

HASEKO

HASEKO (Ewa), Inc.

September 16, 2011

Mr. Orlando Davidson
Executive Officer
State of Hawai'i
Land Use Commission
P.O. Box 2359
Honolulu, Hawai'i 96804-2359

2011 SEP 20 P 2:58
LAND USE COMMISSION
STATE OF HAWAII

Re: Docket No. A83-558/Annual Progress Report

Dear Mr. Davidson:

HASEKO (Ewa), Inc., and a number of its affiliates (sometimes collectively, "HASEKO") are the property owners and developers of the Ocean Pointe and Hoakalei Projects (sometimes referred to as the "Project"), formerly known as the Ewa Marina Community Development Project. As required under Condition 10 of the Decision and Order of the State Land Use Commission ("LUC" or "Commission") entered on September 21, 1984 ("D&O"), the following is an annual report on HASEKO's progress regarding development of the property that was the subject of the D&O ("Subject Property") and HASEKO's efforts toward satisfaction of the D&O conditions.

Project Description

Ocean Pointe/Hoakalei is a 1,100-acre master-planned project located at Honouliuli in the 'Ewa District of O'ahu. It lies along the shoreline between Fort Weaver Road and Kalaeloa (the former Naval Air Station Barbers Point), about 20 miles west of Honolulu. The Project includes a man-made, marina with light industrial, commercial, and retail facilities as well as visitor accommodations. Also included within the Project will be a golf course, a 20-acre district park and child care center, a public elementary school, and 4,850 homes.

Ownership of the Property

HASEKO (Hawaii), Inc., purchased the approximately 1,100-acre Ocean Pointe/Hoakalei property in 1988 from M.S.M. & Associates, Inc., which was then in bankruptcy, and from The Estate of James Campbell. In 1992, the entire 1,100 acres were transferred from HASEKO (Hawaii), Inc. to a wholly owned subsidiary, HASEKO (Ewa), Inc. As construction of the

residential components of the Project has proceeded, parcels have been conveyed to development entities affiliated with HASEKO, and subsequently to individual homeowners in fee simple.

A 22,905 square foot commercial lot along Fort Weaver Road was conveyed from HASEKO to Arthur Howard and Leslie Gail Howard in 2002, and a 1.043 acre commercial lot along Keone`ula Boulevard was conveyed from HASEKO to Frederick Hoon Yuk Lau and Judy Mariko Lau in 2007.

Nearly 12 acres at the northeastern part of the Project area were conveyed in 2005 to the State of Hawai'i for a school site. Adjacent to the school site will be a district park and a child care center. In 2007, approximately 1.25 acres were conveyed to Seagull Schools for the child care center. Just over one acre of land was conveyed to the City and County of Honolulu in 2008 for relocation of the 'Ewa Beach Fire Station at the northeast corner of the Project site. HASEKO is working with the City and County of Honolulu to convey approximately 18.75 acres for the district park and approximately 9 acres for the expansion of One'ula Beach Park.

Boundary Reclassifications

The lands that encompass Ocean Pointe/Hoakalei were reclassified from the Agriculture to the Urban District in four separate LUC actions.¹ In 1975, under LUC Docket No. 074-23, approximately 320 acres along Fort Weaver Road were reclassified to the Urban District. There were no conditions attached to that reclassification. In 1984, under Docket No. A83-558, approximately 181 acres of Agriculture land were reclassified to the Urban District. This D&O included 11 conditions, which were also attached to the 320 acres that had been previously reclassified. In 1990, under Docket No. A89-651, the LUC reclassified the remainder of the 1,100 acres from the Agriculture to the Urban District.

Current Status of Project Development

Construction of Ocean Pointe began in 1997 with the residential component of the Project. Residential construction continues to this day, and is anticipated to continue for about another ten years. Currently, sixty-one percent (61%) of the permitted 4,850 housing units have been built and sold to individual homeowners.

In moving forward to the development of the resort portion of the master plan, the name Hoakalei has been selected to distinguish this part of the Project, which includes the golf course, marina, commercial, resort and residential components.

