immediately.<sup>2</sup> Upon receipt of the Mayor's letter, the Chairperson directed the immediate closure of the hotel. Land Division staff contacted Savio and measures were taken to relocate the guests then occupying the hotel rooms. Hotel services were effectively ended on June 19, 2017.

At its meeting of July 14, 2017, under agenda Item D-2, as amended, the Board approved the issuance of a revocable permit to Tower Development, Inc. (Tower), an affiliate of WHR LLC, who is the lessee of the neighboring Grand Naniloa Hotel Hilo. Revocable Permit No. S-7905 was thereafter issued to Tower for security and property management purposes. The permit, which remains in effect, specifies that the property shall not be used for hotel-resort or lodging purposes.

#### REMARKS:

Redevelopment of the subject property has proven to be a challenge. The land is improved with a 146-room hotel constructed in phases between 1966-1970. A remaining useful life study completed in June 2014 indicated that the improvements at that time had a remaining useful life of 5-10 years. An architectural study completed in June 2016 by Erskine Architects, Inc. (Erskine Report) determined that hotel should be demolished. A copy of the Erskine Report recommendations as they relate to the subject property is attached as Exhibit D.

However, the Department has no money to demolish the existing hotel. The Department procured R.M. Towill Corporation (RM Towill) as a consultant to estimate the cost of demolition. RM Towill's report issued in February 2018 determined the demolition cost would be \$8,287,605.

The RFI that the Board approved at its meeting of June 9, 2017 was published on March 7, 2018 with responses due by April 30, 2018. Only Tower responded to the RFI, explaining that it could contribute \$1.5 million toward the site demolition work, but would require a rent credit for any demolition expense above that amount. This means that the State would still need to bear the lion's share of any demolition costs for the existing hotel in the event of a complete teardown and rebuild.

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<sup>2</sup> A formal Notice of Violation was sent via Certified Mail dated 6/22/17 to Permittee and the Hawaii District Land Office.

During the 2019 legislative session, the Department sought capital improvement project (CIP) funds to demolish the hotel, but the legislature declined to appropriate funds. The Department also supported administration bills to increase the amount of a rent credit for major development projects, but the bills did not pass.<sup>3</sup> Under current law, rent credits are capped at one year for substantial improvements to commercial property. See HRS §171-6.

Although the County of Hawaii established BDHRA in 2016 to master plan the Waiakea Peninsula, BDHRA has no money to pay for an EA/EIS to facilitate a master plan. To compound matters, under the EA/EIS laws, the Board cannot authorize the issuance of a lease to a party for demolition of an obsolete building and construction of a new one without an EA/EIS first being conducted. That puts the Department in a “Catch-22” situation because a developer will typically not be interested in paying for the EA/EIS unless the developer has the certainty of a land lease for the site.

Accordingly, in an effort to break the stalemate preventing much needed redevelopment at Banyan Drive, staff has been exploring alternatives for the Uncle Billy's property that would not trigger an EA or EIS. The Erskine Report did contain an alternative recommendation for repair of the hotel:

ALTERNATIVE RECOMMENDATION: If the buildings are not demolished, the obvious alternative would be to REPAIR them. The way in which repairs are handled could be extremely challenging, the associated costs could be prohibitive, and the construction schedules could be time consuming. As such, the types of repairs and the order in which the repairs are phased should be highly scrutinized. Repairs should be done proportionately over several years so that the repair cost does not exceed 50% of the taxable value of the property. Prior to starting any repair or improvement project, the architect and/or engineers who will design the repairs should work closely with the [authorities having jurisdiction] to ensure that grandfathering in of non-conformities can remain in place. Repairs to address the health, safety and welfare of the public, as well as repair and maintenance projects to prolong the remaining useful life of the building should be performed first.

The Erskine Report goes on to list recommended repairs. See Exhibit D.

The Erskine Report was made available to Tower who nevertheless believes that rehabilitation of the property is feasible under the alternative recommendation from the report. Based on the interest expressed by Tower, staff is proposing that the property be put out to lease for renovation, demolition, or partial renovation and partial demolition. The use of the site under any renovation would be limited to hotel and/or apartment use.

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<sup>3</sup> Although House Bill 1026 and Senate Bill 1252 Senate Draft 1 did not pass in the 2019 legislative session, they are still alive and can be taken up in the 2020 session.



Staff believes the proposed RFQ/RFP process is in accordance with the requirements of HRS §171-59(a) and is preferable to the public auction process for selecting a lessee for the subject property. A lease for hotel/apartment purposes is the highest and best use under County zoning.

- Request for Qualifications/Request for Proposals (RFQ/RFP):

HRS §171-59(a) provides that a lease of public land may be disposed of through negotiation (rather than by public auction) upon a finding by the Board that the public interest demands it. HRS §171-59(a) also provides a process under which the Board may select the lessee. This process entails the public solicitation of applications/proposals from prospective lessees and allows the Board to select the lessee based on its evaluation of the applications/proposals.

Renovation of the existing hotel improvements originally constructed between 1966-1970 will involve significant effort (e.g., obtaining Special Management Area approval or at least review, possible lot consolidation and re-subdivision, building permit approval, etc.) and a substantial investment. The property consists of four separate lots and existing structures cross lots lines. A prospective lessee under the new lease will need to consult with the County Planning Department to determine if lot consolidation and re-subdivision will be required as part of any rehabilitation. The improvements contain hazardous materials that will require remediation as outlined in the Erskine Report and RM Towill report. A portion of the property is occupied by a convenience store that remains in operation. Careful planning will be required to protect the health and safety of the store operator, its employees and customers if the store is to remain in operation during the renovation work. Additionally, the property currently has 38 parking spaces on site. County of Hawaii Zoning Code requires a total of 214 spaces for this property. The property currently has two parking stalls accessible to persons with disabilities when the law requires seven, and it has no loading spaces when the law requires four, including one loading zone accessible to persons with disabilities. Further, the property is located on the shoreline and a long-term lessee of the property will need to develop plans and contingencies for sea level rise.<sup>4</sup> Staff believes the renovation efforts, lot consolidation/re-subdivision, safeguarding of the convenience store occupants, resolution of the parking stall and loading zone shortage, and sea level rise planning, are best undertaken by a private lessee with the necessary expertise and financial capacity.

Due to the expertise and substantial investment required to renovate, demolish, or partially renovate and partially demolish the hotel under the conditions described above, staff believes a lease for the property should be issued by direct negotiation with a lessee selected via a public RFQ/RFP rather than via the public auction process. The RFQ/RFP process will allow the Board to evaluate prospective lessees based on a variety of factors,

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<sup>4</sup> In 2014, a consultant procured by the Department issued a report evaluating the impact of sea level rise on this and other State properties at Waiakea Peninsula. The study found that the subject land is not predicted to experience a substantial property loss due to a three-foot sea level rise.



such as the applicant's qualifications (e.g., experience, expertise, and financial capacity), and proposed renovation plans for the property (e.g., the feasibility of the renovation plans and the proposed benefits to the State), whereas the public auction process would award the lease based solely on the highest lease rent bid at the auction.

The proposed RFQ/RFP process is in accordance with HRS §171-59. The RFQ phase of the RFQ/RFP process provides for the Chairperson to establish criteria for selection of the lessee and determine which applicants meet the criteria as required under HRS §171-59. If there is more than one applicant that meets the RFQ criteria, the RFP phase provides for the qualified applicants to submit proposals, and the Board will select the highest offer (i.e., the best proposal).

Staff is requesting the Board authorize the Chairperson to issue the RFQ/RFP, establish the evaluation criteria, evaluate the qualifications of the applicants, solicit proposals from the qualified applicants (if there is more than one qualified applicant), evaluate the proposals, select the best proposal, and present the proposal to the Board for approval at a meeting open to the public. Upon the Board's approval of the selected applicant, the DLNR will enter negotiations with the selected applicant of a development agreement and proposed lease. The development agreement and lease will be submitted to the Board for approval at a meeting open to the public. An outline of the proposed process is provided as Exhibit E.

The following is a brief summary of proposed evaluation criteria for both the RFQ and RFP stages:

Request for Qualifications (RFQ). Staff anticipates the applicants will be evaluated based on criteria that include, at a minimum, the following:

- Experience and Expertise. The applicant shall possess the appropriate experience and expertise in successfully planning, designing, permitting, developing, financing, constructing, managing and operating projects comparable (in size, complexity, scope and services) to the renovation, demolition, or partial renovation/demolition, and operation of the building on the subject property.
- Financial Capacity. The applicant shall possess the financial resources and the proven ability to arrange debt and equity financing for projects comparable to the renovation and operation of the subject property.

Request for Proposals (RFP). Staff anticipates the proposals of the qualified applicants will be evaluated based on criteria that include, at a minimum, the following:

- Renovation and Business Plan. The soundness and feasibility of the applicant's renovation proposal including applicant's plan for renovating, demolishing, or partially renovating and partially demolishing the hotel,

consolidating and re-subdividing the parcels, safeguarding the convenience store operator, its employees and customers during renovation, addressing the parking and loading zone situation to the County's satisfaction, planning for sea level rise, as well as management, marketing, and financial plans for the subject property, and the extent to which the applicant's proposal meets the Department's development goals and objectives for the property.

- **Community Benefits.** Any additional benefits arising from and unique to applicant's proposal that will benefit the community of Banyan Drive, Hilo, and Hawaii Island.
- **Financial Plan.** The applicant's ability to fund/finance the applicant's proposed renovations and proposed operations.
- Proposed Development Agreement and Lease:

DLNR will negotiate a development agreement with the selected applicant. Staff anticipates the development agreement will include various obligations that must be satisfied by the selected applicant (obtaining all necessary permits, etc.), and that upon satisfaction of all such terms and conditions, the Board will issue a 65-year ground lease to the selected applicant to allow demolition, renovation, or partial demolition and partial renovation of the hotel.

The development agreement may also address issues such as the selected applicant's obligations to construct or bond improvements and provisions that address the determination of the lease rent to be paid under the lease.

- RFQs/RFPs for Two Banyan Drive Projects to Issue Simultaneously:

Also before the Board at today's meeting is a request to issue an RFQ/RFP for another project at Banyan Drive – the former Country Club Condominium Hotel designated as Tax Map Key: (3) 2-1-005:020. Staff intends to issue the RFQs/RFPs for both projects separately but simultaneously, use the same response deadline for submissions for both projects and use the same review committees to evaluate the submissions and select the best proposals for each project. Although the RFQs/RFPs for the two projects will be moving forward on parallel tracks, submissions for each project will be evaluated independently from the other. In other words, the evaluation committee will recommend the highest offer/best proposal for each site to the Board for selection.

Staff circulated a draft of this submittal to the State and County of Hawaii (COH) agencies listed in the table below with the results indicated:

Agency	Comment
DLNR-Engineering	General comments on flood hazard zones. See Exhibit F attached.
DLNR-Historic Preservation	No response by suspense date.
DLNR-Office of Conservation and Coastal Lands	No comments (land not in conservation district).
Office of Hawaiian Affairs	No response by suspense date.
COH-Planning Department	No response by suspense date.
COH-Banyan Drive Hawaii Redevelopment Agency	No response by suspense date.
COH-Department of Public Works	General comments regarding applicable flood zone, and requirements for runoff and construction. See Exhibit G attached.
COH-Department of Water Supply	No objections.
COH-Fire Department	No response by suspense date.
COH-Department of Environmental Management	No comments.

The proposed use has continued since 1966 and will continue. Such use has resulted in no known significant impacts, whether immediate or cumulative, to the natural, environmental and/or cultural resources in the area. As such, staff believes that the proposed use would involve negligible or no expansion or change in use of the subject area beyond that previously existing.

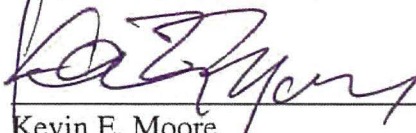
RECOMMENDATION: That the Board:

1. Declare that, after considering the potential effects of the proposed disposition as provided by Chapter 343, HRS, and Chapter 11-200.1, HAR, this project will probably have minimal or no significant effect on the environment and is therefore exempt from the preparation of an environmental assessment.
2. Find that the public interest demands that a lease of the subject property be disposed of through negotiation pursuant to §171-59(a), HRS, as amended.
3. Delegate the authority to the Chairperson to (i) issue a request for qualifications / request for proposals consistent with HRS § 171-59(a) for the selection of the lessee; (ii) establish the criteria for evaluating and selecting the lessee; (iii) accept and evaluate the applications submitted by prospective lessees; and (iv) make a preliminary determination and recommendation to the Board of the best applicant.



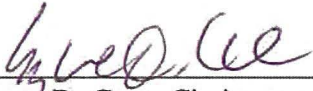
4. Authorize the Chairperson to modify the RFQ/RFP process or requirements if in the best interest of the State and consistent with HRS §171-59.

