

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

March 24, 2023

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

PSF No.: 19HD-078

Hawaii

Approve Evaluation Committee’s Recommendation for Selection of Proposal Submitted by Savio SB Growth Venture LLC in Response to Request for Qualifications / Request for Proposals for Lease of Improved Public Lands; Issuance of Right-of-Entry Permit to Savio SB Growth Venture LLC for Purposes of Assessing the Physical Condition of the Property and Preparing Construction Documents; Waiakea, South Hilo, Hawaii, Tax Map Key: (3) 2-1-005:020.

BACKGROUND:

At its meeting of July 22, 2022, under agenda Item D-5, as later amended at its meeting of September 9, 2022, under agenda Item D-2, 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 Country Club Condominium Hotel 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; provided, however, that the RFQ/RFP documents shall notify all prospective applicants that if Oceanfront 121, Inc. is not selected as the lessee under the RFQ/RFP, the successful applicant will be required to reimburse Oceanfront 121, Inc. \$158,622.16 for improvements made to the property.

REMARKS:

In accordance with the Board’s approval, the Chairperson appointed an evaluation committee on August 8, 2022 to review any statements of qualifications (SOQs) and proposals submitted in response to the RFQ/RFP.

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 September 1, 2022 and posted on Land Division’s website. A copy of the published RFQ/RFP is attached as Exhibit I.

A virtual applicant briefing was held on September 13, 2022 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, SOQs, and proposals. Five parties timely submitted notices of intent for the subject project by the September 20, 2022 deadline: (i) Savio SB Growth Venture LLC (SGV), (ii) Local Local LLC / Banyan Drive Management, LLC (BDM), (iii) Reeds Bay Resort, Inc. (RBR), (iv) Bayview Banyan Corporation (BBC), and (v) Powell & Aucello.

Of the five parties who submitted notices of intent, three of them, SGV, BDM, and RBR, timely submitted SOQs for the project on or before the deadline of October 7, 2022.¹ On October 17, 2022, the evaluation committee allowed all three of these applicants to progress to the second phase of the process, which is the submission of proposals.

Of the three applicants who submitted SOQs, two of them, SGV and BDM, timely submitted their proposals for the property on or before the deadline of November 18, 2022.² After careful review, on December 9, 2022 the evaluation committee ranked SGV's proposal higher than that of BDM, and is therefore recommending below that the Board approve the selection of SGV's proposal.

SGV proposes a three-phase renovation of the 152-room property with the ultimate goal of reopening it as a rebranded, fully renovated hotel catered mainly towards students and local businesspeople. Phase 1 will involve an assessment of the existing condition of the building and preparation of construction documents to renovate the entire facility, and is anticipated to last two years. SGV's intent is to keep the facility open and operational during the time it takes to secure a building permit for the needed repairs and renovations. Phase 2 will require all tenants to vacate the building during the construction period expected to take 1-2 years. Renovations will include a complete gutting the structure, repair of spalling, installing all new plumbing and electrical lines, fixtures and equipment, and installing new elevators. Phase 3 will be the reopening of the rebranded hotel for long-term rentals of about 40% of the rooms as well as transient rentals for business travelers and tourists for the remaining 60% of rooms. SGV explains it will self-manage the property and hire an operator for the hotel and is requesting a new 65-year lease of the property.

SGV's long-term goal is for the property to be used 100% for transient accommodations. SGV's proposed renovations are estimated to cost at least \$7-9 million and take 1-2 years to complete once construction commences. However, the actual cost of the renovations is dependent upon SGV's assessment of the condition of the property during Phase 1

¹ Powell & Aucello did not submit SOQs or otherwise express interest in continuing in the RFQ/RFP process after submission of its notice of intent. BBC notified staff by telephone in November 2022 that it would not submit a proposal for the project.

² By letter dated November 16, 2022, RBR advised Land Division that it was withdrawing from participation in the RFQ/RFP.

described above. Staff is including a recommendation below for the issuance of a right-of-entry permit to SGV over the property to allow SGV to conduct a physical assessment of the condition of the property, which SGV indicates is necessary to prepare construction documents. Because the property is occupied and under revocable permit to BDM, staff is recommending inclusion of a condition in the right-of-entry that SGV coordinate with BDM on access to the property during reasonable hours in way that does not interfere with BDM’s operations or its tenants’ occupancy of the premises.

SGV’s proposed rent for the term of the new 65-year lease is as follows:

Lease Years	Annual Rent Amount
1-3	\$36,000
4-10	\$96,000 plus 5% of gross revenues over the annual breakpoint of \$1,920,000
11-20	Rent to be based on 75% of the average cumulative rent paid over years 4-10 but not to be lower than \$114,000 per year plus 5% of gross revenues over the annual breakpoint
21-30	Rent to be based on 75% of the average cumulative rent paid over years 11-20 but not to be lower than \$150,000 per year plus 5% of gross revenues over the annual breakpoint
31-40	To be re-opened at fair market rates determined by independent appraisal
41-50	To be re-opened at fair market rates determined by independent appraisal
51-65	To be re-opened at fair market rates determined by independent appraisal

The actual rent to be paid under the new lease will be determined by independent appraisal procured by the State but paid for by SGV. Additionally, the Board has authority to waive rent up to certain amounts pursuant to Section 171-6(7), Hawaii Revised Statutes, under some conditions when major improvements or renovations are required to a property. Accordingly, if the Board approves the evaluation committee’s recommended selection of SGV, staff will return at a later date with a final rent proposal.

SGV’s total revenue projections for the property in lease year 1 (prior to renovation) are \$1.3 million, increasing in subsequent years. After completion of renovations in year 4, SGV projected total revenues at \$4.8 million per year and expenses of about \$2 million per year.

SGV states it has a proven track record as demonstrated with the Pagoda Hotel in Honolulu. Purchased in 2010 (and sold in 2022), SGV managed and operated the established hotel. SGV explains the Pagoda Hotel is similar in size to the subject property and will be managed in a similarly successful manner.

In comparison, BDM proposes to invest approximately \$20 million into the design and renovation of the property. Once the renovation is completed, BDM proposes to operate the structure mostly as a long-term rental (80% long-term rental and 20% extended-stay hotel). BDM would utilize its existing in-house property management team to operate the long-term rentals and hire around 15 staff for extended-stay operation. BDM stated it is open to designing, renovating and operating the building as a 100% short-term transit hotel as well, if the Department requests it. Prior to renovation, BDM anticipates operating expenses to exceed revenue due to the poor condition of the building. Once renovation is complete, BDM anticipates annual revenue of \$2.8 million with annual operating costs of \$1.8 million.

BDM explains its affiliated entity, Local Local LLC (Local Local), has invested about \$23.5 million in the design and renovation of over 100 prior foreclosed and abandoned residential units in Hawaii County from 2017 to present and that these were debt-financed projects. BDM states that Local Local works directly with five banks and lenders. BDM adds that Local Local's in-house property managing team handles the day-to-day operations as well as all maintenance duties of these properties and that the occupancy rate is 100% on the units that have been renovated. Currently, Local Local is working on the completion of the remaining 4 units. All units are long-term rentals, and Local Local caters to tenants who need affordable, Section 8 and/or pet friendly homes. Local Local's current monthly rental revenue is around \$150,000 and the company is profitable.

A table listing the main criteria considered by the evaluation committee in making its selection is attached as Exhibit II. The table compares the two proposals received.

Although both proposals have their strong points, the evaluation committee ranked SVG higher due to its longer experience in renovating older hotels and operating them and its established track record for financing such large-scale projects. The RFQ/RFP was designed so that in the event the SVG withdraws its proposal any time before or after Board approval, staff may present to the Board for consideration a recommendation that the Board select the second ranked proposal/applicant, which in this case is BDM.

If the Board approves the evaluation committee's selection of SGV, the next step in the process is for Land Division to negotiate a development agreement for the demolition/repair/renovation project and lease with SGV. As part of the negotiations, Land Division will procure an appraisal of the fair market rent payable for the property based on SGV's proposal. SGV will be required to pay the cost of the appraisal.

Once the development agreement is negotiated and the rent is determined, Land Division will return to the Board for approval of the development agreement and the form of lease to be executed once the conditions of the development agreement are satisfied. The development agreement will provide additional detail on the project scope and cost.

RECOMMENDATION: That the Board:

1. Accept and approve the evaluation committee’s recommendation to select Savio SB Growth Venture LLC as the developer/lessee of the subject property.
2. Authorize the negotiation of a development agreement and proposed lease form with Savio SB Growth Venture LLC subject to the terms and conditions cited above, including, without limitation, a requirement for Savio SB Growth Venture LLC to reimburse Oceanfront 121, Inc. \$158,622.16 for improvements the latter made to the property. Once the development agreement and lease form are negotiated, staff shall present the development agreement and proposed lease form to the Board for approval prior to execution.
3. Authorize the issuance of a right-of-entry permit to Savio SB Growth Venture LLC covering the subject area under the terms and conditions cited above, which are by this reference incorporated herein and further subject to the following:
 - a. The standard terms and conditions of the most current right-of-entry permit form, as may be amended from time to time;
 - b. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State; and
 - c. Authorize the Chairperson to continue the right-of-entry for additional one-year periods for good cause shown.