¹ In 1964, the State began to implement the State Land Use District boundary classifications. At that time, the shorefront lands of Ocean Pointe (including the approximately 9-acre ocean front parcels and much of the area encompassing the marina) were placed within the Urban District, with the remainder being classified as Agriculture.

Gradual grading of the golf course was initiated in the late 1990s to provide drainage basins for the residential components that are being constructed. In 2005, Ernie Els was commissioned to design the golf course, which opened for play in January 2009. The clubhouse and other planned facilities, however, are still under construction.

Excavation of the marina also began in the late 1990s. Wet excavation commenced in late 2003 following confirmation from the Department of the Army Corps of Engineers that HASEKO had fulfilled all of the pre-construction requirements. Excavated material provides fill for other portions of the Project, thus, excavation has been coordinated with the residential and golf course development. Although most of the basin excavation has been completed, break-out to the ocean has not commenced.

COMPLIANCE WITH CONDITIONS OF THE D&O

The D&O originally contained eleven conditions. On December 9, 1998, the Commission issued an Order Granting In Part and Denying In Part Motion to Amend Decision and Order Entered on September 21, 1984, by which Conditions 4 and 5 were amended, and Condition 8 was deleted as having been satisfied. And, on February 22, 2010, the Commission issued an Order Granting Motion to Delete Condition 9, which had required the reclassification of the marina land back to the Conservation District after completion of the marina. The nine remaining conditions are set forth below, followed by a brief status report on compliance efforts.

Condition 1

Petitioner shall adequately maintain the proposed siltation basins and water system to meet State Department of Health water quality standards.

Status. HASEKO has constructed and is maintaining all of the siltation basins and other design measures needed to meet State of Hawai'i water quality standards. On July 24, 1992, the State Department of Health issued a Section 401 Water Quality Certification ("WQC") for the Project, subject to a number of conditions, including a water monitoring program to be conducted before, during, and after construction of the marina.

HASEKO has been fulfilling the requirements of the WQC by regularly monitoring and reporting on nearshore water chemistry, reef and turtle populations, and by conducting ciguatera studies. These studies and reports have established a baseline against which comparisons can be made when the marina becomes operational.

Discharge from the marina is not allowed until the entire basin and the entrance channel seaward of the shoreline have been fully excavated. As was mentioned earlier, wet excavation of the marina basin began in late 2003. It is unlikely that excavation seaward of the shoreline will commence prior to 2013.

Because under previous regional drainage plans the marina had been designated as the final basin for storm water flows from the entire Kalo'i Gulch drainage basin before discharge into the ocean, HASEKO has long been concerned about silt and sediments contained in storm water flows from upland properties. Absent mitigation measures to reduce sediment transport by upland owners, it would have been very difficult and expensive for HASEKO to meet the Department of Health's water quality standards as required in this Condition 1. For this reason, HASEKO has been in the forefront in promoting a coordinated approach to regional drainage. To this end, HASEKO intervened in five reclassification dockets before the Commission: (1) the Housing and Community Development Corporation of Hawai'i's petition to reclassify approximately 1300 acres in East Kapolei (Docket No. A99-728); (2) Gentry's petition for reclassification of approximately 283 acres for its Ewa Makai-West project (Docket No. A03-738); (3) University of Hawai'i-West O'ahu's Motion to Amend the Findings of Fact, Conclusions of Law, and Decision and Order Dated September 8, 1999 (Docket No. A99-728(a)); (4) D.R. Horton-Schuler Homes, LLC's petition for reclassification of approximately 1,553 acres for its Ho'opili project (Docket No. A06-771)²; and (5) The Salvation Army's Motion for Order Amending the Findings of Fact, Conclusions of Law, and Decision and Order Dated September 8, 1999 (Docket No. A99-728) to ensure that any amendments to conditions relating to regional drainage are consistent with existing infrastructure and coordinated with regional drainage plans of other developments in the Kalo'i Gulch drainage basin.