Respectfully Submitted,

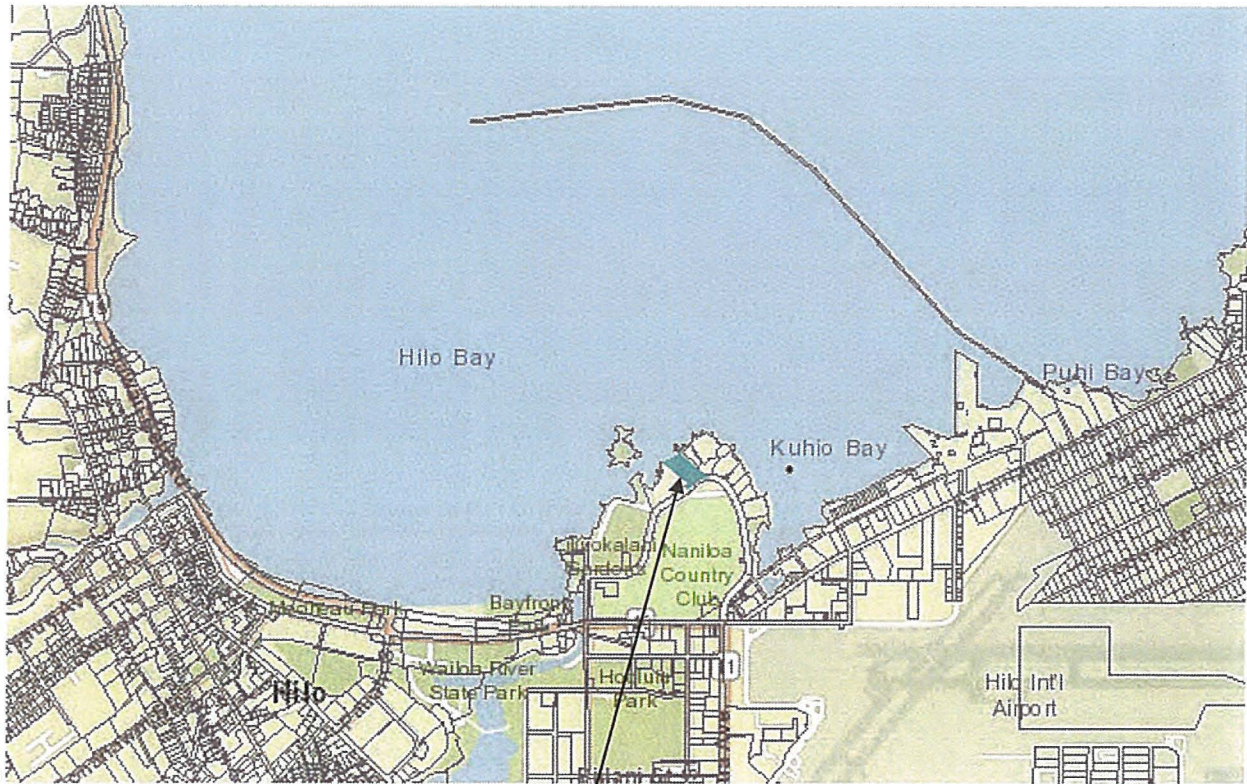


Kevin E. Moore  
Assistant Administrator

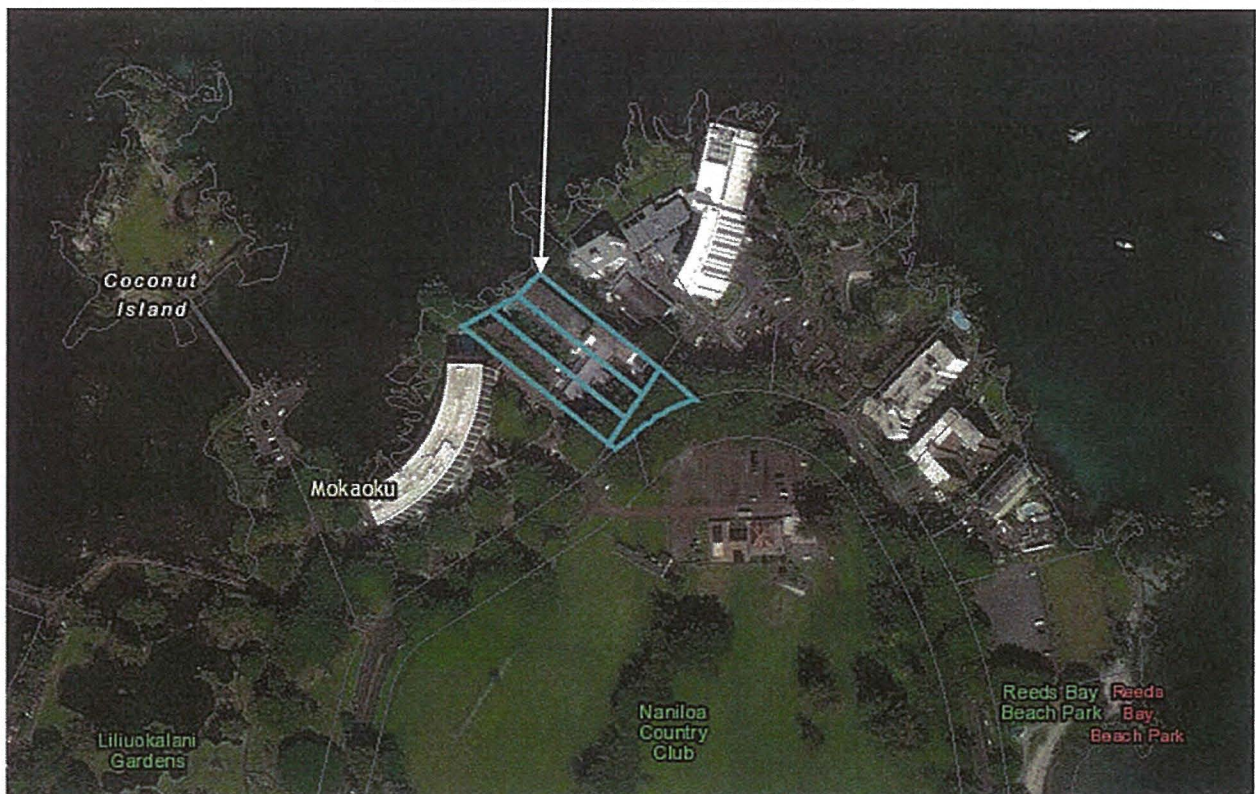
APPROVED FOR SUBMITTAL:



Suzanne D. Case, Chairperson



Former Uncle Billy's Hilo Bay Hotel  
 TMKs: (3) 2-1-005:033, 034, 035  
 & 045



**EXHIBIT A**





Former Uncle Billy's Hilo Bay Hotel  
TMKs: (3) 2-1-005:033, 034, 035 & 045

**EXHIBIT A**

## **EXCERPT OF SECTION 171-59, HAWAII REVISED STATUTES**

**§171-59 Disposition by negotiation.** (a) A lease of public land may be disposed of through negotiation upon a finding by the board of land and natural resources that the public interest demands it. Where the public land is being sought under this section by a sugar or pineapple company, and the company is the owner or operator of a mill or cannery, then, for the purposes of this section, the economic unit shall be that acreage of public land which when taken together with the lands already owned or controlled or available to the company, when cultivated is found by the board to be necessary for the company's optimum mill or cannery operation. In all other cases, public land to be sold under this section shall be an economic unit as provided in section 171-33(3).

After a determination is made to negotiate the disposition of a lease, the board shall:

(1) Give public notice as in public auction, in accordance with the procedure set forth in section 171-16(a), of its intention to lease public land through negotiation setting forth the minimum conditions thereunder, the use for which the public land will be leased. Any person interested in securing the lease shall file an application with the board not later than forty-five days after the first publication of the notice;

(2) Establish reasonable criteria for the selection of the lessee; provided that where the intended use of the land is agriculture, the department of agriculture shall establish the criteria;

(3) Determine the applicants who meet the criteria for selection set by the board or the department of agriculture, as the case may be, and notify all applicants of its determination. Any applicant may examine the basis of the determination, which shall be in writing, to ascertain whether or not the conditions and criteria established by the board or the department of agriculture were followed; provided that if any applicant does not notify the board of the applicant's objections, and the grounds therefor, in writing, within twenty days of the receipt of the notice, the applicant shall be barred from proceeding to seek legal remedy for any alleged failure of the board to follow the conditions and criteria.

If only one applicant meets the criteria for selection of the lessee, the board may, after notice as provided in (3), above, dispose of the lease by negotiation.

If two or more applicants meet the criteria for the selection of the lessee, the board shall select the lessee who submits the highest offer contained in a sealed bid deposited with the board.



DAVID Y. IGE  
GOVERNOR OF HAWAII



**STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES**

POST OFFICE BOX 621  
HONOLULU, HAWAII 96809

SUZANNE D. CASE  
CHAIRPERSON  
BOARD OF LAND AND NATURAL RESOURCES  
COMMISSION ON WATER RESOURCE MANAGEMENT

ROBERT K. MASUDA  
FIRST DEPUTY

M. KALEO MANUEL  
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES  
BOATING AND OCEAN RECREATION  
BUREAU OF CONVEYANCES  
COMMISSION ON WATER RESOURCE MANAGEMENT  
CONSERVATION AND COASTAL LANDS  
CONSERVATION AND RESOURCES ENFORCEMENT  
ENGINEERING  
FORESTRY AND WILDLIFE  
HISTORIC PRESERVATION  
KAHOOLAWE ISLAND RESERVE COMMISSION  
LAND  
STATE PARKS

December 13, 2019

**EXEMPTION NOTIFICATION**

Regarding the preparation of an environmental assessment pursuant to Chapter 343, HRS and Chapter 11-200.1, Hawaii Administrative Rules (HAR)

**Project Title:** Authorize the Issuance of a Request for Qualifications/Request for Proposals for Lease of Improved Public Land.

**Project / Reference No.:** PSF No. 17HD-028.

**Project Location:** Waiakea, South Hilo, Hawaii, Tax Map Key: (3) 2-1-005: 033, 034, 035 and 045.

**Project Description:** The subject property is currently improved with a 146-room hotel under month-to-month Revocable Permit No. S-7905 to Tower Development, Inc. for security and property management purposes. The Department of Land and Natural Resources intends to issue a Request for Qualifications/Request for Proposals (RFQ/RFP) for a new long-term lease of the property for hotel and/or apartment purposes. The lessee selected through the RFQ/RFP process would then be able to demolish, renovate, or partially demolish and partially renovate the existing structures on the land consistently with the exemption classes and item numbers referenced below.

**Chap. 343 Trigger(s):** Use of State Land

**Exemption Class No. and Description:** In accordance with HAR Section 11-200.1-15 and the Exemption List for the Department of Land and Natural Resources reviewed and concurred on by the Environmental Council and dated June 5, 2015, the subject request is exempt from the preparation of an environmental assessment pursuant to Exemption Class No. 1 that states, "Operations, repairs or maintenance of existing structures, facilities, equipment, or topographical features, involving negligible or no expansion or change of use beyond that previously existing," Item 47 that states, "Leases of state land involving negligible or no expansion

**EXHIBIT C**

or change of use beyond that previously existing;" Exemption Class No. 7 that states, "Interior alterations involving things such as partitions, plumbing, and electrical conveyances," Item 1 that states, "Interior alterations and renovations to offices, buildings or structures that do not increase the floor area or change the maximum occupancy to include:

- a. installation of office partitions, utility outlets or connections, air conditioning, lighting, and security systems;
- b. renovations required to bring existing structures into compliance with current building codes and applicable health, safety, and access regulations;
- c. renovations that will result in energy or other operational/cost savings; or
- d. other similar interior alterations;" and

Exemption Class No. 8 that states, "Demolition of structures, except those structures located on any historic site as designated in the National Register or Hawaii Register as provided for in the National Historic Preservation Act of 1966, Public Law 89-665, or Chapter 6E, Hawaii Revised Statutes," Item No. 2 that states, "Demolition and removal of existing structures, facilities, utilities, and other improvements on state lands, except those structures located on any historic site as designated in the National Register or Hawaii Register as provided for in the National Historic Preservation Act of 1966, 16 U.S.C. §§470 et. seq., as amended, or Haw. Rev. Stat. Chapter 6E."

**Cumulative Impact of  
Planned Successive  
Actions in Same Place  
Significant?:**

No. The use of the land for hotel/apartment purposes is compliant with county zoning requirements, and such use has existed since 1966. Staff believes there are no cumulative impacts involved.

**Action May Have  
Significant Impact on  
Particularly Sensitive  
Environment?:**

No. There are no particularly sensitive environmental issues involved with the proposed use of the property. The property has been used for hotel and apartment purposes since 1966. The property is located on the shoreline, but a sea level rise study commissioned in 2014 showed that a three-foot sea level rise would not have a significant impact on the use of the property.

**Analysis:**

The subject land has been improved with a 146-room hotel and used for hotel and apartment purposes since 1966. A new lease for hotel and/or apartment purposes will involve negligible or no expansion or change of use beyond that previously existing.

**Consulted Parties:**

Agencies listed in the attached submittal.



**Recommendation:**

That the Board find this project will probably have minimal or no significant effect on the environment and is presumed to be exempt from the preparation of an environmental assessment.

