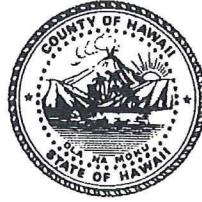


William P. Kenoi
Mayor



BJ Leithead Todd
Director

Margaret K. Masunaga
Deputy

West Hawai'i Office
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County of Hawai'i
PLANNING DEPARTMENT

East Hawai'i Office
101 Pauahi Street, Suite 3
Hilo, Hawai'i 96720
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Fax (808) 961-8742

September 14, 2012

Ms. Michele Otake, Development Manager
Queen Liliuokalani Trust
Alakea Corporate Tower
1100 Alakea Street, Suite 1100
Honolulu, HI 96813

2012 SEP 17 A 9:40
LAND USE COMMISSION
STATE OF HAWAII

Dear Ms. Otake:

State Land Use Boundary Amendment (LUC 786)
LUC Docket No. A89-646
Applicant: Queen Liliuokalani Trust
Subject: 2012 Annual Progress Report
Tax Map Key: (3) 7-4-020:009, 010, 022 & 028

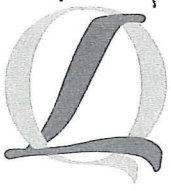
This is to acknowledge receipt of your annual progress report dated August 27, 2012 as required under Condition No. 22 of LUC Docket No. A89-646. We have no comments regarding the annual progress report. By copy of this letter we will forward a copy of the report to the State Land Use Commission for their reference. Thank you for complying with the annual report requirement.

We look forward to the submittal of your next annual progress report on or before August 28, 2013. Please feel free to contact Jeff Darrow at 961-8158 should you have any questions.

Sincerely,

BJ LEITHEAD TODD
Planning Director

DSA:smn
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xc w/report:\State Land Use Commission
Planning Department – West Hawaii Office



PLANNING DEPARTMENT
COUNTY OF HAWAII

QUEEN LILI'UOKALANI TRUST

Created by Her Late Majesty Queen Lili'uokalani

2012 AUG 23 PM 2: 22

August 27, 2012

Ms. BJ Leithead-Todd
Director
Planning Department
County of Hawaii
101 Pauahi Street, Suite 3
Hilo, HI 96720

Dear Ms. Leithead-Todd:

**Subject: 2012 Annual Progress Report
LUC Docket No. A89-646
Queen Lili'uokalani Trust
Keahuolu Lands, North Kona, Island of Hawaii**

Please find enclosed an annual progress report in compliance with Condition 22 of LUC Docket No. A89-646. This report addresses the status of the development and compliance with the conditions of approval for the current year.

If you have any questions or comments, please feel free to contact Ms. LeeAnn Crabbe or myself at (808) 203-6150.

Sincerely,

Michele Otake
Development Manager

Enclosure



ANNUAL REPORT TO THE STATE LAND USE COMMISSION

Queen Lili'uokalani Trust Keahuolū Lands

LUC Docket No. A89-646

Decision and Order, August 28, 1991

2012 AUG 28 PM 2: 22

Submitted in Compliance with Condition 22

August 27 2012

Introduction

This is a report on the status of development for the Queen Lili'uokalani Trust Keahuolū Land in Kailua-Kona, Hawai'i, and the extent to which conditions of approval are being complied with. The report is being submitted in compliance with Condition 22 of LUC Docket No. A89-646, Decision and Order, dated August 28, 1991. This report addresses the status of the development and compliance with the conditions of approval for the current year.

Status of Conditions

***Condition 1.** Petitioner shall generate one (1) non-tourism related job, or the equivalent thereof, for each hotel unit Petitioner is allowed to build. As used herein, "non-tourism related" means not related to hotels or residential condominiums intended for use as transient accommodations, or recreational, entertainment or other facilities and services used primarily by tourists. The equivalent value of one (1) non-tourism related job will be determined by the Office of State Planning.*

This condition is currently not applicable because Phase 1 of the project, which comprises approximately 315 acres, does not include or propose any hotel units at this time.