Respectfully Submitted,



Kevin E. Moore
Assistant Administrator

APPROVED FOR SUBMITTAL:



Dawn N.S. Chang, Chairperson

RT

EXHIBIT I

**REQUEST FOR QUALIFICATIONS /
REQUEST FOR PROPOSALS
FOR THE REPAIR, RENOVATION AND OPERATION OF
THE FORMER COUNTRY CLUB CONDOMINIUM HOTEL
HILO, ISLAND OF HAWAII, HAWAII**



**STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
LAND DIVISION
September 1, 2022**

EXHIBIT I

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ATTACHMENTS:

Attachment 1: Land Board Approval dated July 22, 2022, Agenda Item D-5, (the Land Board approval is subject to amendment from time to time and any amendments will be posted at <https://dlnr.hawaii.gov/ld/RFQ-RFP-countryclub/>).

NOTICE TO INTERESTED PARTIES

REQUEST FOR QUALIFICATIONS ("RFQ") /
REQUEST FOR PROPOSALS ("RFP")
FOR THE REPAIR, RENOVATION AND OPERATION OF THE
FORMER COUNTRY CLUB CONDOMINIUM 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 repair, renovation and operation of an existing hotel/apartment building on a parcel of State land in Waiakea, South Hilo, Island of Hawaii, Hawaii, designated as Tax Map Key: (3) 2-1-005:020 (Parcel 20).

Parcel 20 is located on Banyan Drive on Waiakea Peninsula in Hilo with a street address of 121 Banyan Drive, Hilo, Hawaii 96720. This RFQ/RFP is intended to facilitate the repair, renovation and operation of the improvements on Parcel 20 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 repair, renovation and 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 Parcel 20 and repair, renovate and 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 13, 2022**, 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 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 20, 2022**. 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., October 7, 2022**, 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 repair, renovation and operation proposal for the improvements on Parcel 20. DLNR will evaluate the submitted proposals and select the applicant whose proposal best satisfies DLNR's repair, renovation and 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 repair, renovation and 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-countryclub/>.

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 whether or not it is in the best interest of DLNR or the State of Hawaii to do so. 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
September 1, 2022

**NOTICE OF INTENT
REQUEST FOR QUALIFICATIONS ("RFQ") /
REQUEST FOR PROPOSALS ("RFP")
FOR THE REPAIR, RENOVATION AND OPERATION OF
THE FORMER COUNTRY CLUB CONDOMINIUM HOTEL**

Parties interested in submitting qualifications and proposals in response to the RFQ/RFP for the repair, renovation and operation of the former Country Club Condominium 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 20, 2022**. 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 an 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 Key: (3) 2-1-005:020 (Parcel 20). The improvements on Parcel 20 include a six-story, 152-room hotel built in 1969. Parcel 20 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-7914 to OceanFront 121, Inc. for apartment and hotel purposes. DLNR’s Land Division manages the permit and is responsible for planning the future use of the Subject Property.

DLNR has determined that the improvements on Parcel 20 are in need of major repairs and renovations and desires to issue a new lease of the Subject Property up to a maximum term of 65 years for hotel/apartment purposes to encourage a lessee to make a substantial investment in repairs and renovations 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 repair, renovate or operate the Subject Property on its own. Accordingly, DLNR is seeking a private entity with the necessary renovation expertise and financial capacity to repair, renovate and operate the Subject Property under a new lease.

PURPOSE

The purpose of this Request for Qualifications (“RFQ”) / Request for Proposals (“RFP”) is to solicit and select a qualified private entity to lease, repair, renovate and operate the Subject Property under a new lease up to a maximum term of 65 years 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 repairs and 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.

DLNR will select the applicant whose proposal best meets DLNR’s repair, renovation and operation objectives and RFQ/RFP selection criteria (see RFQ/RFP Sections II and IV).

SUBJECT PROPERTY

The Subject Property includes Parcel 20 with an area of 1.22 acres¹ located at Waiakea, South Hilo, Island of Hawaii, Hawaii, and all improvements located thereon. The improvements include a six-story, 152-room hotel constructed in 1969, swimming pool and paved parking area. The hotel is occupied under Revocable Permit No. S-7914 to OceanFront 121, Inc.

REQUIRED REPAIRS AND RENOVATIONS

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 5-8 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 August 14, 2017 regarding the Subject Property citing a number of Hawaii County Code violations. The County Fire Department issued a Fire Inspection Record in August 2017 with a result of “Fail” citing violations of Fire Code and other applicable codes. The repair and 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 repaired and 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 largely in the Federal Emergency Management Agency’s Flood Zone AE (areas subject to inundation by the 1-percent-annual-chance flood event), with 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

¹ County of Hawaii tax maps show a slightly smaller area and different configuration for Parcel 20 that excludes a driveway connection from Banyan Drive to the parcel. DLNR has verified with the Department of Accounting and General Services, Survey Division, that the driveway is part of Parcel 20 as a result of a 1970 consolidation and re-subdivision.

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-countryclub/>, 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 site work, repairs, improvements, and required remediation of hazardous materials necessary for the repair, renovation and operation of the improvements on the Subject Property.

The Subject Property is currently used for short-term residential rentals and transient accommodations and will likely remain occupied under Revocable Permit No. S-7914 to 121 OceanFront, Inc. 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 upon the termination of Revocable Permit No. S-7914 and commencement of the new lease to the selected applicant. It will be the selected applicant’s prerogative whether to allow all or some occupants to remain on the Subject Property under existing or new rental agreements during repairs and renovations, or to require all or some residents and guests to vacate the premises. If the selected applicant determines that the Subject Property should be vacated in full or in part (in phases) to facilitate repairs and renovations, then the selected applicant will need to comply with all applicable laws and provide all residents and guests with proper notice of the termination of their tenancies.

The County Department of Environmental Management (“DEM”) reported that

as of July 18, 2019, there was a balance of \$174,608.83 owed on a stipulated judgment regarding delinquent sewer fees for the Subject Property. DEM also advised that the active sewer account for the Subject Property had a balance of \$10,360.00, of which \$5,280.00 was past due as of July 23, 2019. DEM further reported that there is a real property tax delinquency associated with the Subject Property in the amount of \$96,655.56, including unpaid taxes, penalties and accrued interest. **It is the responsibility of each applicant to conduct appropriate due diligence to determine whether the applicant would have any responsibility for these or any other outstanding obligations pertaining to the Subject Property if the applicant were to be selected through the RFQ/RFP process and be issued a lease for the Subject Property.**

Additionally, at its meeting of July 22, 2022, Item D-5, the Board found that the permittee under Revocable Permit No. S-7914, OceanFront 121, Inc., made physical improvements to the Subject Property in the amount of \$158,622.16 in recent years to cure County building, plumbing, electrical, and fire code violations. **The Board directed that if OceanFront 121, Inc. is not selected as the lessee under this RFQ/RFP, then the selected applicant will be required to reimburse 121 OceanFront, Inc. \$158,622.16 for these improvements.** For more information, see the Board's action of July 22, 2022, Item D-5, a copy of which is provided as **Attachment 1** hereto (the Board action is subject to amendment from time to time and any amendments will be posted at <https://dlnr.hawaii.gov/ld/RFQ-RFP-countryclub/>).

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 July 22, 2022, the Board approved agenda Item D-5 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 20, 2022, 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 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 repair, renovation and 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 repair, renovation and 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 repair, renovation, and operation objectives and selection criteria. The Board at a meeting open to the public will consider the recommended applicant and its repair, renovation and operation proposal for approval. 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-construction 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 repair, renovation and 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 repair, renovation and operation of the Subject Property.

SIGNIFICANT DATES AND TIMES*

Item / Event / Deadline	Date	Time
Advertisement of RFQ/RFP	September 1, 2022	
Virtual Applicant Briefing	September 13, 2022	10:00 a.m.
Deadline to Submit Notice of Intent	September 20, 2022	4:00 p.m.
Deadline to Submit Statement of Qualifications	October 7, 2022	4:00 p.m.
Notify Qualified Applicants of RFP*	October 21, 2022	
Deadline to Submit Proposals*	November 18, 2022	4:00 p.m.
Evaluation Committee's Selection of Developer*	December 9, 2022	
Land Board Approval of Selected Developer* and Negotiation of Development Agreement	January 2023	

*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

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-countryclub/>.

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 repair, renovation and operation of the existing improvements on Parcel 20 in a way that promotes and complements the hotel/resort area of Banyan Drive. The repair, renovation and operation will:

- Be undertaken by a qualified private sector lessee who will bear all of the costs of the 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.
- Provide fair market value 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 repairing, renovating and operating the Subject Property under a 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 repair, renovation and operation of the Subject Property.

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 13, 2022**, to explain DLNR's repair, renovation and 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. Interested parties can obtain the link to the briefing by emailing 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 20, 2022**. 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 repair and renovation 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 eight (8) 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 repair, renovation and 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 repair, renovate and 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 with an interest or 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 repair, renovation and operation of the Subject Property.
 - e. Subsidiaries, Related Entities and Affiliates. Identify any subsidiaries, related entities or affiliates of applicant in which applicant holds an interest or ownership interest. Identify the type of entity (e.g., corporation, limited liability company, etc.), the state or country of organization of each subsidiary or affiliate, and indicate the amount and type (shares, membership interest) of

interest held by applicant.

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 Board.