The current proposal is for regional storm water flows to be directed through One'ula Beach Park into the ocean, and not into the marina as was originally planned. In order to divert regional storm water flows from the 7,000-acre Kalo'i Gulch drainage basin into the marina, the Honouliuli Wastewater Treatment Plant sewer outfall line, which runs north-to-south through the middle of the Project site, would have to be lowered to allow storm water to flow from the east side of the outfall west into the marina.

Concerns about potential construction mishaps and maintenance of a lowered or siphoned outfall pipe caused the City to revisit previously approved regional drainage plans, which, in turn, resulted in master plan changes to the Project. Following the sewage spill disasters that occurred in Waikiki in 2006 during a period of intense rainfall, the City has been especially concerned about tying together regional drainage facilities with the region's major sewer infrastructure.

As a result, HASEKO, other stakeholders in the region and the City have been working on alternative regional drainage plans. Currently, the proposed plan is to discharge Kalo'i Gulch storm flows into the ocean through One'ula Beach Park rather than into the marina. Storm flows from upland properties entering the Project east of the outfall would not have to cross over the

² Pursuant to discussions with the City and County of Honolulu Department of Planning and Permitting, Haseko was reasonably assured of the safety of its development and subsequently withdrew its request to intervene in July 2011.

outfall. A small amount of storm water from Barbers Point golf course and within the Project development would enter the basin from the west. In other words, no alteration to the sewer outfall would be required.

HASEKO, in conjunction with the City, took the lead in processing the permit applications required for discharging regional drainage through One'ula Beach Park. The City Council approved this plan in June 2007 by granting a special management area use permit for that purpose. However, the Board of Land and Natural Resources ("BLNR"), in a contested case proceeding, denied issuance of a conservation district use permit to reduce the height of a natural shoreline berm for stormwater outflow. The BLNR explained that, inasmuch as the existing developments were all retaining most stormwater flows within their own project boundaries, there was a failure to demonstrate actual need for the outlet at this time. HASEKO filed a new Conservation District Use Application with the BLNR this past July, with the City and UH-West O'ahu as co-applicants. In the meantime, all landowners and developers in the Kalo'i Gulch drainage basin are required to provide adequate retention basins within their developments to prevent sediment-laden storm water flows from reaching the ocean.

Until a permanent regional drainage solution is established, the drainage generated by the development of the Project will be retained in drainage retention basins within the Project property.

Condition 2

Petitioner shall provide public access to the marina waterway and ocean shoreline and recorded [sic] as part of an easement with relevant State or County agencies.

Status. HASEKO's plans provide public access to marina waterways and the ocean shoreline. In some cases, (e.g., the approximately 9-acre One'ula Beach Park Expansion), this is being done by deeding the shoreline property to the City and County of Honolulu. In other instances, HASEKO is providing the access via easements.

The Department of the Army Corps of Engineers Permit for the marina (PODCO 2117) ("DA Permit") requires that the marina waterways be open to public navigation. Onshore public access to the marina waterways and the ocean shoreline are conditions of Ordinance 93-94 (the "1993 rezoning") and Resolution 93-286, CD-1 (the Special Management Area Use Permit and Shoreline Setback Variance approved by the City Council in 1993). Pursuant to these conditions, HASEKO provides to the City Department of Planning and Permitting, for review and approval, updated Urban Design Plans that describe the location and nature of such public access ways.

The conservation district use permit ("CDUP") for the entrance channel also requires that the marina waterways be open to public navigation. Other provisions of the CDUP mandate public

access along the shoreline and around the marina waterway, including the accommodation of public fishing along the banks of the basin.

Condition 3

Petitioner shall finance and implement all on-site and off-site sewer, water, and roadway improvements as required by relevant City and State agencies, including but not limited to a 21" diameter sewer force main line from the Subject Property to the Honouliuli Wastewater Treatment Plant or to a portion [sic] of such larger diameter as may be necessary to treat and process sewer for the Planning Area related to the MSM development.

