

January 15, 2010

Land Use Commission
State of Hawaii
P.O. Box 2359
Honolulu Hawaii 96804-2359

Attn: Mr. Dan Davidson
Executive Officer

Subject: 2009 Annual Report for Land Use Commission
Docket No. A90-654/A&B Properties, Inc.

This letter constitutes A&B Properties, Inc.'s ("A&B") 2009 annual report to the State Land Use Commission ("SLUC") pursuant to Docket No. A90-654 (Port Allen/Eleele Expansion).

Project Background and Current Status

A&B's plans envisioned the development of 72 acres into a multi-use development including Industrial (20 acres), Commercial (10 acres), Multi-Family Residential (18 acres) and Single-Family Residential (24 acres) uses. The subject property was reclassified into the Urban District by the SLUC on December 18, 1990. Following is a descriptive chronology of the project by subject area, including the current status.

Industrial Area

On February 18, 1994, A&B filed a zoning change application with the County of Kauai for the 20 acres designated for Industrial use. The zoning change application was approved by the County Council on August 17, 1994, and the zoning ordinance was signed into law by the Mayor on September 2, 1994.

On January 4, 1995, an application was filed with the County of Kauai, Planning Department, to subdivide the 20-acre portion of the property zoned General Industrial, from the larger agricultural parcel. On March 23, 1995, the County Planning Commission granted tentative subdivision approval for the creation of the bulk industrial parcel and the agricultural remnant. Final subdivision approval for this subdivision was granted on September 14, 1995.

On August 7, 1995, a Special Management Use (SMA) Permit application was submitted to the County Planning Department to subdivide the 20-acre parcel into a 39-lot industrial

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subdivision. On October 12, 1995, the County Planning Commission approved the SMA Use permit for the subdivision.

On November 7, 1995, a subdivision application to create the 39 lots was submitted to the County Planning Department. On January 11, 1996, the Kauai County Planning Commission granted tentative approval for the small lot subdivision of the industrial parcel.

While tentative subdivision approval for the 39-lot industrial subdivision was granted in 1996, weak market conditions hindered further development progress at that time. However, more recently, renewed interest in this area has been received and potential development opportunities are being evaluated. A revised subdivision layout has been formulated and preliminary design work commenced in 2009. The twenty-acre General Industrial area is currently lying fallow.

Single-Family Residential Area

On February 20, 1996, an application was filed with the County of Kauai Planning Department, to subdivide the 24-acre portion of the petition area designated for Single-Family use from the larger parcel. That subdivision application was submitted in order to create a parcel that could be developed by the Kauai Chapter of the Habitat for Humanity for an affordable priced single family housing project. All of the conditions contained in the Decision and Order for Docket No. A90-654 have been disclosed to Kauai Habitat for Humanity and they are aware that the conditions will have to be satisfied to the extent that they affect the parcel that they will be developing.

On February 26, 1996, a special report on the status of the project was submitted to the Land Use Commission. On February 29, 1996, a presentation was made to the Land Use Commission at its regularly scheduled meeting.

On April 11, 1996, the Kauai County Planning Commission granted tentative subdivision approval for the subdivision of the 24-acre parcel designated for Single-Family development from the larger agricultural parcel.

On May 24, 1996, Kauai Habitat for Humanity submitted an application to the Kauai County Planning Commission to change the zoning for the 24-acre parcel from Agriculture to R-6 Residential.

On October 9, 1996, the Kauai County Council approved the zoning change ordinance and on October 14, 1996, Mayor Kusaka signed it into law.

On February 5, 1997, a contract of purchase and sale between McBryde Sugar Company and Kauai Habitat for Humanity was signed. Escrow for this transaction was opened on February 10, 1997.

On March 7, 1997, an update to the 1996 Annual Report was provided to the Land Use Commission. The purpose of the update was to inform the Commission that the contract of the purchase and sale had been executed.

On March 13, 1997, the Kauai County Planning Commission granted final approval to the request to subdivide the 24-acre Habitat parcel from the large agricultural parcel.

On October 14, 1997, the sale of the 24-acre parcel to Kauai Habitat for Humanity was closed and the deed was recorded.

Kauai Habitat for Humanity currently has plans for 125 affordable single family units. The first phase of development includes a subdivision of 18 lots. To date, a total of 16 homes have been completed or are under construction.