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 repair, renovation and 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 pre-construction 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, officers, subsidiaries, related entities and/or affiliates 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, which shall include but are not limited to income statements, balance sheets, statements of assets and liabilities, net worth and liquid cash or securities, 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, whether by or against applicant, its principals, owners, directors, officers, subsidiaries, related entities and/or affiliates, 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 October 7, 2022**. 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 repair, renovation and operation proposals in accordance with Section IV (Request for Proposals) of this RFQ/RFP.²

- 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 repair, renovation and 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.

² If there is only one qualified applicant, DLNR may, in its sole discretion, waive certain RFP submission requirements.

- 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 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 repair, renovation and operation proposals and select the applicant whose proposal best satisfies DLNR's objectives and selection criteria. DLNR staff will then submit to the Board for consideration a recommendation for 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 repair, renovation and operation proposal, which proposal shall include: (1) a repair, renovation and operation plan; (2) an economic proposal; and (3) a business plan. The repair and renovation 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 eight (8) hard copies and one electronic copy on a CD of their repair and renovation 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 repair, renovation and operation proposal.
3. Repair, Renovation and Operation Plan. Provide the applicant's repair, renovation and operation plan for the Subject Property. The repair, renovation and 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 repair and renovation 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 renovated, and the uses provided for (provide three full size copies, 1"= 20' scale; and 6 half-size copies).
 - b. Narrative Description. Provide a narrative description of the repair, renovation and operation proposal, including but not limited to the following:
 - i. Descriptions of the proposed project and proposed uses;
 - ii. An outline of the repair, renovation and operation program and phases;
 - iii. Statements indicating how the repair, renovation and operation plan satisfies DLNR's 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 repair, renovation and 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 repair, renovation and 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 repair, renovation and operation plan provides for 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 repair, renovation and 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 repair, renovation and 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.

<u>Annual Minimum Rents</u>	<u>Period</u>
\$ ___ 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 repair, renovation and 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 the statutory restrictions under Chapter 171, HRS.³

³ See HRS Section 171-6(7): "the board may: . . . [r]educe or waive the lease rental at the beginning of the lease on any lease of public land to be used for . . . resort, commercial, industrial, or other business use where the land being leased requires substantial improvements to be placed thereon; provided that the reduction or waiver shall not exceed . . . one year for land to be used for resort, commercial, industrial, or other business use. When a lease for resort, commercial, industrial, or other business or residential purposes requires a lessee to demolish existing improvements or provide basic infrastructure, including drainage, sewer, water, electricity, and other utilities, before the lessee can make productive use of the land, the board may approve a reduction or waiver of lease rental for a period of up to twenty years; provided that the aggregate amount of the reduced or waived lease rental shall not exceed the amount of the lessee's total expenditures for demolition or provision of the infrastructure"

- 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 repair, renovation and operation of the Subject Property. The business plan must specify all of the major elements necessary to implement the applicant's repair, renovation and 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. Repair, Renovation and Operation Schedule. Provide an outline of the proposed repair, renovation and operation 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 repair and 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 repairs and renovations, 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 repair, renovation and 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

Proposals for the repair, renovation and operation of the Subject Property 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 18, 2022**; 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, renovation and 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 repair, renovation and 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 repair, renovation and operation proposal best satisfies DLNR's repair, renovation and operation objectives and the selection criteria below.

3. Board Approval. DLNR staff will present to the Board for its consideration the evaluation committee's top ranked proposal/applicant. In the event the applicant withdraws its proposal any time before or after Board approval, DLNR staff may present to the Board for consideration a recommendation that the Board select the second ranked proposal/applicant and if the second ranked applicant withdraws its proposal at any time, then the DLNR staff may continue down the list of ranked applicants until a recommended selection is presented to the Board for consideration and the parties proceed to the exclusive

negotiation phase.

4. Exclusive Negotiations. Upon the Board's approval of a 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' repair, renovation and 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:

Repair and Renovation Plan

- Degree to which the repair, renovation and operation plan meets DLNR's repair, renovation and 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 repair, renovation and 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 repair, renovation and operation proposal.
- Demonstrated ability to finance the proposed repairs, renovations and operations.

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 repair, renovation and 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 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) without a Board-approved development agreement executed by the parties, the exclusive negotiation period shall terminate and the first selected applicant shall thereafter have no authority to negotiate a development agreement and shall have no right, title or interest in or to the Subject Property. In such event, DLNR staff may present to the Board for consideration the second-ranked applicant proposal and, if approved by the Board, the exclusive negotiation period shall commence anew as described above but with the second-ranked applicant. If the second-ranked applicant is not approved by the Board, then the DLNR staff may continue down the list of ranked applicants until a ranked applicant is presented and approved by the Board and the parties timely execute a Board-approved development agreement.

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 the 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 repair, renovation and operation proposal, including site investigations and other due diligence activities, planning and designing the repairs and renovations, 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:

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/RFQ-RFP-countryclub/>. 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. 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.

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 Chapter 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-countryclub/> 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 RFP, including but not limited to 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 RFQ/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.

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

September 9, 2022

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

PSF No.: 19HD-078

Hawaii

Amend Prior Board Action of July 22, 2022, Item D-5, *Authorize the Issuance of a Request for Qualifications / Request for Proposals for Lease of Improved Public Lands; Waiakea, South Hilo, Hawaii, Tax Map Key: (3) 2-1-005:020.*

The purpose of the amendment is to delete a reference in Recommendation 2 of the prior Board action to the sale of improvements on the subject lands and affirm that the Request for Qualifications / Request for Proposals seeks to issue a lease of improved public lands.

BACKGROUND:

At its meeting of July 22, 2022, under agenda Item D-5, the Board of Land and Natural Resources (Board) authorized 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. A copy of the prior Board action is attached as Exhibit 1.

REMARKS:

In the course of preparing the RFQ/RFP solicitation documents, staff noticed an error in Recommendation 2 of the July 22, 2022 action. That recommendation reads as follows:

Find that the public interest demands that a lease of the subject property and a sale of the improvements thereon be disposed of through negotiation pursuant to §171-59(a), HRS, as amended.

Staff now seeks to clarify that no sale of improvements will be involved in the RFQ/RFP. Although staff explored the possibility of a sale of improvements previously, after consulting with the Department of the Attorney General on the matter, staff decided to recommend that result of the RFQ/RFP process be a lease of land and improvements thereon. Accordingly, staff is recommending an amendment to Recommendation 2 to strike the words "a sale of the" as indicated below.

APPROVED BY THE BOARD OF
LAND AND NATURAL RESOURCES
AT ITS MEETING HELD ON

September 9, 2022 *uo*

RECOMMENDATION: That the Board:

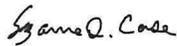
- A. Amend its prior Board action of July 22, 2022, Item D-5, by deleting the words “a sale of the” from Recommendation 2 (as indicated by bracketed strikethrough below) and retaining the remainder of the language:
 2. Find that the public interest demands that a lease of the subject property and [~~a sale of the~~] improvements thereon be disposed of through negotiation pursuant to §171-59(a), HRS, as amended.
- B. Affirm that, except as amended hereby, all terms and conditions listed in its July 22, 2022 approval shall remain the same.

Respectfully Submitted,



Kevin E. Moore
Assistant Administrator

APPROVED FOR SUBMITTAL:



Suzanne D. Case, Chairperson

RT

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

July 22, 2022

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

PSF No.: 19HD-078

Hawaii

Authorize the Issuance of a Request for Qualifications / Request for Proposals for Lease of Improved Public Lands; Waiakea, South Hilo, Hawaii, Tax Map Key: (3) 2-1-005:020.

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 171-16, 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 Key: (3) 2-1-005:020, as shown on the attached maps labeled Exhibits A-1, A-2 and A-3.

AREA:

1.22 acres, more or less.

ZONING:

State Land Use District: Urban

APPROVED BY THE BOARD OF
LAND AND NATURAL RESOURCES
AT ITS MEETING HELD ON
July 22, 2022 *gd.*

D-5
EXHIBIT 1

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

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-7914 to OceanFront 121, Inc. for apartment and hotel purposes.

PROPERTY CHARACTERISTICS:

Utilities – Electricity, water and sewer

Elevation – Two 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 is a legally subdivided lot.

Encumbrances – Staff has verified that the following encumbrances exist on the property:
Revocable Permit No. S-7914 to OceanFront 121, Inc. for apartment and hotel 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 approved by the Environmental Council and dated November 10, 2020, the subject request is exempt from the preparation of an environmental assessment pursuant to General Exemption Type 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,” and Part 1, Item 40 that states, “Leases of state land involving negligible or no expansion or change of use beyond that previously existing.” See Exhibit C attached.

BACKGROUND:

The subject property has been under lease and revocable permit for many years dating back to 1949. General Lease No. 3269 (GL 3269) dated June 1, 1949 was sold at public auction to Mr. A.M.M. Osorio for a term of 21 years. On December 18, 1953, the Board approved the assignment of lease from A.M.M. Osorio to Constantine Roumanis. As a result of damage caused by the tsunami on May 23, 1960, the lease qualified for an extension under §87 of Act 32, Session Laws of Hawaii 1962. At its meeting of April 4, 1962 under agenda item F-16, the Board approved the extension of lease term through March 14, 2015.