***Condition 2.** Petitioner shall design and construct all structures and buildings in compliance with County, State, and Federal codes and standards.*

The Kmart, Macy's and Makalapua Stadium Cinemas projects within Phase 1 of the project complied with this condition at the time of their completion in 1994, 1997 and 2000, respectively. The Trust, or its developers, will comply with this condition for all future structures and buildings.

***Condition 3.** There shall be no occupancy of any structures within a 1,300-foot buffer zone surrounding the Kealakehe Landfill until a permanent solution to smoke, fumes and other health hazards from the Landfill is in place.*

There is no occupancy or any structures planned within the buffer zone at this time.

***Condition 4.** The Landowner shall participate in an air quality monitoring program as specified by the State Department of Health.*

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This condition was not required by the State of Hawai'i Department of Health (DOH) for the Kmart, Macy's, or Makalapua Stadium Cinemas projects. The Trust, through Belt Collins, was advised by the DOH that air quality monitoring is not required at this time. The Trust will participate in an air quality program when specified by the DOH.

Condition 5. *The Landowner shall implement effective soil erosion and dust control measures during all phases of the development.*

Soil erosion and pest control measures were implemented for the Kmart, Macy's, and Makalapua Stadium Cinemas projects. The Trust will continue to comply with this condition in future phases of the development.

Condition 6. *Petitioner shall provide or cause to provide the necessary water source, storage, and transmission facilities to service the Project. Petitioner shall coordinate and explore joint development with the County of Hawaii, Department of Water Supply, the State Department of Land and Natural Resources, adjoining landowners, and/or other State or County agencies regarding measures designed to obtain the required water for the Project.*

The Keahuolū well, reservoir, and transmission system to service the 49.9-acre first increment of Phase 1, has been constructed, completed, and dedicated to the County of Hawai'i. The system was accepted by the County on August 27, 1996.

The Trust is working with the Department of Water Supply (DWS) on the planning and development of a water system which will service regional and Trust water needs. Both the Trust and County have engaged consultants to plan jointly the source development and transmission system to provide water in a timely manner. The Keahuolu Lands Water Resource Development Agreement was signed by the Trust and DWS on February 23, 2010.

Condition 7. *The Landowner shall connect the wastewater system for the proposed development of the Property to the Kealakehe Wastewater Treatment Plant. Construction of structures within the Property shall not commence until the Landowner has obtained assurances from the County of Hawaii that capacity at this plant has been reserved or will be available at the time occupancy occurs of structures within the Property; provided that, if the capacity at the Kealakehe Wastewater Treatment Plant is not sufficient for the proposed development of the Property, the Landowner may utilize other alternatives acceptable to the State Department of Health and County of Hawaii.*

This condition was complied with for the Kmart, Macy's and Makalapua Stadium Cinemas projects. The Trust will continue to comply with this condition in all future projects in the project area.

Condition 8. *Petitioner shall fund and construct highway improvements, including but not limited to the dedication of rights-of-way, necessitated by the proposed phased development and*

in designs and schedules accepted by and coordinated with the State Department of Transportation and the County of Hawaii.

The necessary highway improvements for Makalapua Center (accepted by and coordinated with the State DOT and the County of Hawaii) were completed as part of the earlier Kmart and Macy's projects. The Trust has conveyed the necessary right-of-way to the State to widen Queen Ka'ahumanu Highway in satisfaction of the condition. The transaction was memorialized in a Purchase and Sale Agreement (PSA) entered into between the DOT and the Trust dated September 12, 2003, as amended. The PSA transaction transferred nine parcels of Trust lands to the DOT and two highway boundaries in favor of the DOT for highway improvements. As part of the PSA transaction, the Director of Transportation, Rodney K. Haraga sent a letter to Robert Ozaki, Trust Administrator, dated September 17, 2003. In that letter, the DOT released the Trust from further obligations related to highway improvements under Condition 8.