Commercial Area and Multi-Family Residential Area

In February 2005, a zoning application was filed with the County of Kauai to allow neighborhood commercial (CN) and multi family residential (R-10) zoning of this 28-acre area. The Kauai Planning Commission approved the application in August, followed by approval of the Kauai County Council in December 2005. Mayor Baptiste approved the zoning ordinance on December 20, 2005. As required by the SLUC conditions, a study evaluating the need for commercial zoning within the Hanapepe-Eleele area was prepared and included with the zoning application.

Detailed site planning of the residential and commercial sites were undertaken in 2006. Currently, a mix of residential product types, including single family detached, townhomes and stacked flats are being considered. Implementation of the plan is anticipated to require further permits (Class IV and Project Development permits) from the County of Kauai. This area is also currently laying fallow.

Status of Activities Relating To Imposed Conditions

Listed below are each of the conditions imposed by the SLUC and the status of activities pertaining to each respective condition.

Condition No. 1: A study evaluating the need for the amount of commercial zoning in comparison to the adequacy and availability of the existing commercial zoning within the Hanapepe-Eleele area to support existing and anticipated developments in the area shall be presented by Petitioner to the County Planning Department and the Office of State Planning at the time of the zoning amendment. The study should also cover the impact of the additional commercial zoning to the urgent efforts of revitalizing commercial development within the Hanapepe Town Core.

Status: As indicated above, a study evaluating the need for commercial zoning in the Hanapepe-Eleele area was prepared and included with the zoning application for the commercial area in 2005. The study noted: very little projected supply of new, quality neighborhood retail/service development; a growing consumer population to support additional retail/commercial services; high occupancies at existing facilities; and a growing shortfall of needed retail/commercial space. The study also specifically examined the impact of the project upon Hanapepe Town Core and noted the following. Hanapepe Town Core has developed into a vibrant commercial center with full storefront bays which principally cater to tourists and secondarily to residents. Hanapepe Town Core is a historic visitor destination, featuring thematic shopping focused on art and island crafts. As the planned commercial project is geared to residents, the study concluded that no adverse economic impact to Hanapepe Town Core was anticipated. Copies of the study were provided to the County Planning Department and the State Office of Planning in March 2005.

Condition No. 2: A master plan of the area surrounding the Property, including the area south of the Eleele Shopping Center, shall be provided by Petitioner to the County Planning Department and the Office of State Planning for evaluation at the time of zoning amendment.

Status: A revised master plan of the area identified by this condition has been formulated. Copies of the master plan were submitted to the County Planning Department, the Office of State Planning, and the SLUC with the 2000 annual update.

Condition No. 3: Petitioner shall provide housing opportunities for low, low-moderate and moderate income residents of the State of Hawaii by offering for sale or lease a number of units equal to at least 30% of the residential units in the Property at prices which families with an income range of up to 120% of the County of Kauai's median income can afford, and a number of units equal to at least 30% of the residential units in the Property at prices which families with an income range of 120% to 140% of the County of Kauai's median income can afford.

This condition may be fulfilled through construction of units under such terms as may be mutually agreeable between Petitioner and the Housing Finance and Development Corporation of the State of Hawaii ("HFDC"). This condition may also be fulfilled, with the approval of HFDC and the County of Kauai, through construction of rental units to be made available at rents which families in the specified income ranges can afford. In addition, Petitioner may obtain a special credit, as determined by HFDC, for the provision of housing affordable to persons with low and very low incomes and for the provision of housing for special need groups, all as determined by and subject to the approval of HFDC.

Insofar as possible, Petitioner shall implement this affordable housing requirement concurrently with the completion of market priced units for the residential project. The determination of median income, as that term is used in this condition, shall be based upon the median income

published by the United States Department of Housing and Urban Development at the time that construction of such housing units commences.

Status: Kauai Habitat for Humanity has been apprised of this condition and has completed and/or have substantially commenced construction on 16 of its first 18 self-help homes in its first phase. Kauai Habitat for Humanity is planning for 100% of this project to provide housing opportunities for Kauai residents at or below 80% of median income. This project will provide a total of 125 affordable units. Kauai Habitat will shortly commence construction of some of its on and off-site infrastructure to enable it to proceed with a portion of its second phase of homes. Petitioner is in ongoing discussions with the County of Kauai Housing Agency concerning potential alternatives to fulfill the requirements of this condition for the planned multi family residential area.