At its meeting of November 22, 1967 (supplemental), the Board approved the assignment of lease from Constantine Roumanis, assignor, to M. & Associates, Inc., assignee. The assignee submitted plans for the construction of a hotel on the property. This brought about a change in the use of the premises and resulted in the Board action of April 26, 1968, agenda item F-25, modifying the lease extension agreement by establishing a new annual rental rate and approving the gratis conveyance of a 10,890 square foot parcel of private property (Former Parcel 23) fronting the lease land from M. & Associates, Inc. to the State, subject to an estate of years up to and including March 14, 2015. This parcel is indicated as dropped parcel 23 on Exhibit A-2 attached. The deed recorded with the Bureau of Conveyances on July 2, 1968, states in part that it is the intent of the grantor “to continue to maintain complete control over the use and possession of the premises until March 14, 2015.” Former Parcel 23 is now State land and part of Tax Map Key: (3) 2-1-005:020 (Parcel 20).¹

Then, at its meeting of April 24, 1970 under agenda item F-1-b, the Board consented to the sublease of GL 3269 from M. & Associates, Inc., sublessor, to Travelodge International, Inc., sublessee.

¹ The tax map (Exhibit A-2) shows a short driveway connecting Parcel 20 to Banyan Drive. However, staff verified with the Land Survey Division of the Department of Accounting and General Services that the driveway was consolidated into the larger parcel in 1970. Exhibit A-3 shows the current official Land Survey Division map for Parcel 20.

At its meeting of February 10, 1984 under agenda item F-1-f, the Board consented to the assignment of lease from M. & Associates, Inc., assignor, to Richard M. Jitchaku, assignee. At its meeting of February 13, 1987 under agenda item F-2, the Board consented to the assignment of lease from Richard M. Jitchaku, assignor, to Country Club-Hawaii, Inc. (Country Club), assignee. The submittal also included a provision for the creation of a horizontal property regime (now known as a condominium property regime (CPR)) allowing the individual units on the property to be converted into leasehold condominium apartments and created the Association of Apartment Owners of Country Club Hawaii, Inc. (AOAO). The CPR expired when the lease expired.

At its meeting of February 27, 2015, under agenda Item D-8, the Board approved a one-year holdover of GL 3269 and subsequent issuance of a month-to-month permit to Country Club. Country Club intended to assign the lease to the AOAO during the holdover period, but the parties could not reach agreement on the terms of the assignment. At its meeting of June 26, 2015, under agenda Item D-4, the Board therefore rescinded its action of February 27, 2015, Item D-8, approved a three-and-one-half month holdover of the lease to Country Club, and a subsequent month-to-month revocable permit to the AOAO for apartment and hotel purposes.

At its meeting of December 14, 2018, under agenda Item D-3, the Board approved the cancellation of Revocable Permit No. S-7867 and the issuance of a new revocable permit to a replacement entity formed by the principals of the AOAO with the name OceanFront 121, Inc. (OceanFront 121). Revocable Permit No. S-7914 was thereafter issued to OceanFront 121 effective April 1, 2019 for apartment and hotel purposes, and that disposition remains in effect at the present time. Inspection photographs of the property from November 5, 2018 are attached as Exhibit D.

REMARKS:

Redevelopment of the subject property has proven to be a challenge. The land is improved with a 152-room hotel constructed in 1969. A remaining useful life study completed in April 2014 indicated that the improvements at that time had a remaining useful life of 5-8 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 E.²

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

² The Erskine Report indicates that sub-consultants in the following disciplines were retained to help assess the property: Environmental Engineer, Civil Engineer, Structural Engineer, and Mechanical and Electrical Engineer.

would be \$6,244,717. Due to increased contracting costs and inflation, the estimated demolition cost at present is \$10,200,000.³ Meanwhile, use of the subject property for apartment/hotel purposes continues in its aged condition.

The County of Hawaii established the Banyan Drive Hawaii Redevelopment Agency (BDHRA) in 2016 to master plan the Waiakea Peninsula, but it has no money to pay for an environmental assessment (EA) /environmental impact statement (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, staff explored alternatives for the Country Club 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 E.

When the Erskine Report was finalized, the Department provided copies to the County Planning Department and alerted the County of possible fire safety violations at the property. The County Building Division and Fire Department both conducted inspections

³ In terms of demolition of structures in the Banyan Drive area, the Department’s priority is to secure capital improvement project (CIP) funds to demolish the nearby shuttered Uncle Billy’s Hilo Bay Hotel (Uncle Billy’s). The Department sought funding for the demolition of Uncle Billy’s during the 2019 legislative session but the legislature declined to appropriate funds at that time. The Department renewed its request for CIP funding during the 2022 legislative session, and the Legislature ultimately appropriated \$13.5 million, albeit from the Special Land and Development Fund (SLDF) instead of general funds or general obligation bonds. The SLDF has insufficient funds to cover the demolition cost of Uncle Billy’s, let alone both Uncle Billy’s and Country Club.

of the property and found a number of violations contained in reports issued in 2017. OceanFront 121 and its predecessor-in-interest worked with the County to address the violations to an extent that would allow the property to remain habitable.

At its meeting of December 13, 2019, under agenda Item D-2, the Board previously approved an RFQ/RFP for the renovation of this property under a new lease for continued hotel and/or apartment use. Four parties expressed interest in response to the RFQ/RFP published in 2020, with three of those four submitting statements of qualification and proposals for renovation. The evaluation/selection committee appointed by the Chairperson made a preliminary selection of a proposal submitted by Tower Development, Inc. (Tower) subject to Board approval, but the recommendation to select Tower was withdrawn from the Board's agenda of September 24, 2021 after one of the members of WHR LLC (WHR), the State's lessee of the Grand Naniloa Hotel Hilo property, filed a lawsuit against Ed Bushor and Stuart Miller who are principals of both Tower and WHR. The lawsuit alleged that Tower's submission of a proposal in response to the RFQ/RFP was a violation of WHR's operating agreement, questioned WHR's solvency and sought an audit of its financial books and records. Unable to verify Tower's financial capacity, staff ultimately recommended the cancellation of the RFQ/RFP, which the Board approved at its meeting of June 9, 2022, under agenda Item D-8.

On June 30, 2022, OceanFront 121 notified Land Division that it is unable to continue managing the Country Club property under a month-to-month revocable permit because the short-term nature of the disposition does not allow it to make necessary investments in the property. OceanFront 121 advised that it intends to surrender RP7914 at the end of December 2022. To avoid the situation where Land Division is managing the day-to-day operations of a multi-tenanted residential building or is alternatively expending substantial resources of the Department to vacate and police the building, staff is proposing that the property be put out once again for lease under and RFQ/RFP for renovation and continued hotel and/or apartment use. 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, which 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 in 1969 will entail significant effort (e.g., obtaining Special Management Area approval or at least review,

building permit approval, etc.) and a substantial investment. The improvements contain hazardous materials that will require remediation as outlined in the Erskine Report and RM Towill report. The hotel is occupied by both short-term apartment renters and hotel room renters. Careful planning will be required to protect the health and safety of current residents and occupants. Additionally, the property currently has 65 parking spaces on site. County of Hawaii Zoning Code requires a total of 286 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 zones when the law requires three, 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.⁴ There are also unpaid real property taxes on some of the former CPR units that previously existed there (discussed in more detail below). Staff believes the renovation efforts, safeguarding of residents and occupants, resolution of the parking stall and loading zone shortage, sea level rise planning, and resolution of unpaid real property taxes are best undertaken by a private lessee with the necessary expertise and financial capacity.

Due to the expertise and substantial investment required to renovate the hotel, safeguard residents and occupants, and address the parking and loading zone situation to the County's satisfaction, 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, 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 that 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

⁴ 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.

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 F.

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 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 protecting the health and safety of current residents and occupants during renovation, applicant's plan for addressing the parking and loading zone shortage on the property, 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 ground lease up to the

maximum allowable term of 65 years to the selected applicant to allow the 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.

In 2019, staff circulated a draft of this submittal to the federal, state, and County of Hawaii (COH) agencies listed in the table below with the results indicated:

Agency	Comment
DLNR-Engineering	No comments
DLNR-Historic Preservation	No response by suspense date
DLNR-Office of Conservation and Coastal Lands	No objections
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	No response by suspense date
COH-Department of Water Supply	No objections
COH-Fire Department	No response by suspense date
COH-Department of Environmental Management	See comments attached as Exhibit G and discussion below

COH Department of Environmental Management (DEM) stated that as of July 18, 2019, there was a balance of \$174,608.83 owed on a stipulated judgment regarding delinquent sewer fees for the property. DEM also advised that the active sewer account for the property has a balance of \$10,360.00, of which \$5,280.00 was past due as of July 23, 2019. DEM further reported that there are a real property tax delinquency associated with the property in the amount of \$96,655.56, including unpaid taxes, penalties and accrued interest. See Exhibit G attached.

Regarding the real property taxes, penalties and interest, staff researched the delinquency and determined that it relates to unpaid taxes on the individual condominium units when the property was a leasehold condominium. When the lease expired, so did the condominium property regime. In staff's view, it would not be equitable for COH to hold OceanFront 121 or any other potential lessee accountable for that delinquency. Instead, COH would likely have to pursue the former condominium unit owners individually for payment of their respective obligations (a real property tax lien cannot attach to the State's fee simple interest in the land). It is less clear what effect the outstanding balance on the stipulated judgment for sewer fees would be on a new lease of the property. On June 25, 2022, OceanFront 121 represented that it had brought all utility

accounts for the property current, but staff has not independently verified this. As noted above, staff plans do disclose these issues to potential RFQ/RFP applicants and ask them how they plan to address them.

