

STATE OF HAWAII
HAWAII COMMUNITY DEVELOPMENT AUTHORITY
KALAELOA
Honolulu, Hawaii, 96813

January 8, 2020

Chairperson and Members
Hawaii Community Development Authority
State of Hawaii
Honolulu, Hawaii

HCDA Board Members:

SUBJECT: Shall the Authority Authorize the Executive Director to Enter Into an 18-Month Exclusive Negotiations Agreement and Right of Entry Agreement with HK Management to Conduct Due Diligence on the Proposed Honokea Surf Village Project Located at Tax Map Key 9-1-013-068?

SUMMARY:

HK Management submitted an unsolicited proposal to lease a parcel of land in Kalaeloa for the development of the Honokea Surf Village and Resort. The project would include a 5-acre surf lagoon and would showcase Hawaiian culture, arts, and the sport of surfing. HK Management requires site control to complete its financial feasibility studies to determine whether to proceed with the project.

AUTHORITIES:

The Authority must approve any exclusive negotiation agreements for all Unsolicited Proposals in accordance with the Hawaii Community Development Authority (HCDA) Policy No. Lease 03, approved by the Authority on April 4, 2018.

The Authority must also approve all Right of Entry Agreements with durations greater than 12 months.

BACKGROUND:

On March 13, 2019, the HCDA received an unsolicited proposal from HK Management to lease a 19.4 acre parcel in Kalaeloa for the development of the Honokea Surf Village and Resort. Pursuant to HCDA's Policy No. Lease 03 version 1.0, *Consideration of Unsolicited Proposals to Lease and/or Develop Property*, HCDA's evaluation committee determined that the proposal did not meet all requirements to be deemed valid for consideration. The evaluation committee noted that the original proposal was lacking sufficient details on the project's financial forecast and feasibility.

On August 26, 2019, HK Management submitted an updated proposal for the Honokea Surf Village with additional supporting information. After review, an HCDA evaluation committee

recommended forwarding the second proposal to the Authority for further discussion and consideration.

HK Management's proposal is for a long-term lease of Tax Map Key 9-1-013-068, located mauka of the Kalaeloa Heritage Park. This parcel is zoned "Transect 2" and is currently vacant.

The Honokea Surf Village and Resort is envisioned as a community resource and gathering place that will celebrate Hawaii's culture, surfing history, wellness, and arts. Its key feature is a 5-acre Surf Lagoon that utilizes modern technology to create consistent, customizable waves. HK Management further outlines its proposal in the Project Summary attached as Exhibit A.

The project is expected to cost \$72 million, and HCDA is not expected to participate in financing. HK Management believes it can secure funding through alternate sources, but an Exclusive Negotiations Agreement (ENA) and site control are required to complete financial feasibility studies.

HCDA staff proposes an ENA and 18-month Right of Entry (ROE) Agreement to provide site control for HK Management to complete its due diligence. In that time frame, HK Management believes it can secure financing and complete an Environmental Assessment that would be a precursor to a Development Permit.

The ENA and ROE would not obligate HCDA or HK Management to move forward with the subject proposal. Such a development would still require further review and public hearings as required by HCDA's Development Permit process.

ANALYSIS:

HCDA's Policy No. Lease 03 version 1.0, *Consideration of Unsolicited Proposals to Lease and/or Develop Property* requires that an unsolicited proposal meet the following guidelines to be considered by the Authority:

1. Advance the rules and plans of the HCDA;
2. Be independently originated and developed by the Offeror;
3. Be in the best interest of the community involved and the State of Hawaii;
4. Be prepared without the assistance of HCDA staff and members of the Authority, and without the endorsement or direction of the HCDA;
5. Demonstrate a unique opportunity presented to the HCDA that would be unavailable during a competitive process;
6. Include sufficient detail to permit a determination that the proposal would be worthwhile and the proposed work would benefit the plans and rules promulgated by the HCDA as directed by the community; and
7. Not be in advance of a known agency proposal that can be acquired by competitive methods.

HCDA's Evaluation Committee determined the updated proposal met the above and therefore recommended this action be brought to the Authority for consideration.