## **EXCERPT OF JUNE 2016 REPORT OF ERSKINE ARCHITECTS, INC.**

### **3.2.3 Uncle Billy's Hilo Bay Hotel**

PRIMARY RECOMMENDATION is DEMOLISH: Some of the structures comprising Uncle Billy's are in extremely poor condition and bordering on a state of dilapidation. The remaining useful life was estimated to be at 5-10 years, and that was back in 2014. The parking lot is undersized, does not meet the required parking count, but is in good condition otherwise. All of the structures, exterior walkways, pool area and landscaping are dated in appearance and worn. Large trees surrounding the West Wing have been unmanaged and allowed to grow to a point where their roots have undermined the building and appears to have damaged the structure. The West Wing, South Wing, and Lobby areas appear to be in the poorest physical condition. The North and East Wings do not fare much better, but appear to be in a slightly better condition. There is evidence of termite damage all around the hotel. The termite damage in the Lobby area is highly visible in the structural and non-structural components of the building frame. Evidence of termite damage appears on almost every wooden surface of the Lobby. Each of the wings and Lobby contain areas of non-compliance when compared against the current major codes, including a few areas that need to be improved to address HSW concerns. The building wings and hotel grounds do not meet accessibility standards. Of the areas tested for hazardous materials, a significant amount of asbestos containing materials and lead paint was identified. The opinion of probable cost to address the areas of distress is significant and exceeds the taxable value of the property. The operator of the property has also informed the DLNR that there are major leaking problems with the roof, and the leaks are not contained to any particular area, but are spread throughout.

There are considerable areas of concern with Uncle Billy's. Of particular concern is the stair tower located on the makai end of the West Wing, which is in a state of disrepair and unsafe. In the West Wing, the ground floor walkway that provides access to the guest rooms has been enclosed, impeding ground floor escape. The common area walkway that is relied upon for egress is undulating because of the roots from the nearby trees upheaving the surface of the walkway. Access to the makai exit is non-compliant in terms of accessibility and maneuvering clearances. Exiting toward the mauka direction is not along an accessible means of egress. Two unprotected laundry rooms are located at the point of exit discharge into the Lobby area. In the North Wing, in the case of a fire, there are no compliant accessible means of egress out of the building. An elevator is included in the North Wing, but it is located in a dead end corridor. In the East Wing, the ground floor door of the mauka stairwell is locked and does not include a lever to operate the door from the outside. This is another safety concern as fire rescue personnel would have a difficult time accessing the stair in the case of an emergency. The other stair tower is not protected by 1-hour rated construction. None of the stair towers in Uncle Billy's meet exiting, fire protection or accessibility requirements and all are considered non-compliant. None of the buildings contain fire sprinklers or adequate fire protection devices. Fire extinguishers appear old and not regularly tested. Surface mounted fire extinguisher cabinets also partially block maneuvering near the doors leading into the stair towers.

The North, West, and East Wings are four stories high. The overall floor area of Uncle Billy's is expansive. Both the height of the building and floor area exceeds that allowable by the current building code. The open Lobby is damaged by termite infestation and includes an unprotected restaurant and two unprotected laundry rooms. The Lobby, restaurant area, and laundry rooms are not fire separated from the hotel guest rooms. This is of particular concern because Uncle Billy's is constructed primarily out of wood, is unprotected by a fire sprinkler system, exceeds the allowable height and building area, contains inadequate fire protection devices and the fire exits out of this building do not comply with building or accessibility code.

Because of the numerous areas of distress described above, the recommendation for this property is DEMOLISH. The opinion of probable cost to address the areas of distress is excessive, especially when compared to the taxable value of the property and/or the physical condition of the buildings. The cost of the repairs will exceed 50% of the taxable value of the property, even if improvements were spread out over a number of years. To address the areas of distress, portions of the building not intended to be



repaired or improved would be required to conform to current land use regulations and/or building codes. This would result in a domino effect of planning and design challenges that would require numerous regulatory reviews and approvals, thereby resulting in excessive design fees and lengthy delays. The extent and likely cost of the construction work necessary to address the areas of distress is prohibitive. It would require lengthy shut downs of portions of the building and be extremely challenging from a marketing or logistical standpoint for management. Unfortunately, this property is comprised of several smaller parcels of land making it more difficult to redevelop. The property could realize a significant loss of use due to the presence of internal property lines and setbacks that would need to be respected in any new development; unless the individual parcels were consolidated into one larger parcel.

Uncle Billy's is considered an iconic hotel and held in high regard by many in the public. Strong public opposition can be anticipated to any announcement of demolition of this nostalgic piece of Banyan Drive. Regardless of public opposition, the building contains numerous life safety issues, various building and accessibility code violations, fire protection concerns, large quantities of hazardous materials, drastically exceeds the allowable building height and floor area given its wooden construction, unprotected and comprised stair towers, does not include a fire sprinkler system and has extensive termite damage; the protection of the health, safety and welfare of the public should take precedence. Furthermore, the cost to retrofit and repair Uncle Billy's is excessively cost prohibitive.

The demolition of a four story structure along the shoreline is a difficult, timely, and expensive endeavor. The demolition phase will require several years to complete and be expensive. A considerable amount of reports, studies, and surveys will need to be conducted, reviewed, and approved by the authorities having jurisdiction before a demolition permit can be applied for. Some of the reports, studies and surveys may include, but is not limited to the following; botanical survey, avian and terrestrial mammal survey, air quality study, noise study, marine and water quality study, archaeological survey plan, inventory and monitoring plan, cultural impact assessment, engineering report(s), soils testing and solid waste management plan and special management area permit. Additional environmental engineering for the survey, testing, and identification of hazardous materials is also warranted. The myriad of regulatory bodies that would be charged with reviewing the reports, studies and surveys may include but is not limited to the following; US Army Corps of Engineers, State DLNR, State DOH, County Department of Environmental Management, County Planning Department, County Building Division, County Engineering Division, County of Hawai'i Fire Department, County DWS, HELCO, and others.

**ALTERNATIVE RECOMMENDATION:** If the buildings are not demolished, the obvious alternative would be to REPAIR them. The way in which repairs are handled could be extremely challenging, the associated costs could be prohibitive, and the construction schedules could be time consuming. As such, the types of repairs and the order in which the repairs are phased should be highly scrutinized. Repairs should be done proportionately over several years so that the repair cost does not exceed 50% of the taxable value of the property. Prior to starting any repair or improvement project, the architect and/or engineers who will design the repairs should work closely with the AHJ's to ensure that grandfathering in of non-conformities can remain in place. Repairs to address the health, safety and welfare of the public, as well as repair and maintenance projects to prolong the remaining useful life of the building should be performed first. The following minimum repairs include, but are not limited to the following:

- **CONSOLIDATE THE PROPERTY:** Consolidate the individual lots into a single lot.
- **FIRE PROTECTION STRATEGY:** Assess the existing overall fire protection strategy of the buildings in totality.
- **PHYSICAL TESTING OF FIRE PROTECTION DEVICES:** Test all fire protection devices (fire alarm panel, pull boxes, emergency lighting, strobes, horns, smoke detectors, fire extinguishers, etc.) throughout all of the buildings. Repair and/or improve the overall fire protection system and all fire protection devices so that the buildings are in compliance with the current County Fire Code.
- **HAZARDOUS MATERIALS ABATEMENT PLAN:** Assess locations of hazardous materials to determine where the materials are located and how they may be impacted by the repairs being contemplated. Develop a hazardous materials abatement plan.

## **EXHIBIT D**



- **ROOF REPAIRS:** The roofs for all remaining existing structures should be repaired. The repairs include complete removal of all existing roof finishes, including the flashings. The roof decks should be inspected for water or termite damage and repaired. A completely new roofing system with flashing of all penetrations and edges, along with gutters and downspouts should be installed.
- **IMPROVEMENT OF LIGHTING:** Improve lighting in all common areas so that they are properly illuminated. Install emergency lighting in all common areas.
- **EXIT SIGNS:** Install properly illuminated exit signs with directional arrows.
- **COORDINATION WITH THE COUNTY:** Confirm with the County that the non-conforming parking lot will be grandfathered in and that the proposed improvements will not trigger new parking requirements. Or, identify existing and/or new off-site parking areas that can support the redevelopment and satisfy the County's parking requirements.
- **DEMOLISH THE WEST WING, LOBBY AND RESTAURANT:** Demolish the West Wing of the hotel, the Lobby and shuttered restaurant. The Lobby should be demolished to allow for access to the West Wing work. Remove all large trees with invasive roots.
- **NEW WEST WING:** Construct a new four-story West Wing of the hotel in the same location as the existing West Wing. The new West Wing should be constructed to comply with accessibility requirements. The West Wing will house modern hotel rooms, properly enclosed and 1-hour fire rated stair towers, fire sprinklers and support spaces.
- **NEW LOBBY, RESTAURANT and KITCHEN:** After the new West Wing is completed, a new accessible and code compliant Lobby should be constructed in the same place as the existing. The Lobby would be designed so that it was constructed in the spirit of the original Lobby. The Lobby would contain 2 or 3 new elevators and elevator lobbies. The elevators would provide an accessible path from the Lobby to each of the floor levels in all three wings of the hotel. A new protected Laundry room, properly separated from the hotel wings and lobby would also be constructed. The reception area would be opened to the lobby and be accessible. An accessible route leading down toward the existing swimming pool would be constructed. The new lobby would also include a covered drop off area, luggage holding area, lobby seating areas, male and female restrooms, hotel office(s); hotel facilities support space(s), electrical and communications closets and storage.
- **NORTH WING HSW REPAIRS:** Replace, or if possible, repair the makai end stair tower so that it is protected by not less than 1-hour rated construction. Replace all stair tower doors and door frames so that they are 45 minute rated minimum and properly labeled. All door hardware should be replaced. Doors should latch properly and meet clearance requirements after installation. Approach, entry and exit at doors should be assessed, and where structurally practicable, be improved to address accessibility maneuvering clearances. Proper signage, lighting and building emergency exit diagrams should be installed inside the stair tower. Accessible signage should be installed at each floor level, both inside and outside of the stair tower. Any penetrations into the stair tower should be removed, encapsulated or fire stopped so that the 1-hour rating is not compromised. Address exit discharge so that it's along an accessible route. Construct a new accessible and code compliant mauka end stair tower that connects the new Lobby to each floor level of the hotel. The new mauka stair tower could potentially serve both the North Wing and East Wing.
- **NORTH WING WINDOWS:** Install guardrails at all common area windows where needed.
- **NORTH WING EXISTING ELEVATOR:** Demolish the existing elevator and address the dead end corridor condition.
- **EAST WING HSW REPAIRS:** Replace, or if possible, repair the makai end stair tower so that it is protected by not less than 1-hour rated construction. Replace all stair tower doors and door frames so that they are 45 minute rated minimum and properly labeled. All door hardware should be replaced. Doors should latch properly and meet clearance requirements after installation. Approach, entry and exit at doors should be assessed, and where structurally practicable, be improved to address accessibility maneuvering clearances. Proper signage, lighting and building emergency exit diagrams should be installed inside the stair tower. Accessible signage should be installed at each floor level, both inside and outside of the stair

## EXHIBIT D



tower. Any penetrations into the stair tower should be removed, encapsulated or fire stopped so that the 1-hour rating is not compromised. Address exit discharge so that it's along an accessible route. Construct a new accessible and code compliant makai end stair tower that connects the new Lobby to each floor level of the East Wing. There is a possibility that a single stair tower could act as the North Wing mauka stair tower and East Wing makai stair tower. The hardware at the fire door at the ground level of East Wing mauka stair tower should be replaced.

It is important to note that by addressing the HSW issues noted above, other anticipated and unanticipated code compliance measures will be triggered. At the on-set of future repair projects, the owner and their designers should work closely with the AHJ to ascertain to as much of an extent as possible, other code compliance measures that the AHJ's will require before design drawings are advanced too far. The types of code compliance measures and other requirements that might be imposed by the AHJ's could potentially be so onerous, that the repair project under contemplation would need to be halted due to structural impracticability, scheduling concerns, land-use compliance measures or simply be too expensive.

## OUTLINE OF PROPOSED PROCESS

1. Board of Land and Natural Resources (the "Board") authorizes issuance of RFQ/RFP
2. DLNR publishes notice of, and issues, RFQ
3. DLNR (or an evaluation committee) reviews applicants' submitted qualifications and determines which applicants meet the evaluation criteria
4. If more than one qualified applicant, DLNR issues RFP to the qualified applicants (or to a "short list" of qualified applicants)
5. DLNR (or an evaluation committee) evaluates proposals and selects applicant with best proposal for recommendation to the Board
6. DLNR presents selected applicant to the Board for approval (at a public meeting)\*\*
7. DLNR enters into exclusive negotiations with selected applicant of a development agreement and proposed lease
8. DLNR presents development agreement and proposed lease to the Board for approval (at a public meeting)\*\*
9. DLNR and selected applicant execute development agreement
10. Selected applicant undertakes due diligence and seeks approvals and permits (e.g., SMA assessment, building permits)\*\*
11. If selected applicant satisfies all terms/conditions of the development agreement, DLNR issues lease to selected applicant

\*\*Public review/comment opportunities



DEPARTMENT OF LAND AND NATURAL RESOURCES  
ENGINEERING DIVISION

LD/Russell Y. Tsuji

Ref: Authorize the Issuance of a Request for Qualifications / Request for  
Proposals for Lease of Improved Public Lands

TMK(s): (3) 2-1-005:003, 034, 035 and 045

Location: Waiakea, South Hilo, Island of Hawaii

Applicant: Department of Land and Natural Resources, Land Division

COMMENTS

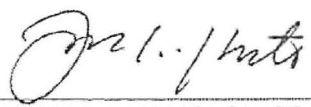
The rules and regulations of the National Flood Insurance Program (NFIP), Title 44 of the Code of Federal Regulations (44CFR), are in effect when development falls within a Special Flood Hazard Area (high risk areas). State projects are required to comply with 44CFR regulations as stipulated in Section 60.12. Be advised that 44CFR reflects the minimum standards as set forth by the NFIP. Local community flood ordinances may stipulate higher standards that can be more restrictive and would take precedence over the minimum NFIP standards.