When the Board approved the prior RFQ/RFP, it authorized OceanFront 121 to be reimbursed for expenses for improvements to the property in recent years to cure County building, plumbing, electrical, and fire code violations in the event it was not selected as the developer/lessee under the prior RFQ/RFP. The Board authorized reimbursement of OceanFront 121 by the selected applicant for the following expenses:

Table 1

Date	Item	Cost
5/17-12/18	Elevator repairs and improvements for two elevators at property.	\$108,123.70
12/20/17	Emerald Isle Pipe Supply, Inc. – Replace water supply line between main water meter and fire hose boxes.	12,843.67
01/04/18	Emerald Isle Pipe Supply, Inc. – Installation of backflow preventer.	25,200.00
03/15/18	Emerald Isle Pipe Supply, Inc. – Disassemble 4” dry standpipe fire connection on roof and re-pipe away from edge of roof to corner of elevator shaft.	2,246.43
09/27/18	All the Way Plumbing LLP – Seal plumbing and address building infrastructure issues to cure fire code violations (ceiling openings in underground parking garage).	10,208.36
	Total:	\$158,622.16

OceanFront 121 also sought reimbursement for the following expenditures relating to the property:

Table 2

Item	Cost
Hawaii Electric Light Company, Inc. charges for electrical service	\$400,000.00
County wastewater delinquency	100,000.00
Attorneys’ fees and costs primarily for eviction of delinquent tenants	279,908.67
HR Works – Old debt at end of lease paid off at 03/01/15	9,000.00
Insurance costs	47,000.00
	Total:
	\$835,908.67

As discussed in the staff report of December 13, 2019, Item D-2, in staff’s view the expenditures listed in Table 1 above were for necessary improvements to the property that would need to be incurred by any permittee or lessee for continued use of the premises as a hotel or apartment building. It therefore seems reasonable to provide for the reimbursement of these costs to OceanFront 121 if it is not selected as the lessee

under the RFQ/RFP. Accordingly, staff is again including a recommendation below that the RFQ/RFP documents provide for the reimbursement to OceanFront 121 by the selected lessee under the RFQ/RFP (if OceanFront 121 is not the selected lessee) in an amount up to \$158,622.16.

Although staff recognizes that OceanFront 121 additionally spent significant sums paying down delinquent utility service accounts and incurred substantial legal fees and costs in removing delinquent tenants from the property, staff believes the case for requiring a potential lessee to reimburse OceanFront 121 for these expenses is less compelling because they relate to operating expenses rather than outlays for physical improvements to the premises. Furthermore, with respect to attorneys' fees and costs, staff understands that in civil litigation when a court awards such fees and costs to a party, the court reviews the fees and costs for reasonableness. Staff does not have the expertise or wherewithal to conduct a such a review of OceanFront 121's fees and costs here.

The proposed use has continued since 1969 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 and a sale of the improvements thereon 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; provided, however, that the RFQ/RFP documents shall notify all prospective applicants that if Ocean front 121, Inc. is not selected as the lessee under the RFQ/RFP, the successful applicant will be required to reimburse 121 OceanFront, Inc. \$158,622.16 for improvements made to the property.

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.

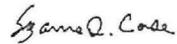
Respectfully Submitted,



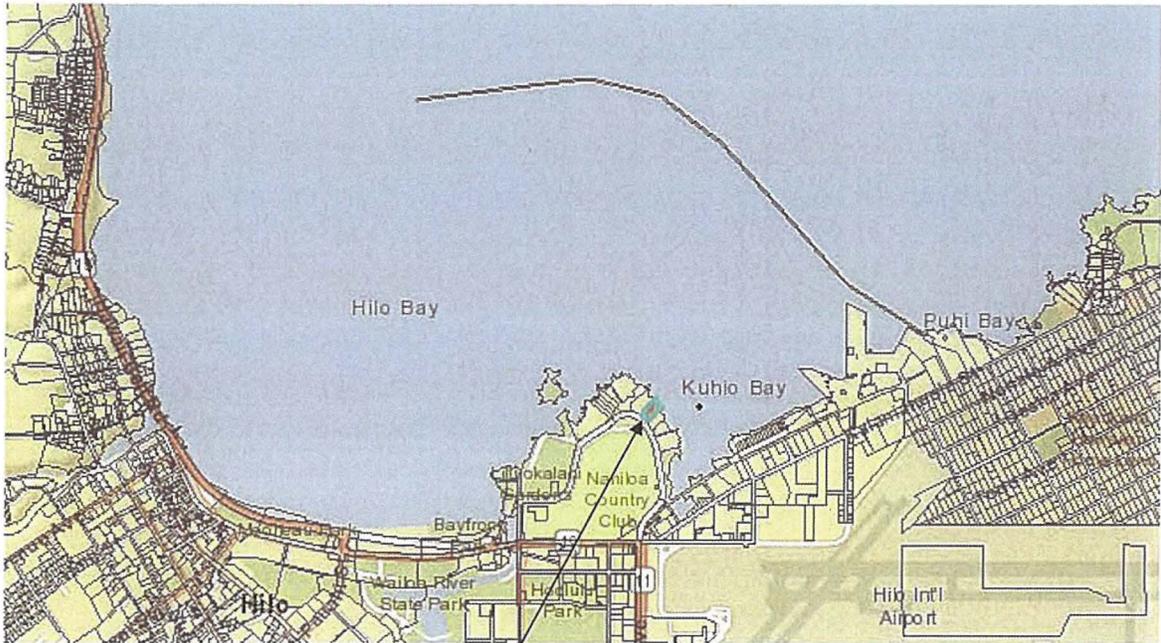
Kevin E. Moore
Assistant Administrator

APPROVED FOR SUBMITTAL:

RT



Suzanne D. Case, Chairperson



Former Country Club Hawaii
Condominium and Hotel
TMK: (3) 2-1-005:020



EXHIBIT A-1

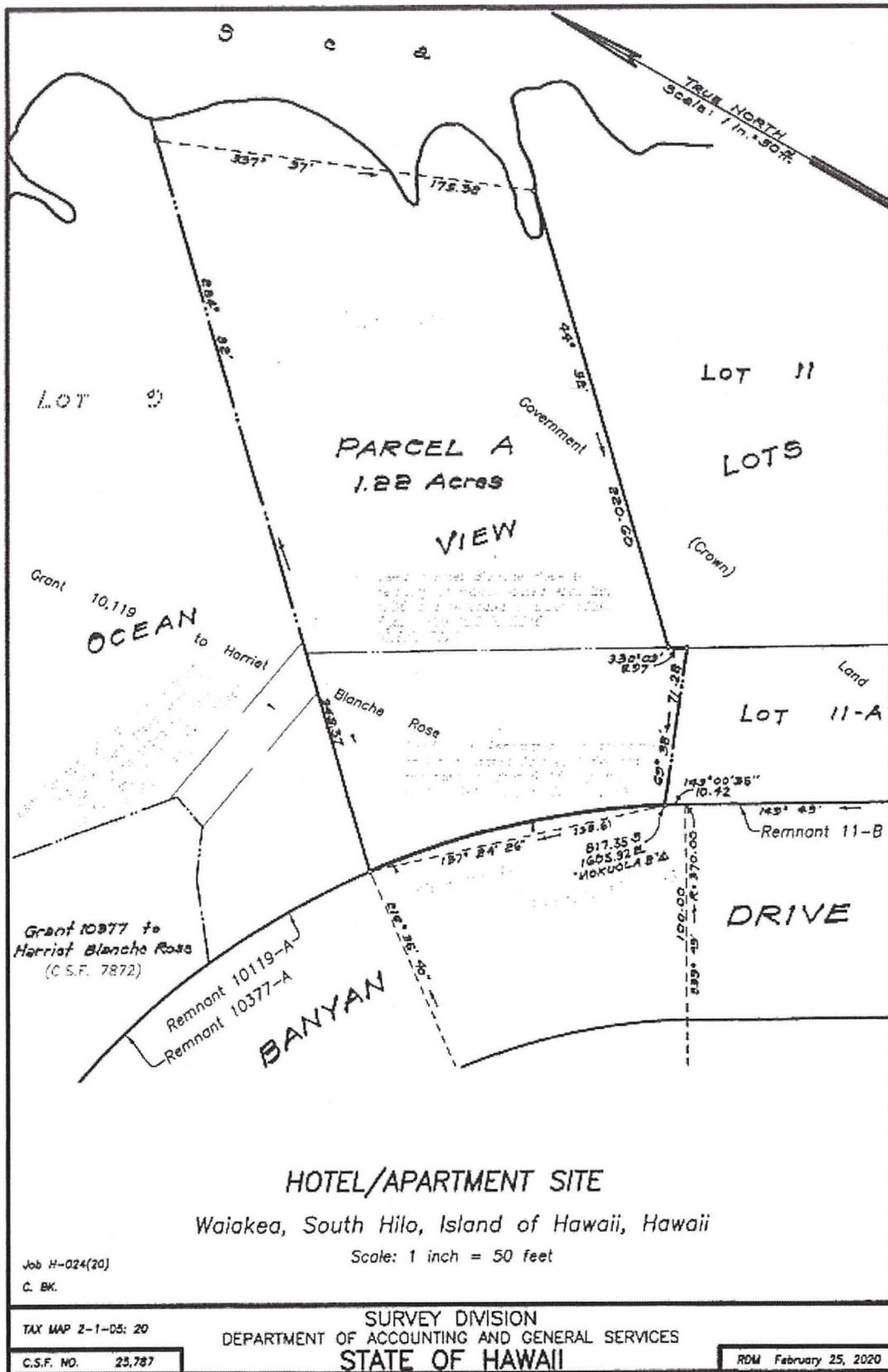


EXHIBIT A-3

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.

