



KEWALO BASIN TRANSITION & OPERATING PLAN

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HAWAII COMMUNITY DEVELOPMENT AUTHORITY



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Mauka Slips Fronting Ala Moana Boulevard

PURPOSE

The purpose of this document is to articulate a strategically sound and viable transition and operating plan (“Plan”) to effectuate the transfer of operational and management of Kewalo Basin responsibility from the State Department of Transportation-Harbors Division (DOT) to the Hawaii Community Development Authority (HCDA). In order to establish a record of accomplishments, solicit existing and future stakeholder input and acceptance, proceed in a fiscally prudent manner, provide flexibility for future development and avoid having the transition of physical changes conflict with current operations, the transition approach will be gradual in regards to physical changes of the facility. The main premise is to avoid sweeping changes that could create more problems than they solve and act in a systematic and informed manner.

BACKGROUND

Kewalo Basin was originally built in the 1920’s to relieve congestion at Honolulu Harbor and service lumber schooners. By the end of the 1920’s Kewalo Basin became a home for commercial fishing. It has been operated by the DOT since statehood. Act 86, SLH 1990, transferred State-owned lands and facilities Makai of Ala Moana Boulevard, including Kewalo Basin, to HCDA. Since transfer of ownership, DOT has continued to operate Kewalo Basin and collect revenues from revocable permits as well as land leases.

Based on DOT’s desire to relinquish management of Kewalo Basin on July 1, 2006, it had been contemplated that the selected developer under the Kakaako Waterfront Request for Proposals (RFP) would be assuming managerial duties from DOT. However, the RFP was terminated by the Authority in June 2006. DOT agreed to continue management of Kewalo Basin until July 1, 2007, at which point jurisdictional control would be transferred to HCDA, thus the need to develop this Plan.

The challenges HCDA faces in assuming jurisdiction of this asset include deteriorating infrastructure, obsolete systems, low tenant morale, underutilization of facilities, inadequate custodianship of the property, reputation for drug and other illegal activities and isolation of

the harbor from the surrounding community as well as less than complete transfer of documentation from DOT.

HARBOR MANAGEMENT APPROACH

In order to effectively transition operations from DOT to HCDA, a key issue is the management structure. Various options were evaluated:

1. Have DOT continue to manage the harbor. This was not considered a viable option based upon the position of DOT to date. However, consideration is being given to request DOT to allow current on site personnel to remain for a short transition period after harbor management is selected.
2. Request Department of Land and Natural Resources (DLNR) to assume jurisdiction. This was not considered a viable option as DLNR is actively pursuing a policy of transferring to the counties its responsibility for small boat harbors statewide and DLNR has limited experience running purely commercial harbors.
3. Have HCDA assume management in-house. HCDA currently does not have experienced staff available to undertake such a project and would need to hire experienced personnel at expected higher cost and requiring greater time than options 4 and 5.
4. Offer the harbor out to bid (similar to a ground lease) and allow the winning bidder to manage the harbor and set rates as they see fit. While this approach has several distinct advantages for both HCDA and the tenants, potential bidders have indicated that the harbor operation, by itself, would not generate significant interest as the value in such a structure arises from the development rights of the surrounding property. As the surrounding property will be going through a lengthy public planning process to determine what uses may be permitted, this approach is not viable given the time frame necessary for action.

5. Issue a Request for Proposals (RFP) to retain harbor management (similar to a property manager). The property manager would handle day-to-day activities including leasing, accounting, hiring vendors and managing capital projects. HCDA would pay a fee for services as well as all harbor expenses.

Given the uncertainty of what future development, if any, will take place in the Makai Area and the Authority's desire to not inhibit future opportunities, the last option is deemed most desirable as it provides the greatest flexibility to change approaches in the future and is capable of being implemented within the time frame available. HCDA intends to improve services and facilities (e.g. addressing deferred maintenance, replacing condemned piers, ensuring public health and safety) that need to occur regardless of possible future scenarios since it is clear that the harbor itself will remain in maritime use.

PRESENT CONDITIONS

An aerial view of Kewalo Basin with dates when improvements were built is attached as Exhibit C.