Condition 9. *Petitioner shall work with the appropriate departments of the State and County on the designs and construction of all roadway improvements within the Property. Petitioner shall work with the appropriate departments of the State and County on regional traffic improvements necessitated by the proposed phases of the development. Petitioner's participation shall not at any time exceed its pro rata share of roadway improvements made necessary by the increased traffic resulting from each phase of the development. In the event that the County of Hawaii adopts an impact fee for transportation improvements, the foregoing funding requirements may be modified or deleted to the extent that the cost of any specific traffic improvement is also included in the County of Hawaii's impact fee computation.*

All of the currently required roadway improvements within the property were completed earlier as a part of the Kmart and Macy's projects in 1994 and 1997, respectively. The State DOT has acquired the necessary Trust lands for the right-of-way to widen Queen Ka'ahumanu Highway. This acquisition satisfied the pro rata share of state roadway improvements necessary for traffic resulting from the total development of the 315 acres (Phase I).

As part of the roadway improvements for the Kona Commons development makai of Queen Ka'ahumanu Highway, the Trust received approvals from the appropriate departments and has widened Makala Boulevard immediately mauka and makai of Queen Ka'ahumanu Highway to a width of 100 feet.

The applicant has and will continue to work with the County in the development and implementation of regional and local roadways that could be directly or indirectly affected by the subject as well as the other properties owned by the applicant. Roadways are needed to facilitate the safe and efficient movements of vehicles in this region.

The Trust participated in the planning, subdivision, and design for a portion of the Ane Keohokālole Highway (Mid-Level Road) that included former Trust property. The Trust has conveyed 16.858 acres of land and 4.781 acres of easements to the County of Hawaii;

entered into a Construction Right-of-Entry Agreement with the County that allows better access to the Ane Keohokālole Highway right-of-way; assisted the County in its archaeological efforts within the road right-of-way; and continues to work with the County in its archaeological mitigation efforts related to the Ane Keohokālole Highway. The new highway opened on June 23, 2012.

Condition 10. *Petitioner shall undertake periodic monitoring of the traffic conditions within and adjacent to the Property throughout the Project's development period to the satisfaction of and with the approval of the State Department of Transportation and the County of Hawaii.*

In compliance with the decision, the Trust commissioned traffic monitoring studies in December 1998 and January 1997, following the completion of Macy's and Kmart Department stores, respectively. In 2000 and 2001, development was completed for the Makalapua Stadium Cinemas at Makalapua Shopping Center and for HPM at Makalapua Business Center, respectively.

The Trust will continue to monitor traffic conditions within the reclassified area and adjacent areas. As development occurs in the subject areas and in conformance with conditions attached to the relevant County zoning approvals, the Trust will prepare additional traffic monitoring studies and submit the reports to the State Department of Transportation and County of Hawaii.

Condition 11. *Petitioner shall appoint a transportation manager whose function is the formulation, use, and continuation of alternative transportation opportunities that would optimize the use of existing and proposed transportation systems. In the alternative, Petitioner may participate in a regional program for transportation management with other developers and/or landowners. This program shall address the formulation, use, and continuation of alternative transportation opportunities that would optimize the use of existing and proposed transportation systems.*

There is no regional program for transportation in West Hawaii, and the Trust has indicated to the State DOT its willingness to participate in such a program when it is established.

The Trust will collaborate with the appropriate State and County agencies, as well as neighboring landowners including the Department of Hawaiian Home Lands, Hawaii Housing Finance & Development Corporation/Forest City, and Department of Land and Natural Resources on a regional program for transportation management, as needed.

Condition 12. *Petitioner shall work with the County to establish a reasonable buffer area along the boundary of the Property to maintain the visual integrity from Queen Kaahumanu Highway.*

A plan for landscaping of a buffer area along the boundary of the property with Queen Kaahumanu Highway was submitted to the County in October 1993. The Kmart, Macy's and Makalapua Stadium Cinemas projects do not impact the buffer area. Plans for new

projects along Queen Kaahumanu Highway will include consideration of a buffer along the highway.