EXHIBIT B

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

July 22, 2022

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 Public Lands.

Project / Reference No.: PSF No. 19HD-078.

Project Location: Waiakea, South Hilo, Hawaii, Tax Map Key: (3) 2-1-005:020.

Project Description: The subject property is currently improved with a 152-room hotel under month-to-month Revocable Permit No. S-7914 to Oceanfront 121, Inc. for apartment and hotel purposes. The Department of Land and Natural Resources intends to issue a Request for Qualifications / Request for Proposals for a new long-term lease of the property for apartment and hotel purposes.

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 November 10, 2020, the subject request is exempt from the preparation of an environmental assessment pursuant to General Exemption Type 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," and Part 1, Item 40 that states, "Leases of state land involving negligible or no expansion or change of use beyond that previously existing."

Cumulative Impact of Planned Successive Actions in Same Place Significant?: No. The use of the land for apartment and hotel purposes is compliant with county zoning requirements, and such use has existed since 1969. Staff believes there are no cumulative impacts involved.

EXHIBIT C

**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 1969. 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 152-room hotel and used for hotel and apartment purposes since 1969. 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:

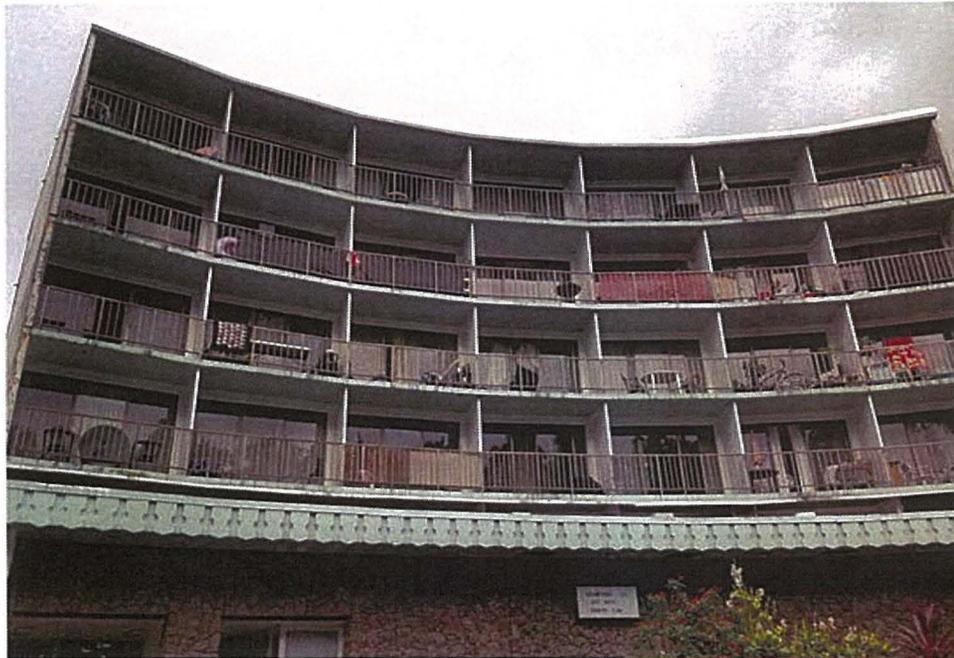
Agencies listed in the attached submittal.

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.

EXHIBIT D

Inspection Photos of RP S-7867 on 11/05/2018:



Streetside View

New Backflow Prevention Device

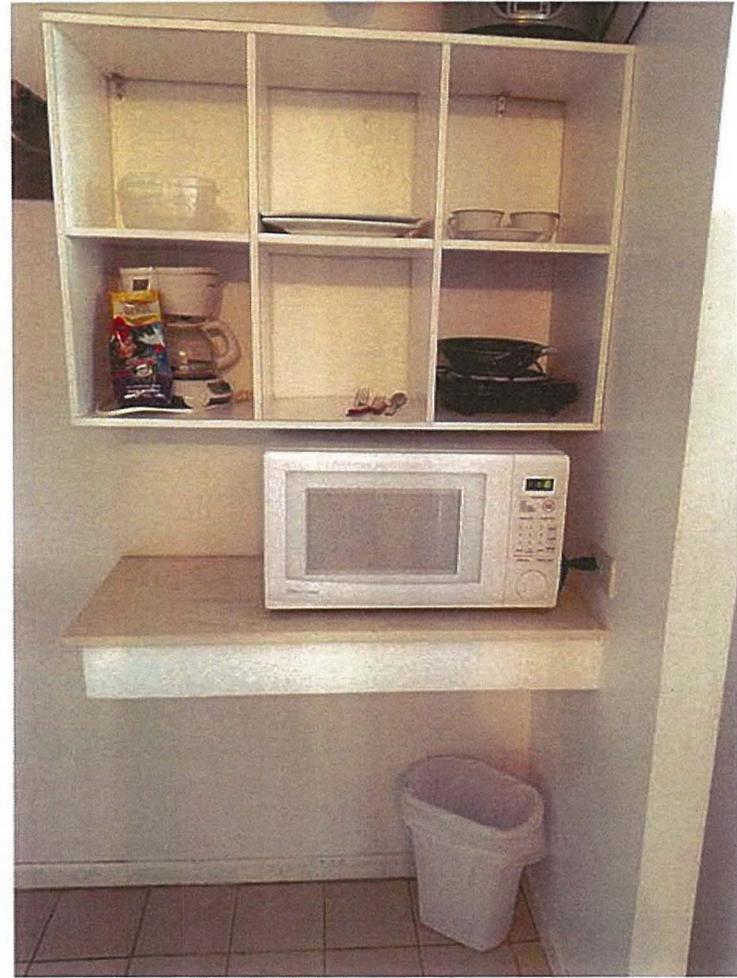




Kitchenette and Bathroom in renovated room



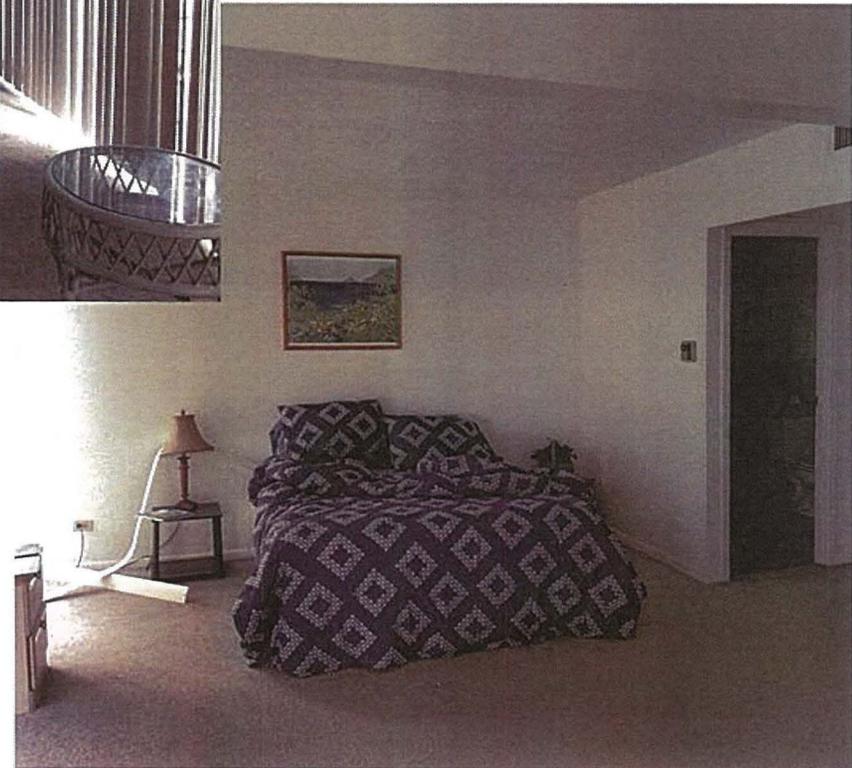
Sleeping area and entry with bathroom and kitchenette to the left and right at back of photo