Similar to the Aloha Solar site, the underlying parcel is zoned T2 – Rural/Open Space. As was determined during due diligence underlying the Aloha Solar lease, the site has very limited development potential. HK Management proposes an innovative use for the property that could yield a higher return than could otherwise be realized based on the existing zoning and may comply as a conditional use under the current rules.

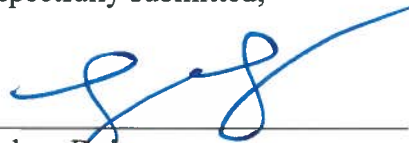
To ensure that the HK Management can deliver the project and provide a business plan with greater detail, the developer has requested a period of 18 months to conduct the necessary due diligence and planning. During this period, HK Management is requesting an exclusive negotiations agreement and right of entry for the parcel to secure its potential future interest. Currently the parcel is available, and the HCDA has no other plans, nor any competing proposals, for the site.

RECOMMENDATION:

HCDA staff recommends that the Board:

Authorize the Executive Director to Enter Into an 18-Month Exclusive Negotiations Agreement and Right of Entry Agreement with HK Management to Conduct Due Diligence on the Proposed Honokea Surf Village Project Located at Tax Map Key 9-1-013-068.

Respectfully submitted,



Lindsey Doi
Asset Manager

APPROVED FOR SUBMITTAL:



Aedward Los Banos, Executive Director

Attachments

Exhibit A – HK Management Proposal Summary Sheet

**Hawaii Community Development Authority
Kalaeloa 19acre Parcel lease request by Honokea Surf Village**

Subject: Project Summary and Development Concept

Honokea seeks to enter into a long-term lease with HCDA/State for the approximately 19.4ac parcel of land (TMK 68) mauka and adjacent to the ~77ac Kalaeloa Heritage Park. The development is envisioned to be a "Wahi Ho'okela" (Center for Excellence) in sports, wellness, culture and arts for both Kalaeloa and the State of Hawaii. This project would bring a world class project to our backyard that celebrates Hawaii's culture, surfing history, as well as the future of sports.

The site appears to provide the capacity that would allow Honokea to develop its typically comprehensive program of healthy recreation, culture and community attractions that are necessary for commercial viability and which are being sought at all current Honokea sites under current development review on the mainland.

The development is understood to also require a potentially integrated arrival and facility concept with Kalaeloa Heritage Park. Since a Native Hawaiian sensitivity is at the deepest levels of the Honokea development approach, any collaboration and partnership with KHPA is not only possible but would be considered an advantage.

Honokea Design Philosophy: The Honokea Surf Village and Resort is about 2 things. It is all about surfing and the underlying Hawaiian culture that brought surfing into existence; and it is about a village, a place of community that allows visitors, residents and patrons the opportunity to experience living with great connections to place, to culture, and to each other. In many respects, surfing allows the opportunity to experience an authentic Hawaiian lifestyle translated to any location: informal, outgoing and social, out-door oriented, and instilled with Aloha.

Capacity Review of Development Program Components—within the ~19.4acres

- Surf Lagoon, ~155m cove model featuring both beginners and expert zones, ~5 ac
- Beach-side zone, ~2ac
- Lagoon Arrival Plaza, Recreation Welcome Center and refreshments Overlook, ~2 ac
This area would also include potentially integrated interpretive pavilions for both surfing as well as for Kalaeloa Heritage Park.
- Conference Center (Permitted by Land Use table) with food service, ~1 ac
- Supporting Recreation, possibly including lazy river, SUP, skate boarding, etc ~3ac
- Surf Film Studios/surf training/ocean safety Component (Light Industrial permitted use), ~2ac
- Optional lagoon-flanking area: overnight recreation camp bungalows, ~2ac
(Honokea understands that the possible ~4ac makai HCDA parcel adjacent to the Coast Guard may be available for such a use)

Total: ~17ac program areas, ~2ac driveways and buffer areas

Note: a limited amount of 15-minute parking is expected on the site, ~0.5ac, 60 spaces. The remainder of ~500spaces/~3.5 ac would be co-shared by KHP on the KHP 5ac disturbed maintenance square.

*Honokea is seeking additional acreage if available for additional recreational open space & native restoration. A more detailed summary of the project and team is attached.