The owner of the project property and/or their representative is responsible to research the Flood Hazard Zone designation for the project. Flood Hazard Zones are designated on FEMA's Flood Insurance Rate Maps (FIRM), which can be viewed on our Flood Hazard Assessment Tool (FHAT) (<http://gis.hawaiiinfip.org/FHAT>).

If there are questions regarding the local flood ordinances, please contact the applicable County NFIP coordinating agency below:

- Oahu: City and County of Honolulu, Department of Planning and Permitting (808) 768-8098.
- Hawaii Island: County of Hawaii, Department of Public Works (808) 961-8327.
- Maui/Molokai/Lanai: County of Maui, Department of Planning (808) 270-7253.
- Kauai: County of Kauai, Department of Public Works (808) 241-4896.

Signed: \_\_\_\_\_

  
CARTY S. CHANG, CHIEF ENGINEER

Date: \_\_\_\_\_

10/7/19

EXHIBIT F

Harry Kim  
Mayor

Wil Okabe  
Managing Director



David Yamamoto, P.E.  
Director

Allan G. Simeon, P.E.  
Deputy Director

**County of Hawai'i**  
**DEPARTMENT OF PUBLIC WORKS**  
Aupuni Center  
101 Pauahi Street, Suite 7 • Hilo, Hawai'i 96720-4224  
(808) 961-8321 • Fax (808) 961-8630  
public\_works@hawaiicounty.gov

OCTOBER 18, 2019

ATTN: KEVIN MOORE  
STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES  
P.O. BOX 621  
HONOLULU, HI 96809

RECEIVED  
LAND DIVISION  
2019 OCT 21 AM 10:17  
DEPT. OF LAND  
AND NATURAL RESOURCES  
STATE OF HAWAII

SUBJECT: REQUEST FOR QUALIFICATIONS / REQUEST FOR PROPOSALS  
UNCLE BILLY'S HILO BAY HOTEL  
SOUTH HILO DISTRICT, ISLAND OF HAWAII  
TMK: (3) 2-1-005:033, 034, 035, and 045

We received the subject dated October 1, 2019 and have the following comments:

The subject parcels are in an area designated as Flood Zone X, AE, and VE on the Flood Insurance Rate Map (FIRM) by the Federal Emergency Management Agency (FEMA). Flood Zone AE and VE are the Special Flood Hazard Area inundated by the 100-year coastal flood (1% chance of occurring in any given year); Flood Zone VE with velocity hazard (wave action). All construction within Flood Zones AE and VE shall comply with the requirements of Hawaii County Code, Chapter 27, Floodplain Management.

All development-generated runoff shall be disposed of on site and not directed toward any adjacent properties. A drainage study meeting the approval of the Department of Public Works may be required for any proposed development.

All activities shall comply with the requirements of Hawaii County Code, Chapter 10, Erosion and Sedimentary Control.

Construction within the County right-of-way shall comply with HCC, Chapter 22, County Streets.

Should there be any questions concerning this matter, please contact Ms. Melanie DeMello in our Engineering Division at (808) 961-8927.

*Melanie DeMello*

for BEN ISHII, Division Chief  
Engineering Division

MD



# EXHIBIT 2



**REQUEST FOR QUALIFICATIONS /  
REQUEST FOR PROPOSALS  
FOR THE: (1) DEMOLITION / PARTIAL DEMOLITION AND / OR  
REPAIR / RENOVATION; AND (2) OPERATION OF  
THE FORMER UNCLE BILLY'S HILO BAY HOTEL  
HILO, ISLAND OF HAWAII, HAWAII**



**STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES  
LAND DIVISION  
August 23, 2020**

**EXHIBIT 2**



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ATTACHMENTS:

Attachment 1: Land Board Approval dated December 13, 2019 (Agenda Item D-3)



**NOTICE TO INTERESTED PARTIES**

**REQUEST FOR QUALIFICATIONS ("RFQ") /**  
**REQUEST FOR PROPOSALS ("RFP")**  
**FOR THE: (1) DEMOLITION / PARTIAL DEMOLITION AND / OR**  
**REPAIR / RENOVATION; AND (2) OPERATION OF THE**  
**FORMER UNCLE BILLY'S HILO BAY HOTEL**

The State of Hawaii ("State") Department of Land and Natural Resources ("DLNR"), is issuing a Request for Qualifications ("RFQ") / Request for Proposals ("RFP") inviting qualified applicants to submit qualifications and proposals for the: (1) demolition / partial demolition and/or repair / renovation; and (2) operation ("renovation / operation") of existing hotel and accessory buildings on four parcels of State land in Waiakea, South Hilo, Island of Hawaii, Hawaii, designated as Tax Map Keys: (3) 2-1-005:033, 034, 035 and 045 (the "Parcels").

The Parcels are located on Banyan Drive on Waiakea Peninsula in Hilo with a street address of 87 Banyan Drive, Hilo, Hawaii 96720. This RFQ/RFP is intended to facilitate the renovation / operation of the improvements on the Parcels through the issuance of a new lease for hotel/apartment purposes to a qualified applicant who submits the best proposal to the State.

DLNR intends to select the applicant and renovation / operation proposal that best satisfies DLNR's objectives and selection criteria. The selected applicant will enter into exclusive negotiations with DLNR for a development agreement that will allow the selected applicant to lease the Parcels and: (1) demolish / partially demolish and/or repair / renovate; and (2) operate the improvements thereon upon satisfaction of the terms and conditions of the development agreement. The lease term will be up to sixty-five (65) years. The selected applicant will be responsible for obtaining all required land use entitlements and government approvals/permits under the development agreement, as well as approval of the Board of Land and Natural Resources before a lease may be issued.

DLNR will hold a briefing for interested parties at **10:00 a.m. on September 1, 2020**, to explain the RFQ/RFP process and objectives, and answer questions. The briefing will be held virtually by Zoom or other virtual meeting platform. Interested parties can obtain the link to the briefing by emailing [dlnr.land@hawaii.gov](mailto:dlnr.land@hawaii.gov) at least twenty-four (24) hours in advance of the briefing time. Attendance by potential applicants is encouraged, but not required.

To be eligible for consideration in the RFQ/RFP process, interested parties must first complete and submit a Notice of Intent form to any of the DLNR Land Division offices listed below **by no later than 4:00 p.m., September 11, 2020**. Any interested party who fails to complete and submit a Notice of Intent form by this deadline will not be eligible to submit its qualifications and proposal and therefore will not be considered for this project. The Notice of Intent form is included in this RFQ/RFP.

The next step of the RFQ/RFP process is the submission of statements of qualifications by applicants, which must be submitted **by no later than 4:00 p.m., September 30, 2020**, to any of the DLNR Land Division offices listed below. DLNR will determine which applicants meet the qualification criteria (and may form a short list of the most qualified applicants), and those applicants will be invited to participate in the next phase of the RFQ/RFP process. This portion of the process will invite applicants who are deemed to be qualified to submit a detailed renovation / operation proposal for the improvements on the Parcels. DLNR will evaluate the submitted proposals and select the applicant whose proposal best satisfies DLNR's renovation / operation objectives and selection criteria as provided in this RFQ/RFP. Upon the Board of Land and Natural Resources' approval of the selected applicant and renovation / operation proposal, the selected applicant and DLNR will commence negotiations of the development agreement and lease.

Additional deadlines and significant dates are set forth in this RFQ/RFP.

Copies of this RFQ/RFP may be obtained at the following DLNR Land Division offices or downloaded from the DLNR website at: <https://dlnr.hawaii.gov/ld/RFQ-RFP-unclebillys>.

Land Division Administration  
1151 Punchbowl Street, Room 220  
Honolulu, Hawaii 96813  
Telephone: (808) 587-0419

Maui District Land Office  
130 Mahalani Street  
Wailuku, Hawaii 96793  
Telephone: (808) 984-8103

Hawaii District Land Office  
75 Aupuni Street, Room 204  
Hilo, Hawaii 96720  
Telephone: (808) 961-9590

Kauai District Land Office  
3060 Eiwa Street, Room 208  
Lihue, Hawaii 96766  
Telephone: (808) 274-3491

DLNR reserves the right to cancel this RFQ/RFP and reject any and all submissions when it is in the best interest of DLNR or the State of Hawaii. If there are any inquiries regarding this RFQ/RFP, or if any person requires a special accommodation (e.g., large print materials, sign language interpreters), please contact Land Division Assistant Administrator Kevin Moore at (808) 587-0426.

/s/Suzanne D. Case, Chairperson  
Board of Land and Natural Resources

Honolulu Star-Advertiser;  
Hilo Tribune Herald; and  
West Hawaii Today  
August 23, 2020



**NOTICE OF INTENT**  
**REQUEST FOR QUALIFICATIONS ("RFQ") /**  
**REQUEST FOR PROPOSALS ("RFP")**  
**FOR THE: (1) DEMOLITION / PARTIAL DEMOLITION AND / OR**  
**REPAIR / RENOVATION; AND (2) OPERATION OF**  
**THE FORMER UNCLE BILLY'S HILO BAY HOTEL**

Parties interested in submitting qualifications and proposals in response to the RFQ/RFP for the: (1) demolition / partial demolition and/or repair / renovation; and (2) operation of the former Uncle Billy's Hilo Bay Hotel in Hilo, Island of Hawaii, Hawaii, must first complete and submit this Notice of Intent form to any of the DLNR Land Division offices (see page ii of the RFQ/RFP for addresses), **by no later than 4:00 p.m., September 11, 2020.** An interested party that fails to submit a completed Notice of Intent form by this deadline will not be eligible to participate in the ensuing RFQ/RFP process and will not be considered for this project.

Name of Applicant: \_\_\_\_\_

Mailing Address: \_\_\_\_\_

Contact Person and Title: \_\_\_\_\_

Phone Number: \_\_\_\_\_ Fax Number: \_\_\_\_\_

Email Address: \_\_\_\_\_

Type of Organization: \_\_\_\_\_

State or Country of Formation; and Date of Formation: \_\_\_\_\_

Registered to do business in Hawaii? If Yes, as of what date? \_\_\_\_\_

List the names, addresses and ownership interests of individuals or organizations with at least a 10% ownership interest in the Applicant: (attach separate page if necessary)

Name	Address	% Interest
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

List all State of Hawaii leases, permits, licenses, easements, sales, etc. which the Applicant is or has been a party to, including as a partner, director, officer, shareholder, or LLC member: (attach separate page if necessary)

Doc. No.	Type of Agreement	Term of Agreement
_____	_____	_____
_____	_____	_____
_____	_____	_____

\_\_\_\_\_  
Signature of Authorized Representative

Name/Title: \_\_\_\_\_

Date: \_\_\_\_\_

## I. INTRODUCTION

### BACKGROUND

The State of Hawaii Department of Land and Natural Resources ("DLNR"), through its Board of Land and Natural Resources ("Board") is the owner of the land and improvements located at Waiakea, South Hilo, Island of Hawaii, Hawaii, and designated as Tax Map Keys: (3) 2-1-005: 033, 034, 035 and 045 (the "Parcels"). The improvements on the Parcels include a four-story, 146-room hotel built between 1966-1970. The Parcels and all the improvements thereon are hereinafter referred to collectively as the "Subject Property."

The Subject Property is currently under month-to-month Revocable Permit No. S-7905 to Tower Development, Inc. (TDI) for security and property management purposes. DLNR's Land Division manages the permit and is responsible for planning the future use of the Subject Property. In July 2020, TDI contacted DLNR about terminating the revocable permit as of August 2020.

DLNR has determined that the improvements on the Parcels are in need of demolition / partial demolition and/or major repairs / renovations and desires to issue a new 65-year lease of the Subject Property for hotel/apartment purposes to encourage a lessee to make a substantial investment in the Subject Property and help improve the overall aesthetics of the Banyan Drive area of Hilo. DLNR, however, does not have the funding, expertise, or staffing to demolish / partially demolish and/or repair / renovate and operate the Subject Property on its own. Accordingly, DLNR is seeking a private entity with the necessary renovation expertise and financial capacity to do so under a long-term lease.

### PURPOSE

The purpose of this Request for Qualifications ("RFQ") / Request for Proposals ("RFP") is to solicit and select a qualified private entity to demolish / partially demolish and/or repair / renovate and operate the Subject Property under a new 65-year lease to facilitate its fullest utilization consistent with applicable zoning and environmental assessment laws, to increase the lease rent revenues to the State and improve the aesthetics of Banyan Drive. The lease revenues generated from the lease will be paid in part (20%) to the Office of Hawaiian Affairs and in part (80%) to DLNR's Special Land and Development Fund that supports DLNR's operations and programs statewide.