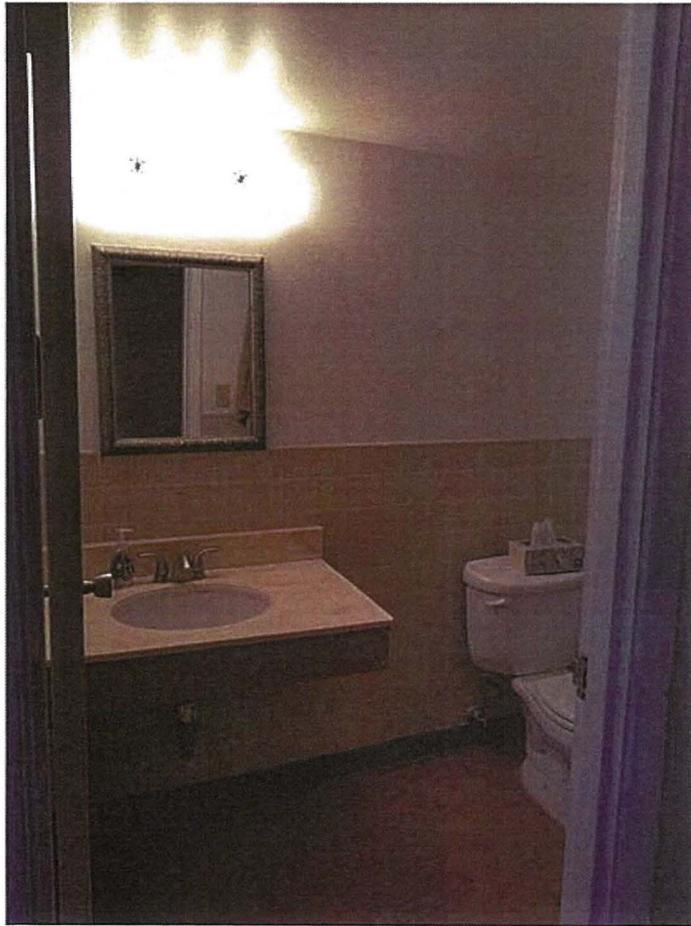


Bathroom and kitchenette from previous photo

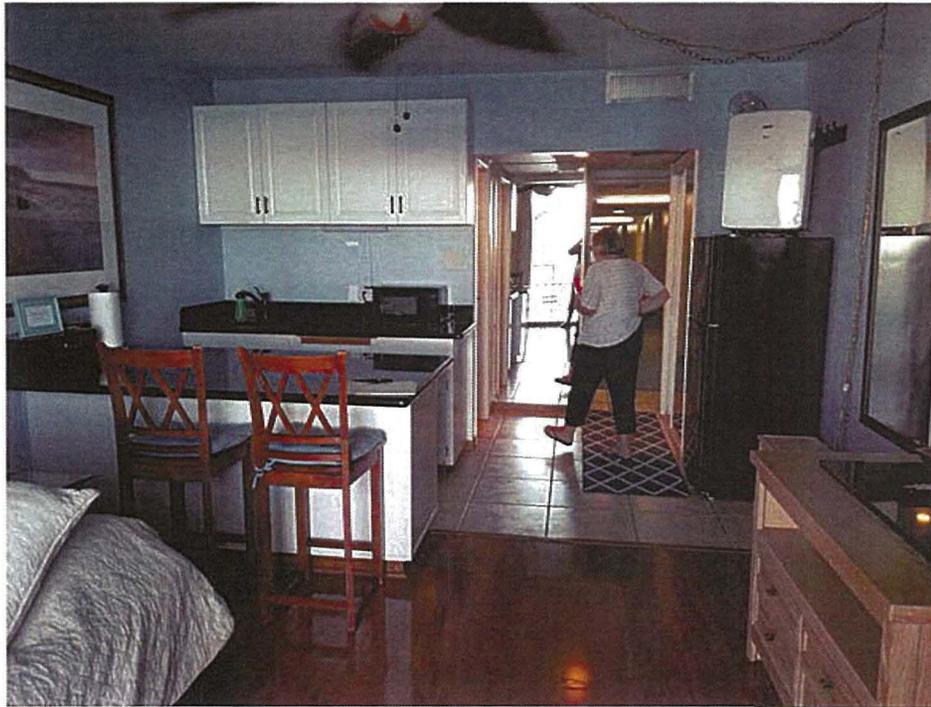


Kitchenette and bedroom of a double room



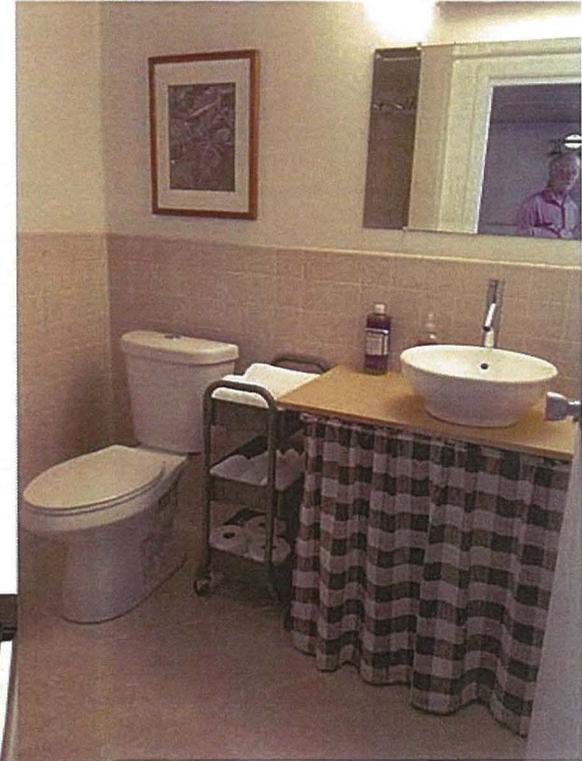


Bathroom of a double room



Kitchenette and sleeping area of a nicely renovated room





Another nicely renovated room with kitchenette, sleeping area and bathroom.

EXCERPT OF JUNE 2016 REPORT OF ERSKINE ARCHITECTS, INC.

3.2.2 Country Club Condominium/Hotel

PRIMARY RECOMMENDATION is DEMOLISH: Although not in a state of complete disrepair yet, it appears that Country Club is headed in that direction. The overall building and property is in poor condition. The remaining useful life was estimated to be at 5-8 years, and that was back in 2014. It does not appear that significant improvements to the building have occurred that would extend the remaining useful life. The parking areas and driveway are in poor condition. The parking lot is undersized and does not meet the required parking count. The mauka and makai wings are dated in appearance, unkept and contain an unpleasant odor. Both wings have many areas of non-compliance when compared against the current building code, including a few areas that need to be improved to address potential life safety concerns. The building and property do not meet accessibility standards. Of the areas tested for hazardous materials, a significant amount of asbestos containing materials was identified. Removal of the hazardous materials would be expansive and costly. The opinion of probable cost to address the areas of distress is significant and exceeds the taxable value of the property.

There are considerable areas of concern with this property. Of particular concern is the overall lack of maintenance leading to the poor condition of the building. The restaurant is also closed, probably as a result of the lack of maintenance and unkept overall appearance. Another concern is that the building is six stories tall and not fire sprinklered. Granted, the building did not need to be fire sprinklered when it was originally constructed. But, due to other fire safety concerns described herein, the lack of fire sprinklers becomes more problematic. Both stair wells are not fire rated, or maintained properly so that fire rating can be achieved. The stair tower in the makai wing is enclosed but does not meet 1-hour construction as the doors are damaged and do not close properly. The stair also discharges at the ground floor near an unprotected laundry area. Access into the stair tower is via two doors in succession, both of which don't meet accessibility maneuvering clearance or latch properly. The stair adjacent to the mauka wing is entirely unenclosed and bordered by a glass curtain wall on one side. The mauka wing open air walkway that provides access to the rooms on each floor terminates in a dead end condition. The partitions at the dead ends are constructed out of stacked decorative masonry blocks that are non-structural. The stacked masonry blocks also contain large openings, thereby not meeting the definition of guardrail. The openings are also large enough for an infant or toddler to crawl through. These masonry partitions occur at each floor level described above, near the unenclosed stairway and borders several of the balconies. The masonry partitions bordering the balconies appear to be failing in several areas.

In the mauka tower, the corridor splits near the elevator and ends at the exterior walls of the building. A window occurs at both corridor ends. The windows are operable and usually in the open condition as they are relied upon for ventilation. The sill of the window is low enough creating a fall hazard. The window openings are required to be protected by a guardrail. The corridor in the mauka wing is dark, not properly illuminated, and the ceilings are too low. Both elevators do not open into an elevator lobby. Fire protection devices are not readily apparent. Numerous miscellaneous and outdated or non-functioning equipment remains in place on the roofs and ground floor. Old equipment can pose a fire risk if not properly maintained. The required fire separation between the parking lot and 2nd floor ceiling in the breezeway does not meet fire separation requirements.

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. 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; unless coordination with County inspectors could occur and the State be cited for code violations, thereby exempting those costs from the 50% rule. In order to address the areas of distress, it is likely that portions of the building and/or site otherwise 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 also possibly include numerous regulatory reviews and approvals, thereby resulting in excessive design fees and lengthy delays. The construction that would

EXHIBIT E

be necessary to address the areas of distress would need to occur over a series of phases taking several years, requiring numerous intermittent shut downs of the building or portions of the building, and be extremely challenging from a marketing or logistical standpoint for management. The property is large enough that a new development could occur here without a significant loss of use of the property.