Immediate attention needs to be directed to deferred maintenance of the harbor including:

- Replacement of slab and fendering on apron areas;
- Replacement of pilings on Makai and Mauka slips;
- Replacement of electrical conduits, wiring, metering and service to slips;
- Upgrade electrical service to 220/330 where necessary; and
- Installation of street lighting along the basin roadways.

Slip safety and ability to lease up requires the following actions:

- Repair/replacement of the Herringbone, B and C piers;
- Stub in electrical, water and sewer connections on Ewa bulkhead to accommodate transient users; and
- Installation of waste holding tank.



Below water line electrical conduit unsafe



Poor maintenance has led to condemned piers

In order to encourage new water based usage, improve public safety, provide for requirements of existing users, increase amenities to attract patrons, and provide flexibility to conform with future developments in the area to maximize activity and synergy, capital projects include the following:

- Existing roadways currently do not provide adequate ingress/egress for the property and create bottlenecks for vehicular traffic both within Kewalo Basin and at the Ala Moana Boulevard and the Ward Avenue intersections. New roadway and intersections to better connect the harbor with the surrounding area, especially adjacent Ala Moana, Kewalo and Kakaako Waterfront parks. Additionally, they are necessary to accommodate the expected increase in traffic as well as provide additional parking. Intersection reconfiguration will enhance access, improve public safety from the dangerous u-turn at Ward Avenue and increase pedestrian safety by providing crosswalks and drop off zones, calm traffic flow around the Kewalo Basin park and streamline traffic along Ala Moana Boulevard.
- In order to service harbor users and visitors, new commercial tenancy including convenience store, bait shop, fuel station, restaurants, and renovation of the Fisherman's Wharf building should be considered.

- Removal of the former Kewalo Basin Marine Mammal Laboratory, as a separately funded project, is being undertaken. After the ramshackle buildings are removed, HCDA intends to construct a pedestrian promenade connection between Kewalo Basin Park and Ala Moana Beach Park as well as establish a small refreshment/concession outlet with outdoor seating to not only create a new revenue opportunity, but activity and interest in the area.

ASSETS and LIABILITIES

Kewalo Basin's major attributes are its prominent central location and ocean frontage. It is also the only small boat commercial harbor within the Honolulu urban core. It is adjacent to Ala Moana Beach and Kewalo Basin parks and across the street from the Victoria Ward Center retail complex, which includes about 700,000 sq. ft. of commercial and retail space. Its location on Ala Moana Boulevard guarantees high visibility and recognition factor from both tourists and residents.

With relocation of the current tenant, Honolulu Marine, expected in the 2008-2009 timeframe, the bulkhead offers additional opportunities for diversification of use by adding launch ramps and a "boatel" operation where vessels can be stored, prepped and stocked for their owners. Minor ship repairs could also be performed providing a service for all of the ships that visit the harbor.

A common area maintenance ("CAM") fee will be assessed on Kewalo Basin tenants to pay for security, maintenance, management services and other day-to-day expenses.

The greatest liability of Kewalo Basin is the deferred maintenance that HCDA is inheriting. An ancillary liability resulting from this, based on a survey of users conducted by HCDA, is the low morale of current harbor users who have endured the existing conditions of the harbor far too long.

WHAT NEXT?

In order to execute this Plan, HCDA needs to accomplish the following, each of which is elaborated upon in the following section:

- Engage in Community Outreach;
- Promulgate Administrative Rules;
- Issue RFP for harbor management;
- Complete Documentation and Contract Negotiations; and
- Finalize Capital Improvement Plan.

Engage in Community Outreach

HCDA established a user group Task Force that has been meeting monthly since August 2006. This group will likely transform into a “merchants association” once the change in management occurs. Community outreach, especially with park users and the neighborhood board, is essential to successfully execute this Plan and is being programmed. Some activities under this Plan will require Hawaii Administrative Rule amendments and public hearings. In addition, there will be traffic studies, special management area permits and environmental assessments that will undergo public review. Since these projects must be submitted to entitlement and funding procedures similar to any public project, good communications to enlist community support and feedback is important to achieving objectives. Additionally, since legislative appropriations are needed to cover the costs of major improvements, community support is essential along with briefings of legislators.