Condition No. 4: Petitioner shall participate in the funding and construction of regional traffic improvements, on a pro rata fair share basis, as determined by the State Department of Transportation. Petitioner shall also fund, design and construct the necessary roadway improvements within the Property to the satisfaction of the County of Kauai, Department of Public Works, and the State Department of Transportation.

Status: Petitioner commissioned and completed construction plans for signalization and improvements to the intersection of Waialo Road/Kaumualii Highway. The plans have been reviewed and approved by the State Department of Transportation. The traffic signal and roadway improvements have been installed and are fully operational since May of 2008.. Kauai Habitat for Humanity has been working with the County of Kauai and the State Department of Transportation regarding roadway improvements and regional traffic improvements required for its project. The determination of an applicable pro rata fair share contribution, particularly for highway improvements, has not yet been resolved. The State Highways Division of the Department of Transportation is tasked with developing the criteria and ultimate pro-rata share contributions of the various stakeholders.

Condition No. 5: Petitioner shall complete a drainage study and evaluation of necessary flood control facilities acceptable to the County of Kauai, Department of Public Works, State Department of Transportation and State Department of Health.

Status: Kauai Habitat for Humanity has prepared preliminary drainage plans for their portion of the project. Drainage plans for the remaining project areas will be prepared as development progresses. Specific requirements are anticipated at the time of subdivision approval. A&B intends to comply with all applicable State and County rules, laws, codes and ordinances.

Condition No. 6: Petitioner shall coordinate with the County of Kauai, Department of Land and Natural Resources and State Department of Health regarding the establishment of appropriate systems to contain spills and prevent materials associated with industrial uses such as petroleum

products, chemicals or other pollutants, from leaching or draining into the storm drainage system and adversely affecting the groundwater and coastal waters.

Status: Kauai Habitat for Humanity has been apprised of this requirement as it pertains to their parcel. A&B intends to comply with all applicable State and County rules, laws, codes and ordinances relative to this condition in the development of the remaining project areas.

Condition No. 7: Petitioner shall participate in an air quality monitoring program as specified by the State Department of Health.

Status: Kauai Habitat for Humanity has been apprised of this requirement as it pertains to their parcel. A&B intends to comply with all applicable State and County rules, laws, codes and ordinances relative to this condition in the development of the remaining project areas.

Condition No. 8: Storage and/or disposal of hazardous wastes should be approved by the Department of Health prior to their establishment on the Property.

Status: No action (not yet applicable).

Condition No. 9: Petitioner shall implement effective soil erosion and dust control measures during all phases of the development.

Status: Kauai Habitat for Humanity has been apprised of this requirement as it pertains to their parcel and has effectively employed these measures during the construction of the units in its first phase. A&B intends to comply with all applicable State and County rules, laws, codes and ordinances relative to this condition in the development of the remaining project areas.

Condition No. 10: Petitioner shall provide notification to future lessees or occupants of the potential odor, noise and dust pollution resulting from the Property, adjacent sewage treatment plant and adjacent agricultural operations. Petitioner shall inform all prospective occupants of the Hawaii Right-to-Farm Act, Chapter 165, HRS, which limits the circumstances under which pre-existing farming activities may be deemed a nuisance.

Status: Kauai Habitat for Humanity has been apprised of this condition. A&B will notify other future purchasers, lessees and occupants pursuant to this condition.

Condition No. 11: Petitioner shall not permit the occupancy of the residential units developed on the Property until such time as the lands immediately east of the Property have been converted from sugarcane cultivation to coffee cultivation.

Status: This condition has been satisfied. The fields immediately east of the subject property were planted in coffee in mid-1991.

Condition No. 12: Petitioner shall pay its pro rata share to expand the existing Eleele Wastewater Treatment Plant and shall fund and develop as required by the County of Kauai, Department of Public Works and the State Department of Health the necessary measures required to collect and transmit the wastewater.

Status: This condition has been satisfied. In July 1991, A&B signed an agreement with the County of Kauai to pay its fair share of the cost of expanding the Eleele Wastewater Treatment Plant for A&B's Eleele Nani II project. The County secured conventional funding for the Plant's expansion, and construction was completed in mid-1995. A&B reached agreement with the County and paid in December 1994 its fair share of the expansion cost associated with the Eleele Nani II project.