***Condition 13.** Petitioner shall preserve those historic sites, as agreed to in writing with the Historic Preservation Division, State Department of Land and Natural Resources, in compliance with Chapter 6E, Hawaii Revised Statutes. The Petitioner shall submit to the State Historic Preservation Division a detailed historic preservation mitigation plan in two parts, a preservation plan and an archaeological data recovery plan. This mitigation plan must be approved by the State Historic Preservation Division, prior to any field work and prior to any construction in the vicinity of historic sites. Also, the Petitioner must obtain verification by the State Historic Preservation Division that successful execution of the mitigation plan has been completed prior to any construction in the vicinity of the historic sites.*

In a letter dated June 5, 1998, State DLNR Historic Preservation Division approved a proposal on behalf of the Trust; 1) ensuring that the preservation plan for the preserve would be completed “before the adjacent parcels are developed,” and 2) that the detailed “archaeological inventory survey of the preserve area is completed before the preservation plan is developed.” The Trust has been working with the County in the development of the Ane Keohokālole Highway. As part of the project the County has contracted Pacific Legacy, Inc. and has performed data recovery at selected sites within the highway corridor; an archaeological inventory survey within the 25-acre historic preserve area (HPA) was recently completed; and a preservation plan is currently underway for the HPA. All of this work has and will be done in conjunction with and approved by the State Historic Preservation Division.

Together with local community organizations and public agencies, the Trust’s Kona-based staff is developing short- and long-range plans to coordinate the planning, management, and maintenance of the 25-acre HPA. In addition, the Trust has worked on a project with the U.S. Fish and Wildlife Service to propagate endangered, native plant species within the preserve.

The Trust will complete a preservation plan for the portion of Mamalahoa Trail proposed for preservation and which is found mauka of Queen Kaahumanu Highway. The timetable for completion of the preservation plan has not been established, but will be completed prior to any development in areas adjoining the Trail.

All of the field work regarding the Sample Block C Data Recovery project at Makalapua has been completed. In September 1996, DLNR approved the field effort and signed off on a grubbing permit on the basis of its own field inspection of the project area and in anticipation of the Final Data Recovery Report. In June 2001, PHRI submitted the “Phased Archaeological Mitigation Program, Phase II, Archaeological Data Recovery Block C” to the State Historic Preservation Division (SHPD) for its review and comment. On May 8, 2002, SHPD approved PHRI’s report for Block C.

In 2009, related to the Ane Keohokālole Highway project, SHPD stated that newly acquired information has indicated that the previous archaeological report did not accurately reflect the nature, distribution or significance of historic properties. As a result, the Trust recently hired Pacific Legacy Inc. to provide a new archaeological inventory survey for the Property. A draft Archaeological Inventory Survey for Urban Phases I, II, and III have been prepared and will be submitted to SHPD later this year.

Condition 14. *Petitioner shall immediately stop work in the impacted area and contact the Historic Preservation Division, State Department of Land and Natural Resources, should any archaeological resources such as artifacts, shell, bones, or charcoal deposits, human burial, or rock or coral alignments, pavings or walls of historic or prehistoric origin be encountered during the development of the Property.*

The Trust, and its developers, have and will continue to comply with this condition.

Condition 15. *Petitioner shall formulate a fire contingency plan prior to construction in the project area. The fire contingency plan shall be approved by the State Department of Land and Natural Resources, Division of Forestry and Wildlife.*

The fire contingency plan was completed and approved by the Division of Forestry and Wildlife. The plan was incorporated into Kmart, Macy's, and Makalapua Stadium Theaters plans and specifications. Future plans will also comply with this requirement.

Condition 16. *Petitioner shall coordinate with the County of Hawaii and the State Department of Health to establish appropriate systems to contain spills and prevent materials such as petroleum products, chemicals, solvents, or other pollutants from leaching into the storm drainage system and adversely affecting the groundwater and coastal waters.*

Spill prevention measure were developed and incorporated into the Kmart, Macy's and Makalapua Stadium Cinemas construction plans and specifications. These measures will continue to be incorporated in future projects.