Promulgate Administrative Rules

Proposed Administrative Rules for Kewalo Basin are currently under review by the Department of Budget and Finance. Once permission to hold a public hearing is secured from the Governor, HCDA will have a meeting with all of the current harbor permittees to present the rules, explain the difference between them and the DOT rules, answer any questions and address and concerns that they raise. For general public input, a public hearing will be held 30 days after publication of the notice.

Issue RFP For Harbor Management

Management of Kewalo Basin will be awarded on best value to the state; as such, HCDA has formed an evaluation committee comprised of HCDA staff and representatives from DOT and DLNR. The committee will rate the respondents to the RFP based upon their experience, reputation, presentation and price.

Complete Documentation and Contract Negotiation

Upon engagement of harbor management, all contracts, leases, budgets and capital improvement prioritization will be finalized. Vendor contracts for all service providers such as trash pick-up, security, etc. will also be executed.

Finalize Capital Improvement Plan

Total development costs of capital improvements are projected to be \$14.1M over five phases. Phase I would entail repair to Kewalo Basin infrastructure including extending sewer and water lines to the ticket booths, installation of a waste tank, replacement of pilings on Ala Moana Boulevard and Makai slips, replacement of the apron slabs and replacement of the fenders. Phase II would entail replacement of all conduits, wiring and meter service to slips, upgrade electrical service to those slips that do not have 220/330 lines, replacement of street lighting and stub in electrical, water and sewer to Ewa bulkhead. Phase III would entail reconfiguring ingress and egress into Kewalo Basin including establishing a new signalized intersection, connecting roadway to Ala Moana Beach Park and improving the driveway connecting to Ahi street. Phase IV would entail repair or replacement of all pilings, walkways, slips and infrastructure for Piers B, C and Herringbone. Phase V would entail constructing 12,000 square feet of retail space, renovation of Fisherman's Wharf Restaurant, adding a second floor to existing commercial building and constructing additional restroom facilities.

HCDA initially submitted its request for \$14.1M in CIP funds to the Department of Budget and Finance for all of the improvements. However, the Governor's office has only approved \$5.5M for the replacement of piers B, C and the Herringbone in the upcoming fiscal

biennium. HCDA will concentrate on first putting the unproductive piers back in service to increase cash flow from the property and then pursue the other contemplated phases as funds become available. The Task Force rated the pier repairs in the top five priorities for Kewalo Basin. Other items included in the top five categories were additional restrooms, replacing electrical and pilings on the other piers, improving ingress/egress and installation of a waste tank. HCDA will work with the Harbor Management in sourcing the funding to pursue the additional priorities upon assuming jurisdiction of the harbor.

RISKS

The usual concerns involving existing conditions, market, budget and environmental risks all apply to this endeavor.

In addition, the effectiveness of the Harbor Management will be key to the success of the Kewalo Basin management and transition.

The proposed rules contemplate an increase in the slip fees to be paid by tenants. The ability of the tenants to absorb the increased cost will determine if funds are available to provide the increased level of services contemplated and pay debt service.

Failure to obtain the legislative funding requested could preclude improvements until an alternative source of funding is identified or until a permanent owner/manager is selected.

OPPORTUNITIES

Kewalo Basin enjoys a diverse tenant mix that includes long line fisherman, tour boat operators, charter deep sea boats and excursion vessels for scuba and parasailing. It is contemplated that the mix will be further diversified with the addition of private pleasure craft as space allows. Current news articles indicate that demand exceeds supply in the area for approximately 170 slips. DOT has indicated that there are currently 127 slips in the harbor. Pier B has 22 of its 28 slips condemned. Pier C and the Herringbone pier cannot service the number of vessels they were designed for due to structural damage. In addition, due to DOT's rules favoring daily permittees, many users do not show on the rent roll leaving the

opportunity to make the income stream more predictable and stable by converting these users to annual leases.