Status. HASEKO is financing and implementing all on-site and off-site sewer, water, and roadway improvements as required by relevant City and State agencies. The status of the various sewer, water and roadway improvements are as follows:

Sewer Improvements. The sewer needs for the Project are addressed in a sewer master plan that was approved by the City Department of Wastewater Management (now known as the Department of Environmental Services) in 1997. It continues to be updated as necessary in connection with ongoing development of the Project. Sewer services for the development are provided by the existing 'Ewa Beach Sewer System that runs along Pāpipi Road and Fort Weaver Road to the Honouliuli Wastewater Treatment Plant via the 'Ewa Sewage Pump Station.

The developer has financed the sewer improvements that have been constructed. Furthermore, in 2006, HASEKO upgraded the 'Ewa Beach Pump Station by increasing its capacity and replacing some of the aging collector lines. This nearly \$20 million upgrade benefits not only the Ocean Pointe/Hoakalei development, but also the older 'Ewa Beach community and portions of the 'Ewa by Gentry development. Future sewer improvements within the Project site will also be developer-financed.

Water Improvements. HASEKO was a member of the 'Ewa Plain Water Development Corporation ("EPWDC")³, which developed new water sources, storage facilities and transmission lines to provide sufficient water for certain projects on the 'Ewa Plain, including Ocean Pointe/Hoakalei. The regional water system was developed in accordance with the 'Ewa Water Master Plan of August 1987, which was approved by the Board of Water Supply ("BWS"). Pursuant to the master plan, HASEKO contributed more than \$10 million toward the construction of the regional water system. The completed system, including a 36-inch main under Fort Weaver Road, reservoirs, wells, and pumping stations, was dedicated to the BWS in the summer of 1991.

³ EPWDC, having fulfilled its mission and accomplished the purpose for which it was established, was dissolved in 2006.

The system that was dedicated to the BWS in 1991 includes six wells located in Honouliuli. These wells are permitted to withdraw approximately 6.6 million gallons of water per day (mgd). Pursuant to agreements among the members of the EPWDC, which agreements are part of the dedication agreement with the BWS, HASEKO is allotted more than 2 mgd of the 6.6 mgd. That amount is sufficient to satisfy the potable water needs for approximately two-thirds of the entire Project. In accordance with the November 2006 Potable and Non-Potable Water Master Plan for the Project that has been approved by the BWS, the remainder of the Project's potable water needs will be supplied by BWS.

Roadway Improvements. HASEKO, along with other developers in the 'Ewa region, the City and the State, has made much progress in the planning and implementation of traffic infrastructure improvements to accommodate development on the 'Ewa Plain. On June 28, 2001, the Department of Transportation and the developers presented the Commission with a status report on the progress made on traffic management plans for the 'Ewa area. At that time, HASEKO informed the Commission that it would be working with the other developers, State and City agencies and affected communities in ascertaining the projected traffic infrastructure demands and needs of the area, the priorities among the identified projects and a fair and equitable method of funding the proposed improvements.

Since that time, the group has identified the needed traffic infrastructure improvements for the area and determined a fair and equitable method of apportioning the costs of designing and constructing those improvements.

First, the government agencies and developers cooperated in conducting numerous and extensive studies of traffic infrastructure that will be necessitated by the additional growth and development planned for the 'Ewa area. After much effort, the Department of Transportation and the developers jointly completed the 'Ewa Highway Master Plan (Year 2010 Highway Plan) on August 28, 2001 (as modified on May 31, 2002). In that plan, certain traffic improvements consisting of (but not limited to) construction of and improvements to Fort Weaver Road, the H-1 interchanges at Kapolei, Fort Weaver Road, Kapolei Parkway and North-South Road (nka Kualakai Parkway) were identified as being needed to provide an acceptable level of service throughout most of the 'Ewa area through 2010.