Qualified applicants will be invited to submit proposals that may provide for any demolition / partial demolition and/or repairs renovations that are permitted under applicable laws, ordinances, rules and regulations. The selected applicant shall be responsible for obtaining all required land use entitlements and government approvals/permits. Construction of new buildings is not permitted as part of this RFQ/RFP.

DLNR will select the applicant whose proposal best meets DLNR's: (1)



demolition / partial demolition and/or repair / renovation; and (2) operation (“renovation / operation”) objectives and RFQ/RFP selection criteria (see RFQ/RFP Sections II and IV).

### SUBJECT PROPERTY

The Subject Property includes the Parcels with a combined area of 1.83 acres located at Waiakea, South Hilo, Island of Hawaii, Hawaii, and all improvements located thereon. The improvements include a 146-room hotel and accessory buildings constructed between 1966-1970, swimming pool and paved parking area. The hotel has been shuttered since June 2017 except for the convenience store located on the street side of the property.

### REQUIRED DEMOLITION / PARTIAL DEMOLITION AND/OR REPAIR / RENOVATION

A Remaining Useful Life Determination prepared in June 2014 by SSFM International, Inc. (“SSFM Report”) concluded that the improvements on the Subject Property at that time had a remaining useful life of 5-10 years. An Assessment Report dated June 29, 2016 prepared by Erskine Architects, Inc. (“Erskine Report”) identified a number of health, safety and welfare issues at the Subject Property that required attention. The County of Hawaii (“County”) Department of Public Works, Building Division issued a Notice of Violation (“NOV”) dated June 22, 2017 regarding the Subject Property citing a number of Hawaii County Code violations. The County Fire Department issued a Fire Inspection Record dated June 13, 2017 with a result of “Fail” citing violations of Fire Code and other applicable codes. The demolition / partial demolition and/or repair / renovation of the Subject Property **must** address all health, safety and welfare issues identified in the SSFM Report, Erskine Report, NOV and Fire Inspection Record to the extent such issues have not already been addressed by DLNR’s permittees under revocable permits issued for the Subject Property.

### PERMITTED USES

Once demolished / partially demolished and/or repaired / renovated, the Subject Property must be used for hotel and/or apartment purposes.

### SPECIAL MANAGEMENT AREA (“SMA”)

The Subject Property is located within the Special Management Area (“SMA”). The selected applicant shall be responsible for obtaining any required SMA reviews and approvals.

### FLOOD ZONES

The Subject Property is located in the Federal Emergency Management Agency’s Flood Zone AE (area subject to inundation by the 1-percent-annual-chance flood event), Zone X (area of moderate flood hazard, usually the area between the

limits of the 100-year and 500-year floods), with small portions in Flood Zone VE (areas subject to inundation by the 1-percent-annual-chance flood event with additional hazards due to storm-induced velocity wave action). The selected applicant shall be responsible for complying with any statutes, rules or regulations applicable to improvements located in these flood zones.

### HILO OPPORTUNITY ZONE

The Federal Tax Cuts and Jobs Act of 2017 authorized a community economic development program called the Opportunity Zones Program. This initiative provides incentives for investors to re-invest realized capital gains into Opportunity Funds in exchange for temporary tax deferral and other benefits. The Opportunity Funds are then used to provide investment capital in certain low-income communities, i.e., Opportunity Zones. The Subject Property is located in the Hilo Opportunity Zone. For more information, visit: <https://dbedt.hawaii.gov/>.

### CONDITION OF SUBJECT PROPERTY

The Subject Property will be leased in an “as is” condition with all faults and defects whether latent or patent, and DLNR makes no representations regarding the condition of the Subject Property or the suitability of the site for any proposed use by any applicant. Applicants shall, at their sole expense, be responsible for conducting their own investigations and due diligence regarding the Subject Property.

DLNR has procured and compiled various studies and documents regarding the Subject Property, which are available for review on-line at: <https://dlnr.hawaii.gov/ld/Rfq-RFP-unclebillys>, or in hard copy at the Land Division Administration Office in Honolulu. Interested parties wishing to review the documents and information should contact the Land Division office in advance at (808) 587-0426. By request, interested parties may make arrangements to view the hard copy studies and documents at the neighbor island Land Division District Offices by contacting the Land Division Administration Office. DLNR makes no representations or warranties regarding the accuracy of any information contained in such studies and documents.

The selected applicant shall be responsible for any and all demolition, site work, repairs, improvements, and required remediation of hazardous materials necessary for the renovation / operation of the improvements on the Subject Property.

The Subject Property consists of four separate Parcels and existing structures cross lot lines. The selected applicant, at its sole cost and expense, shall be solely responsible for obtaining any necessary County land use entitlements, permits, or approvals to maintain the structures on multiple lots or, alternatively, to consolidate and re-subdivide the Parcels into a single new lot.

The Subject Property has been encumbered by Revocable Permit No. S-7905 to Tower Development, Inc. (TDI) for security and property management purposes since November 29, 2017. Revocable Permit No. S-7905 also allows for the continued operation of a convenience store on a portion of the Subject Property



subject to the approval of the County, Department of Public Works, Building Division. In July 2020, TDI contacted DLNR about terminating the revocable permit as of August 2020. Revocable Permit No. S-7905 or another revocable permit may remain in effect during the RFQ/RFP process and the negotiation of the development agreement. It is also possible that the Subject Property will continue to be occupied by the convenience store operator upon the termination of Revocable Permit No. S-7905 and commencement of the new lease to the selected applicant. It will be the selected applicant's prerogative whether to allow the convenience store operator to remain on the Subject Property under existing or new rental agreements during demolition / partial demolition and/or repair / renovation, or to require the convenience store operator to vacate the premises. If the selected applicant determines that the Subject Property should be vacated in full or in part to facilitate demolition / partial demolition and/or repair / renovation, then the selected applicant will need to comply with all applicable laws and provide the convenience store operator with proper notice of the termination of its tenancy.

### AUTHORITY

Section 171-59, Hawaii Revised Statutes, authorizes the leasing of public lands by direct negotiation where the Board finds that the public interest demands it. At its meeting on December 13, 2019, the Board approved agenda Item D-3 authorizing the issuance of this RFQ/RFP pursuant to HRS Section 171-59, as amended. A copy of the Board's approval is provided as **Attachment 1**, and applicants are responsible for reading and understanding the information and conditions contained therein.

### NOTICE OF INTENT

To participate in this RFQ/RFP, interested parties **must** first submit a completed Notice of Intent form by or before the stated deadline (**September 11, 2020, 4:00 p.m.**). Any interested party who fails to submit a completed Notice of Intent form by this deadline will not be eligible to submit its qualifications and proposal and, therefore, will not be considered for this RFQ/RFP.

### RFQ/RFP SOLICITATION AND SELECTION PROCESS

After submission of a Notice of Intent, applicants in the RFQ/RFP process will next be requested to submit a statement of qualifications for this renovation / operation project. Detailed explanations of the RFQ/RFP process are provided in Sections III (Request for Qualifications) and IV (Request for Proposals). All submissions must be signed by a person with the authority to represent and make legally binding commitments for the applicant.

*Step 1: Submission of Statement of Qualifications.* The RFQ requires the submission of Statements of Qualifications ("SOQs") by applicants detailing their relevant hotel or apartment building renovation / operation experience, financial capabilities, and management expertise. DLNR will review the SOQs and determine which applicants meet DLNR's qualification criteria. DLNR may, at its sole discretion, form a short list of the most qualified applicants. The

qualified applicants (or short list of the most qualified applicants, if applicable, as determined by DLNR in its sole discretion) will then be invited to participate in the proposal process.

Step 2: Submission of Proposals. The RFP solicits detailed renovation / operation proposals for the Subject Property from the invited qualified applicants. DLNR will review the proposals and will recommend to the Board the applicant whose proposal best satisfies DLNR's renovation / operation objectives and selection criteria. The Board at a meeting open to the public must approve the recommended applicant and its renovation / operation proposal. If approved by the Board, the selected applicant and DLNR will commence exclusive negotiations of a development agreement and lease. Any amendments or extensions to the development agreement terms or pre-development approvals (e.g., rights-of-entry for site testing or site preparation) not previously anticipated, may require further Board approval.

#### DEVELOPMENT AGREEMENT

The development agreement will set forth the terms and conditions under which the selected applicant shall secure, all at its sole expense, all permitting approvals required to complete its proposed renovation / operation of the Subject Property. The development agreement will also set forth specific terms and conditions that must be satisfied by the selected applicant prior to DLNR issuing a lease for the Subject Property and the selected applicant commencing any demolition / partial demolition and/or repair / renovation of the Subject Property.

#### SIGNIFICANT DATES AND TIMES\*

Item / Event / Deadline	Date	Time
Advertisement of RFQ/RFP	August 23, 2020	
Virtual Applicant Briefing	September 1, 2020	10:00 a.m.
<b>Deadline to Submit Notice of Intent</b>	<b>September 11, 2020</b>	<b>4:00 p.m.</b>
<b>Deadline to Submit Statement of Qualifications</b>	<b>September 30, 2020</b>	<b>4:00 p.m.</b>
Notify Qualified Applicants of RFP*	October 15, 2020	
<b>Deadline to Submit Proposals*</b>	<b>November 30, 2020</b>	<b>4:00 p.m.</b>
Evaluation Committee's Selection of Developer*	December 15, 2020	
Land Board Approval of Selected Developer* and Negotiation of Development Agreement	January 2021	

\*These dates are estimated dates and are subject to change by DLNR in its sole discretion.

#### ISSUING OFFICE AND CONTACT PERSON

This RFQ/RFP is issued by DLNR Land Division. All communications with Land Division pertaining to this RFQ/RFP shall be directed to the Land Division



Contact Person named below. Any information provided to, or received from, anyone other than the Contact Person shall not be relied upon in connection with this RFQ/RFP.

Assistant Administrator Kevin Moore  
Land Division  
Department of Land and Natural  
Resources P.O. Box 621  
Honolulu, Hawaii 96809  
Phone: (808) 587-0426  
Facsimile: (808) 312-6357  
Email: [dlnr.land@hawaii.gov](mailto:dlnr.land@hawaii.gov)

#### REQUEST FOR CLARIFICATION

A prospective applicant may submit a written request for clarification of any aspect of this RFQ/RFP by mail or facsimile transmission to the Land Division Contact Person above prior to the date of the Applicant Briefing (see Significant Dates and Times above). Land Division's written response to written requests for clarification will be made available for review at the Land Division offices and posted on Land Division's website at: <https://dlnr.hawaii.gov/ld/RFQ-RFP-unclebillys>.

Requests for clarification may be verbally requested and verbal answers provided at the discretion of Land Division. However, any such verbal answers shall only be intended as general directions and will not represent the official position of Land Division. To generate an official answer, questions must be submitted in writing pursuant to the directions provided in the prior paragraph.

#### CONFIDENTIAL INFORMATION

If an applicant believes that any portion of a submission or proposal contains information that should be withheld as confidential, the applicant shall request in writing nondisclosure of designated trade secrets or other proprietary data to be held as confidential business information. Such data shall accompany the applicant's submission or proposal, be clearly marked, and shall be readily separable from the submission or proposal in order to facilitate eventual public inspection of the nonconfidential portion of the submission or proposal. The amount of any proposed fees or lease rents to be paid by the applicant to DLNR shall not be considered confidential and shall not be withheld.

DLNR will consult with the Department of the Attorney General and may also consult with the Office of Information Practices to make any necessary determinations of confidentiality in accordance with HRS Chapter 92F. If the applicant's request for confidentiality is denied, such information shall be subject to disclosure as a public record unless the applicant appeals the denial.

## LAND DIVISION OFFICES

Land Division's office addresses are as follows:

Land Division Administration  
1151 Punchbowl Street, Room 220  
Honolulu, Hawaii 96813  
Telephone: (808) 587-0419

Maui District Land Office  
130 Mahalani Street  
Wailuku, Hawaii 96793  
Telephone: (808) 984-8103

Hawaii District Land Office  
75 Aupuni Street, Room 204  
Hilo, Hawaii 96720  
Telephone: (808) 961-9590

Kauai District Land Office  
3060 Eiwa Street, Room 208  
Lihue, Hawaii 96766  
Telephone: (808) 274-3491

## **II. DEVELOPMENT OBJECTIVES**

DLNR's objectives for the Subject Property call for the renovation / operation of the existing improvements on the Parcels in a way that promotes and complements the hotel/resort area of Banyan Drive. The renovation / operation will:

- Be undertaken by a qualified private sector lessee who will bear all of the costs of the demolition / partial demolition and/or repair / renovation and operation and will not be subsidized by the State or DLNR.
- Be performed under a leasehold arrangement between DLNR and the selected applicant.
- Restore the Subject Property to its highest and best use to the extent permitted under applicable laws, including but not limited to HRS Chapters 171 and 343.
- Provide a benefit to the community of Banyan Drive, Hilo, and Hawaii Island.
- Maximize the financial returns to the State from the Subject Property in a timely manner.
- Comply with all laws, ordinances, rules, regulations and restrictions applicable to the Subject Property.
- Be economically feasible to the developer/lessee.
- Take into consideration potential sea level rise.