Completion of the planned improvements will increase the efficiency and occupancy of the harbor. In addition, expanding the diversity of users in the harbor will increase its popularity and cash flow and serve to better position the surrounding lands for whatever the Waterfront Advisory Group, and ultimately, the Authority determines is in the best interest of the state.

SUMMARY OF CASH FLOW

In order to complete the Plan, it will be necessary to obtain legislative funding for capital needs. Therefore, even assuming a reasonably successful lease up of the vacant slips and value added development by use changes in existing rental inventory, the objective to establish operational self-sufficiency will only be possible if CAM is collected from all tenants for the additional maintenance, security, management and landscaping expenses inevitable in such a large and high-profile area.

A preliminary Executive Summary of Cash Flow for the project is attached as Exhibit A assuming CIP debt service on the \$5.5 million included in the Administration's biennium budget. The projected Internal Rate of Return for the investment using the scaled back improvements of just piers B, C and Herringbone as included over the 20-year term of the bonding approximates 27%. HCDA's preliminary estimate of capital costs totals about \$14.1 million as outlined in Exhibit B, the Administration's biennium budget only includes the column for the pier work.

**KEWALO BASIN
EXECUTIVE SUMMARY OF CASH FLOW
2006-2013**

Summarized below is the projected cash flow after debt service of operations of Kewalo Basin after assumption of jurisdiction from Department of Transportation - Harbors on July 1, 2007 and completion of proposed capital improvements

	FYE 6/30/06	FYE 6/30/07	FYE 6/30/08	FYE 6/30/09	FYE 6/30/10	FYE 6/30/11	FYE 6/30/12	FYE 6/30/13
	DOT Budget (1)	DOT Budget (1)	Projected	Projected	Projected	Projected	Projected	Projected
INCOME								
Base Rent	\$ 401,000	\$ 401,000	\$ 509,000	\$ 804,000	\$ 1,274,000	\$ 1,839,000	\$ 2,061,000	\$ 2,101,000
Common Area Maintenance	\$ -	\$ -	\$ 311,000	\$ 275,000	\$ 434,000	\$ 548,000	\$ 667,000	\$ 687,000
TOTAL GROSS INCOME	\$ 401,000	\$ 401,000	\$ 820,000	\$ 1,079,000	\$ 1,708,000	\$ 2,387,000	\$ 2,728,000	\$ 2,789,000
TOTAL OPERATING EXPENSES	\$ 679,000	\$ 682,000	\$ 708,000	\$ 736,000	\$ 774,000	\$ 816,000	\$ 842,000	\$ 858,000
NET INCOME FROM OPERATIONS	\$ (278,000)	\$ (281,000)	\$ 112,000	\$ 343,000	\$ 934,000	\$ 1,571,000	\$ 1,886,000	\$ 1,931,000
OWNER EXPENSES								
Vehicles	\$ -	\$ -	\$ 24,000	\$ -	\$ -	\$ -	\$ -	\$ -
Disposal Abandoned Vessels	\$ 93,000	\$ 93,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CIP Debt Service	\$ -	\$ -	\$ 338,000	\$ 406,000	\$ 398,000	\$ 390,000	\$ 382,000	\$ 375,000
Capital Improvements	\$ 465,000	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
OHA Payments	\$ 80,200	\$ 80,200	\$ 101,800	\$ 160,800	\$ 254,800	\$ 367,800	\$ 412,200	\$ 420,200
Allocation Statewide Expenses/HCDA central office allocation	\$ -	\$ -	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
TOTAL OWNER EXPENSES	\$ 638,200	\$ 203,200	\$ 493,800	\$ 596,800	\$ 682,800	\$ 787,800	\$ 824,200	\$ 825,200
NET INCOME / NET LOSS:	\$ (916,200)	\$ (484,200)	\$ (381,800)	\$ (253,800)	\$ 251,200	\$ 783,200	\$ 1,061,800	\$ 1,105,800

Notes:
(1) Income based upon rent roll (excluding Honolulu Marine, NOAA, Fishermans Wharf restaurant and Simply One) dated 7/16/06 provided by DOT and supplemented with slip permits received by HCDA to date.

EXHIBIT C

