

GOVERNOR'S TURTLE BAY ADVISORY WORKING GROUP

April 24, 2008 - 11:00 A.M. - 12:00 P.M.
Governor's Conference Room
State Capitol, Fifth Floor
Honolulu, Hawaii 96813

MINUTES

Attendance

Present: Chair Bill Paty; Director Ted Liu; Senator Clayton Hee; Representative Michael Magaoay; Mr. Cade Watanabe (Representing Mr. Eric Gill); Mr. Junior Primacio; Mr. Blake McElheny; Ms. Cathleen Mattoon; Mr. Steve Metter; Ms. Denise Antolini; Mr. Mitch Costino; Mr. Ernest Martin; Councilmember Donovan Dela Cruz; and Ms. Lea Hong

Excused: Vice-Chair Laura Thielen; Mr. Cy Bridges; Dr. Steven Wheelwright; Representative Michael Magaoay

Also Present: First Deputy Attorney General Ms. Lisa Ginoza; Senior Policy Advisor Linda Smith; Chief of Staff Barry Fukunaga; Senior Communication Advisor Lenny Klompus and members of the public

Call to Order Meeting called to order at 11:03 a.m.

I. Opening Comments – Bill Paty, Chair

Chair Paty called the meeting to order and invited members of the public to introduce themselves.

a. Approval of Minutes from April 16th meeting

The minutes were approved as submitted.

II. Legislation Update – Senator Hee and Representative Magaoay

Senator Clayton Hee reported that SB2423, the bill to acquire Turtle Bay, is pending House Finance and Senate Ways and Means committee approval. He said the Senate has agreed to a CD1 which is equivalent to

the House version without an appropriation. Senator Hee also reported that SB3102, the land conservation bill, is also awaiting House Finance and Senate Ways and Means committee approval.

He reported both bills were scheduled to be heard at Friday, April 25th at 10:15 A.M. in room 414.

Senator Hee also reported that Speaker Say dismissed the House conferees from the conference committee for SB 2997, a gesture that signifies the death of the bill.

Ms. Smith noted that due to the hard work of both Senator Hee and Representative Magaoay the bill has the necessary provisions to allow DLNR to cover negotiating costs related to the Turtle Bay project.

Mr. Barry Fukunaga expressed his appreciation for the efforts and hard work of the Legislature.

III. Establishment of Subcommittee on Technical Concerns – Bill Paty, Chair

Chair Paty announced the members of the Subcommittee on Technical Concerns. They are Mr. Blake McElheny, Mr. Mitch Costino, Ms. Lea Hong, Ms. Cathleen Mattoon, and Vice-Chair Laura Thielen. The function of the committee will be to discern procedural and legal issues involved with the structure of the acquisition transaction.

Ms. Lisa Ginoza indicated that a deputy attorney general has been assigned to assist this group. She noted there will be an ongoing analysis depending on the realities of what the transaction may look like.

Mr. Costino asked if a timeline should be set to direct the work of the advisory working group as a whole. Mr. Steve Metter responded that he appreciates Mr. Costino's suggestion however; the market will determine the timeline of the transaction and it is necessary for the working group to be responsive to the market place. Mr. Metter confirmed that a timeline for understanding how the transaction can be put together would be beneficial.

Mr. Ted Liu suggested the addition of a City and County representative in light of county rules and regulations that will need to be addressed. Mr. Ernie Martin agreed to serve as the City and County's representative on the subcommittee.

IV. Subcommittee Reports

a. Community Communications – Denise Antolini

Ms. Antolini thanked the Governor's Communications staff for their continued support of her subcommittee's efforts. She reported that three updates have been posted to the Governor's website and a fourth is forthcoming. Travis Loop of the Governor's Communications staff emailed the last update to all legislators. The subcommittee will be forwarding hardcopy updates to ILWU employees, to ensure they receive the information.

Ms. Antolini asked members to volunteer to go to neighborhood board meetings as well as any other community meetings. Ms. Antolini reported other efforts of the subcommittee include a new set of Frequently Asked Questions, a radio spot, and an opinion editorial.

In response to Ms. Antolini's solicitation for suggestions, Mr. McElheny asked if the subcommittee would be open to doing a Public Access Television spot. The working group appeared supportive of this suggestion.

Ms. Lea Hong reported that a group of the Advisory Working Group members briefed the staff of the congressional delegation. The staff said the members of Congress will assist to the extent possible and will forward grant applications for relevant federal programs.

b. Long-Term Resort Viability – Blake McElheny

Mr. Blake McElheny summarized the subcommittee's report. Hardcopies were distributed. Mr. McElheny said that the report makes an effort to reiterate previously made points as well as to address any mischaracterizations reported in a Start-Bulletin article entitled, "Turtle Bay expansion necessary, panel says."