## **III. REQUEST FOR QUALIFICATIONS ("RFQ")**

### INTRODUCTION

The purpose of this section is to solicit Statements of Qualifications ("SOQs") from potential developers/lessees interested in demolishing / partially demolishing and/or repairing / renovating and operating the Subject Property under a long-term



lease. DLNR's review and evaluation of the potential developers' or lessees' SOQs will help in ensuring that the selected applicant has the experience, expertise and financial capacity to successfully undertake its proposed renovation / operation of the SubjectProperty.

Applicants assume all risks and will be responsible for the payment of all costs and expenses in connection with the preparation of their respective SOQs, as well as any and all pre-construction and planning costs incurred by the applicant. DLNR assumes no risks or costs associated with any applicant's participation in this portion of the selection process.

### APPLICANT BRIEFING

There will be a briefing at **10:00 a.m. on September 1, 2020**, to explain DLNR's renovation / operation objectives and the RFQ/RFP process, and answer questions from potential applicants. The briefing will be held virtually by Zoom or other virtual meeting platform. You can obtain the link to the briefing by emailing [dlnr.land@hawaii.gov](mailto:dlnr.land@hawaii.gov) at least twenty-four (24) hours in advance of the briefing time. Attendance by any prospective applicant is encouraged, but is not required.

### NOTICE OF INTENT

Any party interested in participating in this RFQ/RFP **must** submit a completed Notice of Intent form (see above page of this RFP) to any Land Division office listed in Section I (Introduction) above **by no later than 4:00 p.m. on September 11, 2020**. Any party who fails to submit a completed Notice of Intent by the required deadline will **not** be eligible to submit its qualifications and proposal as required, to participate in this RFP renovation / operation project.

### SUBMISSION REQUIREMENTS

Each applicant shall submit a Statement of Qualifications ("SOQ"), which shall include the information and materials described below. The SOQ shall be organized in a manner that is consistent with the headings and sequence presented below. Applicants shall submit five (5) hard copies and one electronic copy on a CD of the SOQ.

1. Cover Letter. Submit a cover letter on the applicant's letterhead addressed to Land Division and signed by an authorized representative of the applicant.
2. Proposed Use of Subject Property. Generally describe the applicant's proposed renovation / operation plan and use of the Subject Property. For example, will the applicant operate the Subject Property as a hotel, an apartment building, or a mix of hotel and apartment use. If applicant proposes a mixed hotel/apartment use, how many units will be designated for transient accommodations and how many will be designated for apartment use? If the applicant intends to contract with a

hotel operator to manage the hotel, identify the operator. If the applicant intends to contract with a management company to manage the rental of apartment units, identify the management company. Also discuss whether the applicant intends to issue subleases for any portions of the Subject Property (and if so, for what purposes or uses).

The purpose of this requirement is to allow DLNR to evaluate and determine whether the applicant possesses the necessary qualifications (experience, expertise, and financial capacity) to successfully renovate / operate the Subject Property.

Applicants should also be aware that there are certain laws and restrictions governing the leasing of public lands that may apply to the Subject Property, including but not limited to HRS Chapter 171. This RFQ/RFP will therefore require the applicant to indicate that its proposed project complies with all relevant laws governing public lands.

3. Applicant – Type of Entity and Ownership Interests. Provide the following information about the applicant:
  - a. Name. The legal name of the applicant.
  - b. Type of Entity. Identify the type of entity (e.g., corporation, limited liability company, etc.), and the state or country of organization.
  - c. Owners. Identify all individuals or entities holding a 10% or more ownership interest in the applicant and their respective ownership interests. Provide any additional background information about any of the owners that may support the qualifications of the applicant with respect to this SOQ, including descriptions of any key roles that any of these individuals or entities will play in the applicant's repair, renovation or operation of the Subject Property. Any foreign corporation or business entity must obtain the appropriate certificate of authority to do business in the State of Hawaii.
  - d. Directors/Officers. Identify the directors and officers of the applicant, including names and titles. Provide any additional background information about any of the directors and officers that may support the qualifications of the applicant with respect to this SOQ, including descriptions of key roles that any of these individuals will play in the applicant's renovation / operation of the Subject Property.

**IMPORTANT:** The applicant identified in the Notice of Intent must match the information provided above. Additionally, please note that if an applicant is selected through the RFQ/RFP process and the applicant is a partnership, joint venture, limited liability



**company, or corporation, the sale or transfer of 20% or more of ownership interest, distributional interest, or stocks by dissolution, merger or any other means prior to execution of the development agreement or lease shall be deemed an assignment. Such assignments are subject to the prior written approval of the BLNR.**

4. Development Team. Describe the organization of the applicant and development team, and the role and responsibilities of each member of the development team, including major consultants (e.g., architects, engineers, etc.), joint venture or limited partners, and legal counsel. Include members that may be added to the development team in the future to fund, renovate or manage the project, and describe the arrangement or commitment, if any, between the applicant and the projected future development team members. Provide an organizational chart and the names, titles, and contact information of the principals of each member of the development team.

Describe any previous experiences of the development team and/or development team members working together on other/previous projects.

5. Experience. For each member of the development team (including the applicant), describe previous experience with projects similar in type, use, size, and scope to the applicant's proposed renovation / operation of the Subject Property. For each such project, provide the following:
  - a. Project Description. Describe the project, including location, address, photographs, project size, land uses, facilities, commencement and completion dates, etc.
  - b. Roles/Responsibilities. Describe the role(s) of the development team member(s) with respect to the project. For example, describe any predevelopment roles (e.g., conducting due diligence, community outreach, planning, obtaining land use entitlements/approvals, etc.); development roles (financing, design, permitting, construction); and management/operational roles (e.g., leasing, project management/maintenance, etc.)
  - c. Cost/Financing. Provide total construction costs for the project, and describe the financing/funding, including the source, amount, and current status.
  - d. Current Status. Describe the current status of the project, including (if applicable) the development team's involvement with the project; current ownership and management of the project; and current uses, occupancy rates, tenants, operating revenues, profits/losses, etc.

6. Other Applicable Experience. Describe any other experience that may be appropriate to establish the applicant's qualifications. Describe any past or current lease(s) of State lands awarded to the applicant's owners, directors and/or officers, including any delinquencies or prior defaults on any such lease(s). Applicants should register with Hawaii Compliance Express (HCE) and have updated state tax clearances. See also HRS Section 171-13.
7. Financial Capacity and Credit History. Provide satisfactory evidence to support the financial ability of the applicant to repair, renovate and operate the Subject Property. Such evidence should include evidence of applicant's past or current debt or equity financing (such as letters from past or current lenders or financing sources confirming the amounts financed, repayment terms, and repayment status), applicant's financial statements for the past three fiscal years, current credit report(s), and evidence of capital resources or financing commitments. Describe any loan or lease defaults, bankruptcies, judgments, or any litigation or other disputes that may potentially have an adverse effect on the applicant's current financial capability. A personal guarantee (or personal guarantees) will be required upon issuance of a lease.
8. Other Information. Provide any other information regarding the applicant, the development team, or its members that may be pertinent to establishing the applicant's qualifications.
9. References. Provide references (including name, title, address, email address phone number) whom DLNR may contact to confirm the applicant's and development team members' qualifications and any of the information provided in the SOQ.

#### SOQ SUBMISSION DEADLINE

Statements of Qualifications must be delivered to any of the Land Division offices listed in Section I (Introduction) above by no later than **4:00 p.m. on September 30, 2020**. Except for additional information requested by DLNR, any information submitted after this deadline, including any changes or modifications to the SOQ, will not be considered.

#### EVALUATION OF QUALIFICATIONS

1. Preliminary Review. DLNR staff will conduct a preliminary review of the SOQs for adequacy and completeness. If any SOQ is incomplete, DLNR staff may, in its sole discretion, disqualify the applicant and its SOQ from further review and consideration. Notwithstanding the foregoing, DLNR reserves the right to waive any defects in any SOQ and may permit the timely correction of errors contained in it. DLNR may also ask an applicant for clarification of the information submitted or for additional information/materials to assist DLNR or the evaluation



committee in its review/evaluation of the applicant's SOQ.

2. Substantive Review. The SOQs that are determined to be adequate and complete in the preliminary review shall thereafter undergo a substantive review by an evaluation committee selected by DLNR.

DLNR may ask any applicant for clarification of the information submitted or for additional information/materials to assist DLNR or the evaluation committee in its review/evaluation of the applicant's SOQ. DLNR or the evaluation committee may also conduct interviews of any of the applicants and/or members of the applicants' development teams.

DLNR will review the SOQs and determine which applicants meet the qualification criteria below. DLNR may, at its sole discretion, form a short list of the most qualified applicants. The qualified applicants (or short list of the most qualified applicants, if applicable), will then be invited to participate in the RFP process by submitting their renovation / operation proposals in accordance with Section IV (Request for Proposals) of this RFQ/RFP.<sup>1</sup>

- a. Qualification Criteria. DLNR or the evaluation committee shall evaluate the applicants' qualifications based on the following criteria:
  - Successful real estate development or renovation experience relevant to the applicant's proposed renovation / operation of the Subject Property, including experience in community outreach and in obtaining land use entitlements and government approvals/permits.
  - Real estate management experience (including hotel operation or apartment management, if applicable) relevant to the applicant's proposed use of the Subject Property.
  - Financial capacity to fund the renovation of the Subject Property and the applicant's proposed operations.
  - Creditworthiness and past experience in leasing private and public lands.
- b. Notification of Qualification. All applicants will be notified of the qualification determination.
- c. Review and Appeal Rights. Pursuant to HRS Section 171-59(a)(3), within twenty (20) days of an applicant's receipt of

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<sup>1</sup> If there is only one qualified applicant, DLNR may, in its sole discretion, waive certain RFP submission requirements.

notification of the determination, any applicant may notify the Board in writing requesting the applicant be allowed to examine the basis for the determination to ascertain whether or not the conditions and criteria established by the Board were followed. If written notice is not provided by the applicant within twenty (20) days of the receipt of notification of determination, the applicant shall be barred from proceeding to seek legal remedy for any alleged failure of the Board to follow the conditions and criteria.

#### **IV. REQUEST FOR PROPOSALS (“RFP”)**

##### **INTRODUCTION**

If DLNR determines that more than one applicant is qualified, DLNR will invite the qualified applicants (or the short list of the most qualified applicants), to submit their respective repair and renovation proposals in accordance with this Section IV (Request for Proposals).

DLNR, through its evaluation committee, will evaluate the renovation / operation proposals and select the applicant whose proposal best satisfies DLNR's objectives and selection criteria. DLNR staff will then request the Board's approval of the selected applicant and the selected applicant's proposal. Upon the Board's approval, DLNR will commence exclusive negotiations with the selected applicant of the development agreement and potential lease (see Section V – Exclusive Negotiations/Development Agreement for additional details regarding the development agreement).

Applicants assume all risks and are responsible for the payment of all costs and expenses in connection with the preparation of their respective submissions/responses to this RFP, as well as any and all pre-construction and planning costs incurred by the applicant. DLNR assumes no risks or costs associated with any applicant's participation in this RFP.

##### **APPLICANT BRIEFING**

DLNR may, but shall not be required to, hold a briefing to explain this portion of the RFP and to answer questions from the applicants. DLNR will notify all qualified applicants of any such briefing.

##### **SOQ & RFP SUBMISSION REQUIREMENTS**

Each qualified applicant shall submit a renovation / operation proposal, which proposal shall include: (1) a demolition / partial demolition and/or repair / renovation plan; (2) an economic proposal; and (3) a business plan. The renovation / operation proposal shall include the information and materials requested below and shall be organized in a manner that is consistent with the headings and sequence presented below. Applicants shall each submit five (5) hard copies and one electronic copy on a CD of their renovation / operation proposals.



1. Cover Letter. Submit a cover letter on the applicant's letterhead addressed to DLNR Land Division and signed by an authorized representative of the applicant.
2. Executive Summary. Provide an executive summary of the critical aspects of the applicant's renovation / operation proposal.
3. Demolition / Partial Demolition and/or Repair / Renovation and Operation Plan. Provide the applicant's renovation / operation plan for the Subject Property. The renovation / operation plan **must** address all health, safety and welfare issues identified in the SSFM Report, Erskine Report, County Department of Public Works, Building Division NOV, and County Fire Inspection Record. The renovation / operation plan must also include the following plans, information, and details:
  - a. Site Plan. Provide a conceptual site plan showing the building elevations and floor plan of each as demolished / partially demolished and/or repaired / renovated, and the uses provided for (provide three full size copies, 1"= 20' scale; and 5 half-size copies).
  - b. Narrative Description. Provide a narrative description of the renovation / operation proposal, including but not limited to the following:
    - i. Descriptions of the proposed project and proposed uses;
    - ii. An outline of the renovation / operation program and phases;
    - iii. Statements indicating how the renovation / operation plan satisfies DLNR's demolition / partial demolition and/or repair / renovation and operation objectives;
    - iv. Descriptions of the benefits to be realized by the State and the Banyan Drive community as a result of the proposed project;
    - v. Any other pertinent information regarding the renovation / operation plan.
  - c. Special Management Area. Explain how the proposed project and uses are consistent with the County's requirements and restrictions for the Special Management Area.
  - d. Proposed Design Standards. Provide the proposed design standards for the project, describing the character of the project, and other design features such as lighting, landscaping, signage, etc. If applicable, describe how the project will incorporate smart growth and green development principles.