Regardless of new development or demolition of an aged and deteriorating structure, strong public opposition is sure to occur. Because of the preponderance of health, safety and welfare issues, numerous building, and accessibility code violations, large quantities of hazardous materials, is in poor condition and would be cost prohibitive to repair and retrofit into compliance with current building and accessibility codes; protection of the health, safety, and welfare of the public should take precedence.

The demolition of a six story structure along the shoreline is a difficult, timely, and expensive endeavor. The demolition phase will require several years to complete. 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 building is not demolished, the obvious alternative would be to REPAIR it. 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 following minimum repairs include, but are not limited to the following:

- **FIRE PROTECTION STRATEGY:** Assess the existing overall fire protection strategy of the building.
- **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 the facility. Repair and/or improve the overall fire protection system and all fire protection devices so that the building is in compliance with 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.
- **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.
- **MAKAI WING STAIR TOWER:** Repair the makai wing 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

EXHIBIT E

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 repaired or fire stopped so that the 1-hour rating is not compromised.

- MAUKA WING STAIR TOWER: Remove the glass curtain wall bordering the mauka wing stair. Patch the openings with construction materials and/or openings that meet the allowable construction type and building code. Demolish the stair assembly and replace with a new stair assembly that complies with accessibility requirements. Provide proper lighting and signage around the stair at each floor level. At the top and bottom landings at each stair run, ensure that proper accessible maneuvering clearances are met.
- MAUKA WING DEAD END CORRIDORS: Construct a new 1-hour rated enclosed stair tower at or near the end of the common area walkway so that the dead end corridor condition is brought into compliance. The stair tower will connect to each floor level of the building and exit at grade.
- DECORATIVE MASONRY BLOCKS: Replace all decorative masonry blocks throughout the building with guardrails or solid walls.
- MAUKA WING WINDOWS: Install guardrails at all common area windows.
- NON-FUNCTIONING EQUIPMENT: Remove all inoperable or unused electrical and mechanical equipment.
- LAUNDRY AREA: Construct a laundry room that is protected by the required fire rating.

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 Authorities Having Jurisdiction (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.

EXHIBIT E

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

EXHIBIT F

EXHIBIT II

**RANKING CRITERIA AND SUMMARY OF PROPOSALS SUBMITTED
FORMER COUNTRY CLUB CONDOMINIUM HOTEL**

RFQ/RFP Criteria	SGV Proposal	BDM Proposal
<i>Degree to which the repair, renovation and operation of the property will be undertaken by a qualified private sector lessee who will bear all costs without subsidy from DLNR.</i>	SGV states it has a proven track record as demonstrated with the Pagoda Hotel in Honolulu. Purchased in 2010 (and sold in 2022), SGV managed and operated the established hotel. The Pagoda Hotel is similar in size to the subject property and will be managed in a similarly successful manner.	The principal of BDM, Ryan Lee, explains he is an expert in developing and managing affordable housing projects in Hawaii County through an affiliate of BDM called Local Local LLC. He and his team have developed, renovated and currently self-manages over 100 residential units in Big Island.
<i>Degree to which proposal restores the property to its highest and best use to the extent permitted by under applicable law, including but not limited to Chapters 171 and 343, HRS.</i>	Proposal to redevelop 152 units of existing building. Initially, 60% will be available for transient accommodations and 40% for long-term rental. Long-term goal is to become 100% transient. Proposal is predicated upon SGV receiving favorable terms on a 65-year lease of subject parcel from the State. SGV has a team with local roots that will accomplish the goal of DNLR to 1) repair and renovate the subject property, 2) improve the overall aesthetics of the Banyan Drive area, 3) operate the subject property under a long-term lease and 4) redevelop this historic area with a focus towards kamaaina while still serving as an attractive destination for tourists.	Proposal to design, renovate and operate the property as an 80% long term rental and the remaining 20% to be marketed and offered as an extended-stay hotel to kamaaina and tourists alike, from a few weeks to few months stays, but less than 6 months of total rental term. BDM is open and willing to modify the design as needed to develop and operate the subject project as a 100% short or extended-stay transit units, if DLNR desires.
<i>Degree to which the proposal provides a benefit to the community of Banyan Drive, Hilo and Hawaii Island.</i>	Building will be restored as a gathering place and an affordable destination for tourists and locals alike.	BDM will supply housing to benefit the Hilo community. The newly renovated bar, restaurant and the gathering space will also be a great addition to the Banyan Drive community.

**RANKING CRITERIA AND SUMMARY OF PROPOSALS SUBMITTED
FORMER COUNTRY CLUB CONDOMINIUM HOTEL**

RFQ/RFP Criteria	SGV Proposal	BDM Proposal
<p><i>Degree to which the proposal maximizes the financial returns to the State in a timely manner. In evaluating applicant's proposed lease rents, preference will be given to the proposed annual minimum base rents over the proposed percentage rents.</i></p>	<p>Proposed Rent: Years 1-3: \$36,000 per annum; Years 4-10: \$96,000 per annum plus 5% of gross revenue over breakpoint of \$1.92 million; Years 11-20: rent will be 75% of the average cumulative rent paid over years 4-10, but not less than \$114,000 plus 5% of gross revenue over breakpoint; Years 21-30: rent will be 75% of the average cumulative rent paid over years 11-20, but not less than \$150,000 plus 5% of gross revenue over breakpoint. No lease rent waiver requested.¹</p>	<p>Proposed Rent: Years 1-10: \$65,000 per annum; Years 11-20: 1.75% increase per annum; Years 21-30: 1.75% increase per annum; Years 31 and on, reopen at fair mark rent every ten years. One year lease rent waiver is requested.</p>
<p><i>Organization of the business plan, reasonableness of the development schedule, and demonstrated understanding of the requirements necessary to implement the repair, renovation and operation proposal in a timely manner.</i></p>	<p>Building will continue to operate with short- and long-term rentals for first two years of lease. In third year, building will be vacated for renovations expected to take 12 months. In fourth year, building will be re-opened for hybrid transient and long-term rentals.</p>	<p>6 months - Good Faith Property Development Agreement with DLNR; 6 to 9 months - Housing outreach (this outreach phase timeline can occur concurrently during the Property Development Agreement phase); 6 months - Lease approval; 12 to 18 months - Design approval, permit submittals and approvals; 18 months - Demolition and renovations (after consulting with architects, engineers and county inspector, if feasible, BDM may</p>

¹ Although SGV's proposal did not request a rent waiver, the matter is still open for discussion in the negotiation of the development agreement and lease for the project.

**RANKING CRITERIA AND SUMMARY OF PROPOSALS SUBMITTED
FORMER COUNTRY CLUB CONDOMINIUM HOTEL**

RFQ/RFP Criteria	SGV Proposal	BDM Proposal
		renovate the building space per floor at a time while some of the units are occupied); 1 month - Cleaning and installation of equipment, furniture and accessories (extended-stay transit portion).
<i>Demonstrated understanding of the required land use entitlements and government approvals and evidence of the ability to obtain said entitlements/approvals in a timely manner.</i>	SGV will contract G70 to assist with permitting process.	BDM will work with local architects and engineers to obtain all necessary renovation permits as well as comply with all current land use entitlements and government approval requirements. Projected timeline to submit and obtain all necessary permits and approvals is between 12 to 18 months.
<i>Demonstrated market and financial feasibility of the development proposal.</i>	Initial funding of \$2 million to acquire lease from State, of which \$1.5 million will be financed. Renovations estimated to cost between \$7-9 million and take one year. Total gross revenue projection for lease year 1 is \$1.3 million, increasing to \$1.4 million in lease year 2, but after expenses leaving just \$43,000 net income in year 1 and \$73,000 net income in year 2. In year lease 3, no revenue will be generated by the property while it is under renovation. After renovations are completed, total revenue increases to \$4.8 million in lease year 4 with about \$2 million in expenses.	Invest approximately \$20 million. During Phases 1 to 4 of the project, through completion of the designing and permitting, gross operating revenues estimated to be \$720,000 per year, with the total expenses being \$900,000 per year based on 50% occupancy, due to poor condition of the existing building. Starting from Phase 5, Demolition and permitting, occupancy expected to drop to 20%, with the gross revenues being \$288K and expenses being \$800K. The renovation is expected to last 18 months. Once fully opened, expected gross yearly revenue to be \$2.7 million and \$1.8 million for operating expenses, leaving approximately \$900K in net operating

**RANKING CRITERIA AND SUMMARY OF PROPOSALS SUBMITTED
FORMER COUNTRY CLUB CONDOMINIUM HOTEL**

RFQ/RFP Criteria	SGV Proposal	BDM Proposal
		income, yearly.
<i>Demonstrated ability to finance the development proposal.</i>	Renovation will be financed through either a local or mainland lender. A letter of interest from a lender was submitted for the project. Due to weakening in the hotel market in Hilo as a result of the coronavirus, SGV is willing to pledge additional collateral of another property. This strategy has been used before as a method to give Lender confidence in financing distressed properties. The Lender is protected since it has a second income-producing asset located in a different market. SGV has been very successful in purchasing and upgrading distressed or unique properties using this method.	BDM received financing from various local and national lenders on over 45 development projects in Hawaii. Estimated equity requirement will vary from 20% to 40% depending on the final design and usage of the project building. The exact lender information and all the previous financing terms and arrangements with the lenders are confidential and can be released to DLNR with an executed nondisclosure agreement.