Mr. McElheny emphasized that the subcommittee understands that it is advisory in nature and the subcommittee's belief that the resort must gain and maintain the support of the community of which it is a part of in order to ensure long-term viability. Mr. McElheny reiterated that Turtle Bay is currently successful because of its unique offerings, its surroundings, and because it currently markets itself as an element of "Real Hawaii."

Mr. McElheny acknowledged that it will take a lot of money to make this acquisition and preservation effort a success. As a result, if there are other activities and development needed to finance this transaction, the sense of the committee is that there will be very strong

community opposition if these additions do not occur within Turtle Bay's existing footprint.

Mr. McElheny noted that Mr. Gill provided additional information about timeshares. The subcommittee is currently reviewing this information and will be able to give a report at a later time.

Mr. Metter expressed his appreciation for the efforts of this committee. He further noted that this report is particularly useful because it is in accordance with the efforts of the acquisitions subcommittee's efforts as well as the overall efforts of the group.

c. Acquisition Options – Steve Metter

Mr. Steve Metter reported that the acquisition options subcommittee has had some successful meetings. He said there have been preliminary offers that are credible if Oaktree and its lenders set a reasonable price. Mr. Metter stated that his subcommittee is operating in a consistent manner with the suggestions of the long-term resort viability subcommittee.

Mr. Metter suggested that it would be helpful if the community could produce a letter defining support for restricted development of the current Turtle Bay resort. Initial analysis suggests that modest development will be necessary to maintain economic stability; unless the price from Oaktree is so low it negates the need for development.

Mr. Metter indicated that there are interested players who are aware that macro-entitlement will no longer be in force and that there would likely be narrowly defined modest development.

V. Financial Analysis of Turtle Bay Hotel – Mr. Samuel Chung, Peninsula Real Estate Advisors

Mr. Samuel Chung introduced himself and briefly summarized his professional background for the working group, which includes nine years of commercial real estate lending expertise.

Mr. Chung explained the process of determining future long-term viability for the resort requires in depth analysis of past business practices. He pointed out that due to an agreement between the sellers and the State he will be unable to share specific confidential fiscal data.

According to Mr. Chung's analysis, Oaktree spent \$55 million between 2001 and 2003 to upgrade the resort as well as an additional \$7.2 million on golf course improvements. The resort did not generate a profit until the

years 2005, 2006, and 2007 and in kind, the golf course only generated profits in 2005 and 2007. Mr. Chung explained that only after a sufficient injection of money did the hotel begin to do well.

Mr. Chung indicated that when you view the future in the context of how the hotel will do, there are several factors that must be considered:

1. Oaktree is not a hotelier, and has a shorter time frame than typical resort investors. Their earnings projections are aggressive and possibly unrealistic;
2. There is increased competition in terms of upgrading and the addition of amenities at other hotels such as Ko 'Olina and on the neighbor islands;
3. The economy will see a 1.4% decline in visitor arrivals and he estimates there will an additional 1% decline due to the closure of Aloha and ATA; and
4. No major hotelier will likely be interested in Turtle Bay without some sort of developable piece.

Based on Mr. Chung's analysis, he indicated that in terms of profitability the resort is doing well but it can easily regress if a long-term investor is not found.

Mr. Metter agreed with Mr. Chung's analysis. Mr. Metter emphasized that this independent analysis was necessary to decrease dependency on buyers or the sellers to tell us the facts.

With the Chair's permission Mr. Gil Riviere raised comments regarding development of Turtle Bay. In response, Mr. Chung agreed that there are many factors (i.e. good timing, movies, T.V. shows, etc.) attributing to the success of Turtle Bay. He argued, however, that the working group and community should be concerned with who controls the sale. If Oaktree is allowed to control the sale it is more than likely that the highest bidder will prevail. It is possible that the highest bidder will not share the same intentions as the working group or the overall community.

Mr. Metter agreed with Mr. Riviere's concerns of the North Shore's coming of age. He noted that Mr. Chung's analysis spoke to it as well. Mr. Metter shared that when you implement a modest density increase you transfer the risk to individual buyers who are more likely to come back, such as timeshares, to that site than other sites because they have invested in it. It provides for economic renewal or maintenance of that investment. While Mr. Metter does not personally advocate timeshares, the timeshare model is worth reviewing.

Mr. Metter added that all potential buyers are informed that any entitlements associated with Turtle Bay may be lost.

Chair Paty thanked Mr. Chung for the excellent review.

VI. Other Business

a. TPL 5M T-shirts

Ms. Hong announced the availability of 5M campaign t-shirts for those members who are interested. She reported the 5M campaign has successfully raised a few thousand dollars but TPL is still in the process of planning a big launch.

VII. Schedule of Future Meetings – Bill Paty, Chair

The next meeting of the Working Group will be held on Wednesday, May 14th, at 10:00 a.m. in the Governor's Conference Room.

VIII. Adjournment

The meeting adjourned at 12:05 p.m.