- e. Phasing Plan. If the proposed project will be implemented in phases, provide renderings of the proposed development phases and estimated time periods for each phase.
- f. Protection of Shoreline Areas and Coastal Waters. Describe how the renovation / operation proposal will preserve and protect the shoreline areas (including protecting public access to the shoreline) and coastal waters.
- g. Illustrations & Other Information. Provide any other information, plans, illustrations, and/or renderings that would assist DLNR in visualizing the proposed project.
- h. Community Benefits. Describe any additional benefits arising from and unique to applicant's proposed use of the Subject Property that will benefit the community of Banyan Drive, Hilo, and Hawaii Island.
- i. Changes/differences from SOQ Response. If the renovation / operation plan provides for demolition / partial demolition and/or repairs / renovations or operations that differ from those described in response to the SOQ portion of this RFQ/RFP, the applicant must explain the reason for the differences. The applicant shall also provide additional information to evidence the applicant's qualifications (e.g., experience and expertise) regarding the revised renovation / operation plan. The information to be provided shall be similar to the type and level of detail provided in the SOQ response.

If the evaluation committee, in its sole discretion and in the best interest of the State, determines that the applicant does not possess the necessary experience with respect to such revised renovation / operation plan, DLNR may deem the applicant unqualified to participate in the RFP process or may take such factors into consideration in evaluating the applicant's proposal.

- 4. Economic Proposal. Provide applicant's economic proposal, which shall detail the fees and lease rents the applicant proposes to pay to DLNR, and shall include, at a minimum, the following:
  - a. Annual Minimum Lease Rent. Provide the annual minimum lease rent the applicant proposes to pay for the Subject Property for the first thirty (30) years of the lease (see step-up format below), including any proposed percentage lease rents or other revenue sharing proposal. Lease rents for any selected proposal shall be no less than fair market value.

Annual Minimum Rents

Period



\$____per Annum	Years 1-10
\$____per Annum	Years 11-20
\$____per Annum	Years 21-30

The annual minimum lease rents will be reopened after the first 30 years and every ten (10) years thereafter.

DLNR will procure an independent appraiser to review the proposed annual minimum lease rent and other information submitted by applicants in response to the RFP to determine whether the applicants' proposed annual minimum lease rent qualifies as fair market rent. If any applicant's proposed annual minimum lease rent is determined to be lower than fair market rent, DLNR will ask the applicant to increase its proposed annual minimum lease rent to fair market rent in order to be further considered under the RFP review process. Any applicant who declines to include fair market rent as determined by DLNR's independent appraiser for applicant's proposal shall be disqualified from further consideration under the RFP.

- b. Lease Terms and Conditions. Describe the proposed commencement of the lease in relation to the applicant's proposed renovation / operation schedule. Identify which events must occur prior to commencement of the lease and which events must be preceded by the execution of the lease. Describe any other critical lease terms and conditions, and the applicant's rationale for such terms and conditions.
  - c. Lease Rent Waiver. Describe any proposed lease rent waiver requested, bearing in mind that the statutory maximum allowed under Chapter 171, HRS, is one year's rent. See HRS Section 171-6(7).
  - d. Other. Provide any other proposed lease terms that the applicant believes are both feasible and appropriate for the applicant's proposal.
5. Business Plan. Provide the applicant's business plan for the proposed renovation / operation of the Subject Property. The business plan must specify all of the major elements necessary to implement the applicant's renovation / operation plan and should be described to a level of detail appropriate for preliminary funding commitments.

The business plan should include, at a minimum, the following:

- a. Demolition / Partial Demolition and/or Repair / Renovation Schedule. Provide an outline of the proposed project schedule and project phasing (including a timeline with realistic start and

completion dates), and highlight any events (including government land use entitlements/approvals/permits) that are critical to the timely completion of the project.

The project schedule should include a separate timetable for the pre-renovation / operation activities (i.e., the activities that must occur prior to issuance of the lease, such as due diligence, obtaining land use entitlements/permits/approvals, etc.), and a timetable for the project activities. If the project is to be completed in phases, provide estimated timetables for each phase.

- b. Land Use Entitlements and Approvals/Permits. Provide a comprehensive list of all land use entitlements and government approvals and permits required to complete the project and a projected timeline for obtaining all such entitlements/approvals/permits. Indicate which entitlements/approvals/permits must be obtained prior to the applicant commencing any demolition / partial demolition and/or repair / renovation work of the Subject Property.
- c. Project Cost Estimates. Provide cost estimates for the entire project and also broken down for each phase of the project. Construction cost estimates should include all hard and soft costs, and account for cost escalations. The cost estimates should be itemized by categories such as but not limited to, building demolition / partial demolition and/or repair / renovation costs, consultant fees, design fees, entitlement and permitting fees, landscaping, financing costs, marketing and sales costs, operating costs, profits, insurance, bonds, etc.
- d. Financial Pro Forma. Provide pro forma financial projections for the entire project and also broken down for each phase of the project components, including cash flow and operating income/expense projections for the pre-construction stage and for the construction stage (until completion of all repairs and renovations). The pro forma projections should also clearly show gross revenues, operating expenses, vacancies, reserves, debt service, net operating income, profits, and total projected lease payments (base and percentage) to DLNR.

Where subleases are anticipated, provide estimates of subtenant rentals and master lessee operating expenses. The projections should also show projected lease rent payments to DLNR and any proposed rental waivers.

- e. Market and Financial Feasibility Analysis. Provide a market and financial feasibility analysis for the proposed project. Analyses of market support for the renovation / operation of the Subject



Property, proposed handling of sublessee lease rents, absorption/occupancy timetable, and key assumptions used in financial projections and pro formas should be included.

- f. Financing Strategy and Preliminary Commitments. Describe the applicant's proposed financing plan for the project. Describe, to the extent possible, the applicant's estimates of equity requirements and construction and takeout financing, and the applicant's proposed source of funds.

Provide examples of financial approaches and lenders used for other projects renovated or developed by the applicant.

Provide letters from previous or current lenders and/or equity partners describing their prior or existing financing arrangements with the applicant.

If applicant is an entity, its principal(s) will be required to provide personal guarantee(s) for the project.

- g. Marketing and Leasing Plan. Provide a marketing and leasing plan that shows how the applicant intends to implement the proposed project. Provide evidence of other projects renovated or developed by the applicant that successfully utilized a similar marketing and leasing plan.
- h. Method of Operation. Describe the proposed method of operation for the project. Explain the applicant's role in management of the project.

## RFP SUBMISSION DEADLINE

Renovation / operation proposals must be delivered to any of the DLNR offices listed in Section I (Introduction) above by no later than **4:00 p.m. on November 30, 2020**; provided, however that this deadline is subject to change in DLNR's sole discretion and in the best interest of the State. Except for information requested by DLNR, information submitted after the submission deadline, including modifications to the applicant's proposal, will not be considered.

Proposals from the applicants not selected by DLNR for exclusive negotiations shall automatically expire upon the execution of the development agreement (unless withdrawn in writing earlier by the applicant) and returned to the applicants or be made available for pickup by the applicants.

## EVALUATION PROCEDURES

1. Preliminary Review. Upon receipt of a repair and renovation / operation proposal, DLNR staff will conduct a preliminary review of the submitted

information for adequacy and completeness. If the submitted information is incomplete, DLNR staff may, in its sole discretion, disqualify the applicant from consideration. However, DLNR reserves the right to waive any defects, irregularities or informalities in any of the responses and may permit the timely correction of errors contained in them. DLNR may also ask an applicant for clarification of the information submitted or for additional information/materials to assist DLNR or the evaluation committee in its review/evaluation of the applicant's proposal.

2. Substantive Review. The renovation / operation proposals that have been determined to be adequate and complete shall undergo a substantive review and evaluation by DLNR or an evaluation committee selected by DLNR. DLNR reserves the right to select an RFP evaluation committee that consists of members different from those of the evaluation committee for the SOQ portion of this RFQ/RFP.

DLNR or the evaluation committee may ask any applicant for clarification of the information submitted, or for additional information/materials to assist DLNR or the evaluation committee in its review/evaluation of the applicant's proposal. DLNR or the evaluation committee may also conduct interviews of any of the applicants and/or members of the applicant's development team.

The evaluation committee shall select the applicant whose renovation / operation proposal best satisfies DLNR's renovation / operation objectives and the selection criteria below.

3. Board Approval. DLNR staff will request the Board's approval of the evaluation committee's selection of the applicant.
4. Exclusive Negotiations. Upon the Board's approval of the selected applicant, DLNR shall commence exclusive negotiations of the development agreement with the selected applicant (see Section V). The development agreement shall be subject to approval by the Board.

## RFP SELECTION CRITERIA

The evaluation committee shall evaluate the qualified applicants' renovation / operation proposals submitted in response to this RFP and shall select the applicant whose proposal, in the sole judgment of the evaluation committee, best meets the following criteria:

### Renovation / Operation Plan

- Degree to which the renovation / operation plan meets DLNR's renovation / operation objectives.

### Economic Proposal



- Maximizes the financial returns to the State from the Subject Property in a timely manner. In evaluating applicants' proposed lease rents, preference will be given to the proposed annual minimum base rents over the proposed percentage rents.

#### Business Plan

- Organization of the business plan, reasonableness of the renovation / operation schedule, and demonstrated understanding of the requirements necessary to complete the project in a timely manner.
- Demonstrated understanding of the required land use entitlements and government approvals and evidence of the ability to obtain the entitlements/approvals in a timely manner.
- Demonstrated market and financial feasibility of the renovation / operation proposal.
- Demonstrated ability to finance the proposed renovation / operation.

### **V. EXCLUSIVE NEGOTIATIONS / DEVELOPMENT AGREEMENT**

#### EXCLUSIVE NEGOTIATIONS

DLNR will enter into exclusive negotiations with the selected applicant. During exclusive negotiations, DLNR and the selected applicant will negotiate in good faith a development agreement setting forth the terms and conditions under which DLNR will lease the Subject Property to applicant.

The exclusive negotiation period will be six (6) months and will be based upon the renovation / operation proposal submitted by the selected applicant. If the development agreement is not executed by the expiration of the exclusive negotiation period, the authority of the selected applicant to negotiate the development agreement shall terminate, provided, however, that the Chairperson of the Board of Land and Natural Resources may, in his/her sole discretion, extend the negotiation period by written notice to the selected applicant for up to an additional six (6) months.

Upon the expiration of the exclusive negotiation period (including any extension), this RFP process shall terminate and neither the selected applicant nor any other applicant shall thereafter have authority to negotiate a development agreement and shall have no right, title or interest in or to the Subject Property.

DLNR reserves the right to negotiate with the selected applicant any additional terms, conditions or modifications to the terms set forth in this RFP or to the selected applicant's proposal if it is in DLNR's and the State's best interest to do so, and in DLNR's sole discretion.

## DEVELOPMENT AGREEMENT

In general, the development agreement will require the selected applicant to perform, all at its sole expense, all pre-construction duties necessary and/or desirable to successfully implement its renovation / operation proposal, including site investigations and other due diligence activities, planning and designing the demolition / partial demolition and/or repair / renovation, and obtaining all necessary land use entitlements and government approvals/permits.

The terms and conditions of the development agreement shall be subject to negotiation between DLNR and the selected applicant and approval by the Board, but shall include, at a minimum, the following obligations:

Development Agreement Fee. The selected applicant shall pay the DLNR a development agreement fee in consideration for DLNR providing the selected applicant with the exclusive right to conduct its pre-construction activities for its proposed project during the term of the development agreement. The selected applicant's proposal shall include a proposed development agreement fee, but the actual fee and the payment terms may be subject to further negotiation.

Due Diligence. The Subject Property shall be leased in an "as is" condition with all faults and defects whether latent or patent, and DLNR makes no representations regarding the condition of the Subject Property or the suitability of the site for any project proposed by any applicant. Applicants shall, at their sole expense, be responsible for conducting their own investigations and due diligence regarding the Subject Property.

The selected applicant shall be responsible for any and all environmental studies, site work, repairs, improvements, and required remediation of hazardous materials necessary for the repair, renovation and operation of the Subject Property.

DLNR has compiled various documents and information regarding the Subject Property, which are available for review at the Land Division offices or online at <https://dlnr.hawaii.gov/ld/RFAQ-RFP-unclebillys>. Applicants wishing to review hard copies of the documents and information should contact the Land Division Administration office in advance at (808) 587-0426. By request, neighbor island and out-of-state applicants may make arrangements to view the documents and information by contacting the Land Division Administration Office. DLNR makes no representations or warranties regarding the accuracy of any information contained in such documents, nor for sufficiency and completeness.

Land Use Entitlements and Government Approvals/Permits. Prior to issuance of any lease for the Subject Property, the selected applicant shall, at its sole expense, obtain all land use entitlements and government permits/approvals necessary to construct its proposed project, including but not limited to, special area management (SMA) approval, and subdivision approval (see below). DLNR makes no representations or warranties regarding any required entitlements/approvals or the likelihood of the selected applicant to successfully obtain the required

entitlements/approvals/ permits. It shall be the selected applicant's sole responsibility to apply and pay for, process, and obtain all required entitlements/approvals/permits.