Second, the Department of Transportation and the developers accepted the 'Ewa Highway Master Plan and have worked toward funding the identified traffic improvements in a way that would be fair and equitable to all parties involved, and with the goal of securing federal highway matching funds for construction of these improvements. In late 2002, the City enacted Ordinance 02-52. Ordinance 02-52 is an impact fee ordinance to share the costs of design and construction of the identified improvements among all of the parties that implement the 'Ewa Highway Master Plan. Ordinance 02-52 does this in a manner that assesses landowners and developers based upon the amount of traffic their projects are expected to generate. It should also be noted that the ordinance allows for subsequent review of the 'Ewa Highway Master Plan

every five (5) years and that the impact fees may be adjusted to reflect any increase or decrease in project costs.

Roadways within the Project are fully funded by the developer and most will be dedicated to the City after completion. HASEKO is working with the City to dedicate the roadways in its residential neighborhoods. In addition, the portion of Kapolei Parkway that is within the Project site has been completed.

Condition 4⁴

Petitioner shall coordinate with the Honolulu Board of Water Supply, the Commission on Water Resource Management, the 'Ewa Plain Water Development Corporation, adjoining land owners and developers and/or other Federal, State, or County agencies, measures designed to develop water for the Petition Area. Petitioner and other members of the 'Ewa Plain Water Development Corporation shall develop, at the expense of the 'Ewa Plain Water Development Corporation, the necessary water source, storage, and transmission facilities to provide an adequate supply of potable water to the Petition Area prior to the development of the Petition Area.

Status. HASEKO was a member of EPWDC⁵, which developed new water sources, storage facilities and transmission lines to provide sufficient water for certain projects on the 'Ewa Plain, including the Project. The regional water system was developed in accordance with the 'Ewa Water Master Plan of August 1987, which was approved by BWS. Pursuant to the master plan, HASEKO contributed more than \$10 million toward the construction of the regional water system. The completed system, including a 36-inch main under Fort Weaver Road, reservoirs, wells, and pumping stations, was dedicated to the BWS in the summer of 1991.

The system that was dedicated to the BWS in 1991 includes six wells located in Honouliuli. These wells are permitted to withdraw approximately 6.6 million gallons of water per day (mgd). Pursuant to agreements among the members of the EPWDC, which agreement is part of the dedication agreement with the BWS, HASEKO is allotted more than 2 mgd of the 6.6 mgd. That amount is sufficient to satisfy the potable water needs for approximately two-thirds of the entire Project. In accordance with the November 2006 Potable and Non-Potable Water Master Plan for the Project that has been approved by the BWS, the remainder of the Project's potable water needs will be supplied by BWS.

Non-potable water will be used for certain landscaping and construction purposes and to irrigate the golf course. A permit for use of brackish caprock water has been obtained from the State

⁴ As amended by the Commission's December 9, 1998 Order Granting in Part and Denying in Part Motion to Amend Decision and Order Entered on September 21, 1984.

⁵ EPWDC, having fulfilled its mission and accomplished the purpose for which it was established, was dissolved in 2006.

Commission on Water Resource Management for such purposes. Additionally, approximately 600,000 gallons per day of reclaimed water from the Honouliuli Wastewater Treatment Plant is supplied to the Project for non-potable uses.

Condition 5⁶

Petitioner shall provide affordable housing opportunities for low, low-moderate, and moderate income residents in the State of Hawai'i to the satisfaction of the City and County of Honolulu. The City and County of Honolulu shall consult with the State Housing and Community Development Corporation of Hawai'i prior to its approval of the Petitioner's affordable housing plan. The location and distribution of the affordable housing or other provisions for affordable housing shall be under such terms as may be mutually agreeable between the Petitioner and the City and County of Honolulu.

Status. The City, through Unilateral Agreement (“UA”) conditions attached to the 1985 and 1993 rezoning approvals, has imposed upon the Project affordable housing requirements.

The 1985 UA mandates that ten percent (10%) of the housing units allowed under that rezoning action (129 units) shall be for sale to households with incomes equal to or below 80 percent of O'ahu's median income.