Condition 17. *Petitioner shall prepare a drainage and erosion control plan and shall fund and construct the necessary drainage improvements and maintain ocean water quality to the satisfaction of the State Department of Health. Petitioner shall, to the extent necessary as determined by the County of Hawaii, coordinate off-site improvements with adjoining landowners and developers, and/or other Federal, State, or City agencies.*

The requirement was incorporated in the Kmart, Macy's and Makalapua Stadium Cinemas construction plans and specifications. Future plans will provide for this requirement.

Condition 18. *Petitioner shall fund and install, to the specifications and satisfaction of the State Office of Civil Defense, the necessary facilities within the Property and a siren paging encoder in the Kona Police Department substation.*

As reported in earlier reports, the State Office of Civil Defense deferred to County jurisdiction on this matter, and the County does not require an encoder.

Condition 19. *Petitioner shall develop and maintain on-site facilities to insure that the nearshore, offshore, and deep ocean waters remain in pristine condition. Petitioner shall also participate in a water quality monitoring program in accordance with the methods and procedures approved by the State Department of Health.*

As part of the water quality monitoring program, Dr. Steve Dollar conducted sampling in June 1996, while earthwork for the Liberty House (now Macy's), Makala Blvd. and Luhia Street extension projects were in progress. No changes in water quality attributable to the project were noticed. The report was submitted to DOH in September 1996 and approved by the DOH, with the need for additional monitoring to be determined on a project-by-project basis. The Trust informed DOH of the grading for the Makalapua Stadium Cinemas project and received DOH's concurrence that no water quality monitoring was necessary, based on the results of the earlier study. The Trust will continue to inform DOH of future projects in the subject area.

Condition 20. *Petitioner shall complete the development on the Property in substantial compliance with the representations made before the Land Use Commission. Failure to so develop may result in the reversion of the Property to its former land use classifications or a change to a more appropriate classification.*

The Trust has been updating its conceptual land plan and intends to file a request to amend this docket later in the year. The amendment will seek to change some of the originally proposed land uses when the Urban reclassification was approved. The revisions are generally made necessary due to the economy and changes in market demand. A revision to the County zoning designation will occur subsequent to the amendment to the Urban reclassification.

Condition 21. *Petitioner shall give notice to the Land Use Commission of any intent to sell, lease, assign, place in trust, or otherwise voluntarily alter the ownership interest in the Property, provided that individual tenant leases may not be reported.*

The LUC was notified of the original lease for Makalapua Center to Duncan MacNaughton, the developer. The LUC was further notified of the subsequent leases to Kmart, the former Liberty House (now Macy's), and Wallace Theaters (for the Makalapua Stadium Cinemas). The Federated Group (owners of Macy's Department Store chain) acquired the Liberty House Department Store chain, so the lease for the former Liberty House property is now headed by the Federated Group.

Given estimated infrastructure costs and Trust financial resources, it is anticipated the Trust will be seeking a financial or joint venture partner to develop this project. In

addition, as a private operating foundation, the Trust cannot engage in significant development activity under its tax-exempt status.

The Trust will continue to update the LUC of any intent to sell, lease, assign, place in trust, or otherwise voluntarily alter the ownership interest in the property, provided that individual tenant leases may not be reported.

Condition 22. *Petitioner shall provide annual reports to the Commission, the Office of State Planning and the County of Hawaii Planning Department in connection with the status of the subject project and the Petitioner's progress in complying with the conditions imposed.*

The Trust will continue to comply with this condition, and the next annual report will be due August 28, 2013.

Condition 23. *The Commission may fully or partially release these conditions as to all or any portion of the Property upon timely, and upon the provision of adequate assurance of satisfaction of these conditions by the Petitioner.*

The Trust believes it is substantially in compliance with all conditions.

Condition 24. *Petitioner shall record the conditions imposed by the Commission with the Bureau of Conveyances pursuant to title 15, chapter 15, section 92, Hawaii Administrative Rules.*

Completed.

Condition 25. *Petitioner shall submit to the Commission, OSP and the County a metes and bounds map and description of the reclassified portions of the property.*

Completed.