Subdivision. As noted above, the Subject Property consists of four separate Parcels and existing structures cross lot lines. The selected applicant shall be responsible for obtaining any necessary County land use entitlements, permits, or approvals to maintain the structures on multiple lots or, alternatively, to consolidate and re-subdivide the Parcels into a single new lot. The consolidation/re-subdivision, if required, must be completed at the selected applicant's expense prior to the execution of a lease for the Subject Property.

Access. DLNR's information is that public access to the Subject Property is provided from Banyan Drive, which is County road. It shall be the selected applicant's responsibility to confirm if legal access exists and if not, to obtain any required access.

Compliance with Applicable Laws. The Subject Property is "public land" as defined in HRS Chapter 171 and is therefore subject to the requirements, limitations, and restrictions set forth in HRS Chapters 171.

Without limiting the foregoing, the selected applicant shall comply with all applicable federal, State, and county laws, statutes, ordinances, rules and regulations.

Proposed Lease. This RFP contemplates that the negotiation of the development agreement will also include negotiations of a ground lease for the Subject Property with a term up to a maximum of sixty-five (65) years. The development agreement will provide for the lease to be issued only upon the selected applicant's satisfaction of all terms and conditions of the development agreement.

The selected applicant shall also be responsible for the operations and management of the project, including performing all management, leasing, and maintenance functions.

The lease rent payable under the lease, including any percentage rent provisions, fixed rent step-ups, and rent reopening periods, shall be in accordance with the selected applicant's proposal but may be subject to further negotiation.

A sample of DLNR's standard lease form is available for review on-line at <https://dlnr.hawaii.gov/ld/RFQ-RFP-unclebillys> and at Land Division's Administration Office.

## **VI. OTHER TERMS AND CONDITIONS**

### **FEES/COSTS**

The selected applicant shall pay all charges required by law and all costs incurred by DLNR in connection with the preparation and processing of this



RFQ/RFP, including but not limited document fees for preparation of the development agreement and lease, fee for preparation of the survey maps and descriptions, publication fees for this RFP, appraisal fees, conveyance taxes, and recordation fees.

#### DLNR'S NON-LIABILITY AND WAIVERS

The applicants, by submitting a response to this RFP, waive all rights to protest or seek any legal remedies whatsoever against DLNR or the State regarding any aspect of this RFP.

#### TITLE TO SUBJECT PROPERTY

The lands comprising the Subject Property are Section 5(b) lands under the Hawaii Admissions Act. DLNR makes no warranty or representation to any applicant with respect to the status of title to the Subject Property.

#### DLNR'S DISCRETION AND RESERVATION OF RIGHTS; CANCELLATION OF RFP

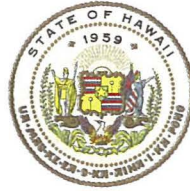
DLNR reserves the right to: (1) request from any applicant a clarification of any information submitted or additional information/materials to assist DLNR or its evaluation committee in the review/evaluation of the applicant's qualifications or proposal; (2) reject any and all submissions in whole or in part; (3) require amendments or modifications to the submissions; (4) waive any of the submission requirements; (5) cancel this RFP; and/or (6) re-advertise for new qualifications and/or proposals, all with no liability whatsoever, whether or not it is in the DLNR's best interest to do so. DLNR also reserves the right to amend this RFP, including but not limited to, the deadlines and submission requirements, at any time prior to the applicable submission deadline. The information contained in this RFP is believed to be reliable, but cannot be guaranteed.

Any and all information submitted in response to this RFP by applicants not selected for exclusive negotiations of the development agreement shall be returned to the respective applicants once the development agreement is executed, unless DLNR determines, in its sole discretion, that it is in DLNR's best interest to retain any or all such information, except for information marked confidential by applicants.

# EXHIBIT 3



DAVID Y. IGE  
GOVERNOR OF HAWAII



**STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES  
LAND DIVISION**

POST OFFICE BOX 621  
HONOLULU, HAWAII 96809

April 8, 2022

**SUZANNE D. CASE**  
CHAIRPERSON  
BOARD OF LAND AND NATURAL RESOURCES  
COMMISSION ON WATER RESOURCE MANAGEMENT

**ROBERT K. MASUDA**  
FIRST DEPUTY

**M. KALEO MANUEL**  
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES  
BOATING AND OCEAN RECREATION  
BUREAU OF CONVEYANCES  
COMMISSION ON WATER RESOURCE MANAGEMENT  
CONSERVATION AND COASTAL LANDS  
CONSERVATION AND RESOURCES ENFORCEMENT  
ENGINEERING  
FORESTRY AND WILDLIFE  
HISTORIC PRESERVATION  
KAHOOLAWE ISLAND RESERVE COMMISSION  
LAND  
STATE PARKS

PSF No.: 17HD-028

PSF No.: 19HD-078

**Via Email [ed@towerdevcon.com] and Regular Mail**

Mr. Ed Bushor  
Tower Development, Inc.  
1050 Bishop Street, Suite 530  
Honolulu, Hawaii 96813

**Subject: Request for Qualifications/Request for Proposals (RFQ/RFP) for the  
Former Uncle Billy's Hilo Bay Hotel and Former Country Club  
Condominium Hotel in Hilo, Hawaii**

Dear Mr. Bushor:

As you will recall, in July 2021 the Evaluation Committee appointed by Chairperson Suzanne Case to review proposals submitted in response to the RFQs/RFPs published for the above-referenced projects made a preliminary selection of the proposals submitted by Tower Development, Inc. (TDI) for both projects, subject to the approval of the Board of Land and Natural Resources (Board) at a public meeting to be scheduled.

The staff submittals for approval of the selections were placed on the Board agenda for its meeting of September 24, 2021, under agenda Items D-4 and D-5, but were withdrawn prior to the start of the meeting after a complaint was filed by Olson/Nanihoa LLC against you and Stuart Miller over TDI's authority to submit redevelopment proposals for the properties.<sup>1</sup> On December 6, 2021, a separate mortgage foreclosure complaint was filed against WHR LLC (WHR) alleging a default on the loan for the Grand Nanihoa Hotel. We understand TDI is a manager of WHR and, together with certain affiliates, is the majority owner of WHR.<sup>2</sup>

In view of these developments, the Evaluation Committee took a closer look at TDI's qualifications. The RFQs/RFPs listed the information required to be contained in an applicant's Statement of Qualifications (SOQ), which included, among other things, the following:

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<sup>1</sup> In an email dated March 23, 2022, you mentioned that an agreement had been reached to remove Edmund C. Olson from ownership of WHR. However, a recent search of the records of the Hawaii State Judiciary showed that the Olson/Nanihoa LLC lawsuit is still pending.

<sup>2</sup> The other manager of WHR is Tower Hotels Hilo LLC, of which TDI is also the manager.

**EXHIBIT 3**



- The identity of the directors and officers of the applicant, including names and titles. Provide any additional background information about any of the directors and officers that may support the qualifications of the applicant with respect to this SOQ, including descriptions of key roles that any of these individuals will play in the applicant's renovation / operation of the Subject Property.
- Satisfactory evidence to support the financial ability of the applicant to repair, renovate and operate the Subject Property. Such evidence should include evidence of applicant's past or current debt or equity financing (such as letters from past or current lenders or financing sources confirming the amounts financed, repayment terms, and repayment status), **applicant's financial statements for the past three fiscal years**, current credit report(s), and evidence of capital resources or financing commitments. **Describe any loan or lease defaults, bankruptcies, judgments, or any litigation or other disputes that may potentially have an adverse effect on the applicant's current financial capability. A personal guarantee (or personal guarantees) will be required upon issuance of a lease.**
- **Any other information regarding the applicant, the development team, or its members that may be pertinent to establishing the applicant's qualifications.**

Equally as important, the RFQs/RFQs clearly stated:

- If applicant is an **entity, its principal(s) will be required to provide personal guarantee(s)** for the project.

The SOQ that TDI initially submitted did not include letters from past or current lenders or financing sources confirming the amounts financed, repayment terms, and repayment status, TDI's financial statements for the past three fiscal years, current credit reports, or evidence of capital resources or financing commitments. Nor was financial information provided for you personally or for Mr. Miller, who we understand are the principals of TDI. In contrast, the other two applicants for the former Country Club Condominium Hotel (Country Club) project provided extensive supporting financials, including personal financial statements for each principal, consolidated investment statements, and bank statements. One applicant went further and provided information on life insurance policies, real estate ownership with loan balances and income and expenses, and retirement assets. The personal financial information is important because of the personal guaranties that would be required for the development agreements and leases issued for the projects.

In September 2021, we requested more detailed financial statements for TDI and its principals (such as personal and company income statements and balance sheets, and a pro forma of the same). You expressed reluctance to provide personal financial information for yourself

and Stuart Miller. Instead, after repeated requests, TDI ultimately provided what appears to be its operating statements, a consolidated financial statement and a list of lending institutions that have extended credit to TDI. At the end of 2021, we asked you whether TDI would be willing to provide tax returns as part of the Evaluation Committee's continued assessment of TDI's finances. You responded that this kind of information is not pertinent to how developers operate, which involves identifying an asset for investment and getting financing lined up through investors and lenders.<sup>3</sup> You added that you would be willing to provide us with more information on loan commitments for the former Uncle Billy's Hilo Bay Hotel (Uncle Billy's) and Country Club projects. However, you did not provide the additional information, and even if you provided loan commitment information, that would not be sufficient to show financial capability.

While TDI and WHR are separate entities, as noted above TDI is a manager and, together with certain affiliates, the majority owner of WHR.<sup>4</sup> WHR's Grand Naniloa Hotel is listed as an asset of TDI on Schedule C of TDI's Consolidated Financial Statement for Third Quarter 2021, which also shows the mortgage amount for the hotel allocable to TDI as \$39,840,000. The foreclosure action against WHR noted above is ongoing according to the records of the Hawaii State Judiciary.<sup>5</sup> WHR's financial health has a direct bearing on the financial capability of TDI as the applicant, and yourself and Mr. Miller as potential guarantors.

The Evaluation Committee discussed TDI's supplemental financials and your rationale for not providing personal financial information for yourself and Mr. Miller. Based upon the foregoing and considering what is in the best interests of the State, the Evaluation Committee will not be recommending that TDI be selected as the developer for the renovation projects. Furthermore, in light of the recent fire that occurred at the Uncle Billy's site on March 4, 2022 the Land Division will be recommending to the Board that it cancel the current RFQs/RFPs for the properties on the grounds that cancellation is in the best interests of the State. The Department will instead focus on obtaining funding for the demolition of Uncle Billy's.

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<sup>3</sup> We understand this explanation to also be the rationale for not providing personal financial information.

<sup>4</sup> We also understand that you have an ownership interest or management control over TDI, WHR and the neighboring Grand Naniloa Hotel and golf course operation. In other words, we understand that you are (or you held yourself out to be) a principal of WHR and TDI, and under the express terms of the RFQs/RFPs, would be required to personally guarantee TDI's performance if it was selected.

<sup>5</sup> Additionally, WHR recently sought rent relief from the Land Board requesting that WHR be allowed to pay the semiannual rent due on February 1, 2022 under the lease for the Grand Naniloa Hotel in the amount of \$290,135.22 in installments over six months. The Board approved that request at its meeting of February 25, 2022 under agenda Item D-1. WHR failed to make its March 1, 2022 installment due under the payment plan approved by the Board and a Notice of Default was issued to WHR on March 4, 2022. WHR later delivered a check in the amount of \$290,135.22 to the Hawaii District Land Office on March 28, 2022.

Mr. Ed Bushor  
Tower Development, Inc.  
April 8, 2022  
Page 4

Thank you for your participation in the RFQ/RFP process.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin E. Moore". The signature is fluid and cursive, with a long horizontal stroke at the end.

Kevin E. Moore  
Assistant Administrator



# EXHIBIT 4

**From:** Ed Bushor  
**To:** Moore, Kevin E  
**Cc:** Masuda, Robert K; Tsuji, Russell Y; Heit, Gordon C; Stuart Miller; Case, Suzanne D  
**Subject:** [EXTERNAL] Re: Letter re Banyan Dive RFQs/RFPs  
**Date:** Friday, April 8, 2022 3:25:06 PM

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Kevin,

This letter is unacceptable. It is deserving of a Hearing at DLNR and Tower requests the hearing to present all necessary support.

Please request a hearing as we have invested \$50M into Hilo, and no other party has. So the decision making does not support such a letter and we deserve, after award letters, the opportunity to present to the BLNR, in all fairness after 5 years of working on these projects.

Please let us know of a hearing date.

Aloha and blessings,

Ed "Z" Bushor  
CEO  
Tower Development, Inc.  
1050 Bishop Street 530  
Honolulu, Hawaii 96813  
808.268.1903 (M)  
[REDACTED]  
[www.towerdevcon.com](http://www.towerdevcon.com)

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**From:** Kevin Moore [REDACTED]  
**Date:** Friday, April 8, 2022 at 3:21 PM  
**To:** Edward Bushor [REDACTED]  
**Cc:** Robert DLNR Masuda [REDACTED], "Tsuji, Russell Y"  
[REDACTED], "Heit, Gordon C" [REDACTED], Stuart Miller  
**Subject:** Letter re Banyan Dive RFQs/RFPs

Dear Mr. Bushor – Attached please find a pdf of my letter to you dated April 8, 2022 regarding the Banyan Drive RFQs/RFPs. Thank you.

Kevin

**EXHIBIT 4**