Condition 4 of the 1993 UA provides for an affordable housing program under which ten percent of the New Dwelling Units constructed (up to 214 units) shall be for sale or rent to households with incomes equal to or below 80 percent of O'ahu's median income. Half of these units were required to be rental units. Another 20 percent of the New Dwelling Units (up to 427 units) shall be for sale or rent to households with incomes between 81 percent and 120 percent of O'ahu's median income. The UA conditions further specify the schedule for making the affordable housing units available, provide for in-kind substitutes to constructing some of the affordable units, and generally set forth some of the terms of the sales of housing units, et cetera.

On November 27, 2002, Ordinance 02-58 was enacted which modified the 1993 UA to eliminate the rental unit requirement and instead allowed for the sale of all of the affordable units. The affordable housing units are incorporated into the market-priced neighborhoods. HASEKO has worked closely with the City in fulfilling its affordable housing requirements.

Condition 6

That Petitioner apply sound attenuation measures on all residential units that are subject to noise contours greater than 60 Ldn. That Petitioner shall insure that a noise covenant,

⁶ As amended by the Commission's December 9, 1998 Order Granting in Part and Denying in Part Motion to Amend Decision and Order Entered on September 21, 1984.

Exhibit B, attached hereto and incorporated herein by reference similar in form to be placed on each residential deed.

Status. All of the residential units that have been, or are in the process of being, constructed, although subject to less than 60 Ldn, nonetheless have fully insulated exterior walls and ceilings, double pane windows and are equipped with central air conditioning, which, among other things, minimizes noise intrusion from aircraft and traffic. Additionally, noise covenants are included in Conditions, Covenants and Restrictions (“CC&Rs”) that bind each of the buyers of residential units.

Residential units built in the Subject Property within areas subject to noise contours greater than 60 Ldn will be equipped with air conditioning, thus enabling the windows to be kept closed to minimize noise intrusion.

Condition 7

That Petitioner not permit residential development within the Barbers Point Naval Air Station aircraft Accident Potential Zone (APZ).

Status. In lieu of an APZ, the United States obtained a restrictive easement in its favor over a portion of the westernmost edge of the Project area due to its proximity to Naval Air Station Barbers Point. The easement provides for operations associated with a military airfield. Residential and other uses were not permitted in the area covered by the easement. However, specifically permitted uses include golf course and clubhouse, marina, marina services, retail trade and water recreation. The Navy has closed the airfield and transferred ownership to the State of Hawai‘i, which currently operates it as Kalaeloa General Aviation Airport. HASEKO adhered to the restriction on residential development within the APZ associated with Barbers Point Naval Air Station.

Condition 10⁷

That Petitioner shall provide annual reports to the Land Use Commission regarding its progress in developing the Subject Property and satisfying these conditions.

Status. This annual progress report is provided to the Commission in compliance with this condition.

⁷ Condition 9 was deleted by the Commission’s February 22, 2010 Order Granting Motion to Delete Condition 9.

Condition 11

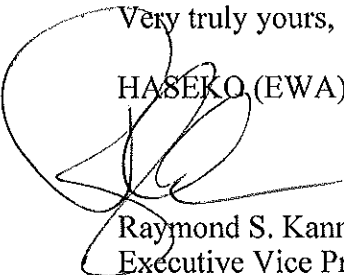
The Commission may fully or partially release these conditions as to all or any portion of the subject properties upon timely motion and the provision of adequate assurance of satisfaction of these conditions by Petitioner.

Status. As appropriate, HASEKO will file the appropriate motion to release project areas from the conditions of the D&O based upon satisfaction of all of the relevant conditions.

HASEKO hopes this progress report sufficiently apprises the Land Use Commission of the present status of the Subject Property. Should you need more information, please do not hesitate to contact the undersigned.

Very truly yours,

HASEKO (EWA), INC.



Raymond S. Kanna
Executive Vice President

cc: State Office of Planning
City Department of Planning and Permitting
Moriwara Lau & Fong LLP