Condition No. 13: Petitioner shall provide the necessary water source, storage and transmission facilities to service the proposed project.

Status: Kauai Habitat for Humanity is preparing a water service plan for their property, and will be submitting this plan to the County as part of the construction plans. In 1994, A&B replaced the existing 12-inch transmission main serving Port Allen with a 16-inch and 12-inch ductile iron pipeline. This pipeline has been dedicated to the County of Kauai. Currently water source is adequate for development but storage will need to be improved. The Kauai Department of Water will be consulted as development progresses in order to determine water system improvements.

Condition No. 14: Petitioner shall provide its pro rata share for police, fire, park, and solid waste disposal as may be required by and to the satisfaction to the County of Kauai.

Status: Kauai Habitat for Humanity has been apprised of this condition. As development of the other project areas progress, A&B will comply with the requirements of this condition.

Condition No. 15: Petitioner shall provide its pro rata fair share for school facilities as may be required by and to the satisfaction of the State Department of Education.

Status: Kauai Habitat for Humanity has been apprised of this condition. A&B continues to dialogue with the State Department of Education to determine its pro rata fair share contribution and/or other options to meet the demand for additional classrooms based on the zoning amendment received for the planned multi family residential area.

Condition No. 16: Petitioner shall fund and install the necessary number of emergency siren units within the Property to the satisfaction of the Kauai Civil Defense Agency and the State Department of Defense.

Status: Petitioner will comply this condition in the development of the subject property, additionally, Kauai Habitat for Humanity has been apprised of this condition.

Condition No. 17: Petitioner shall immediately stop work and contact the State's Historic Preservation Office should any archaeological resources, such as artifacts, shell, bones, or charcoal deposits, human burial, or rock or coral alignments, paving or walls of historic or prehistoric significance be encountered during the development of the Property.

Status: Petitioner will comply with this condition in the development of the subject property, additionally, Kauai Habitat for Humanity has been apprised of this condition.

Condition No. 18: Petitioner shall develop the Property in substantial compliance with the representations made to the Commission in obtaining the reclassification of the Property. Failure to so develop the Property may result in reversion of the Property to its former classification, or change to more appropriate classification.

Status: The property is being developed in substantial compliance with the representations made to the SLUC. However, due to unforeseen circumstances, including the economic devastation caused by Hurricane Iniki, development of the project has proceeded much more slowly than anticipated at the time the SLUC Petition was filed. Progress has been made regarding the zoning and subdivision of the general industrial area, including the possibility of near term industrial development as described herein. Progress concerning the single family residential area has also been achieved with the sale to Kauai Habitat for Humanity and their plans for affordable housing development. With the attainment of County zoning approval of the commercial and multi family residential area, detailed conceptual development plans have been prepared and are in the process of being implemented.

Condition No. 19: Petitioner shall give notice to the Commission of any intent to sell, lease, assign, place in trust, or otherwise voluntarily alter the ownership interests in the Property, prior to development of the Property.

Status: The SLUC was provided notification of the Petitioner's intent to sell a portion of this property to Kauai Habitat for Humanity on February 26, 1996 via a special status report. Additional information was provided in the 1997 Annual Report. A&B has considered the conveyance of 21 acres of the multi-family property, zoned in 2005, to the County as an option. The SLUC will be notified of any other relevant transactions at the appropriate time.

Condition No. 20: Petitioner shall provide annual reports to the Land Use Commission, the Office of State Planning, and the County of Kauai, Planning Department in connection with the status of the subject project and the Petitioner's progress in complying with the conditions imposed.

Status: This annual report is being submitted in compliance with this condition.

Condition No. 21: The Land Use Commission may fully or partially release these conditions as to all or any portions of the Property upon timely motion and upon the provision of adequate assurance satisfaction of these conditions by Petitioner.

Status: No release of conditions has been requested to date.

Please do not hesitate to contact the undersigned should you require any further information regarding this project.

Sincerely,



Tom H. Shigemoto
Vice President

Encl

cc (w/encl.): Mr. Ian Costa, Director, County of Kauai Planning Department
Mr. Abe Mitsuda, State Office of Planning