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PLANNING DEPARTMENT  
COUNTY OF HAWAII  
Kealakekua Heritage Ranch  
P.O. Box 2240  
Kealakekua, HI 96750

March 9, 2006

Mr. Christopher J. Yuen  
Director  
County of Hawaii Planning Department  
101 Aupuni Street, Suite 3  
Hilo, Hawaii 96720-3043

Re: Kealakekua Development Corporation (Kealakekua Heritage Ranch, LLC) Tax Map Key: 8-2-012:012 and Portion 001

Dear Mr. Yuen,

I am writing to provide a progress report on the Kealakekua Heritage Ranch , TMK 8-2-012:012 and Portion 001 (the "Ranch") and Ordinance 98-63 (the "Ordinance"), and ask you to reconsider your decision regarding the status of entitlement on the Ranch included in your March 1, 2006 correspondence to Tom Pace, and provide us with an extension of time to rectify any concerns that you may have with our submissions. Significant, verifiable work has been done over the past 22 months (which was when the Ranch was acquired by Kealakekua Heritage Ranch, LLC and Tom Pace (collectively referred to herein as "Mr. Pace")) consistent with the intentions of the Ordinance and with the assumption that we were in compliance with the Ordinance. That assumption has been in no way contradicted by your office, neither in meetings shortly before and after Mr. Pace's acquisition, nor by any substantive communication from your office since. In fact, every indication (prior to your March 1, 2006 correspondence) that we received from your office has been affirming that we were on track. Needless to say, information regarding certain communications prior to acquisition or concerns since come as a complete surprise to us.

While we take significant responsibility for the fact that open communication and dialogue has been lacking between your office and us, we hope that you can recognize that we have been kept in limbo by not receiving any substantive communication from your office since the submission of our water assurance correspondence on July 6, 2004 (shortly after Mr. Pace's acquisition of the Ranch). In fact we received no indication that the information that was submitted was in any way incomplete, inadequate or otherwise. We have been politely requesting a response since submission with sensitivity to the demands that are placed upon your office and the job transitions of certain personnel therein. We hope that this correspondence reopens the dialogue and gets us back on track. As will be described below, our intentions relating to the Ranch are serious, and our efforts to advance those intentions are substantial.

3/22/06 sent copy of 3/1/06  
ltr. to Mayor's office.

### *The Conservation Easement*

Since the time of acquisition, Mr. Pace has been working on securing a conservation easement on the majority of the Ranch (application for the Federal Forest Legacy Program was submitted in August 2004) and our intentions to pursue this path were discussed in a meeting with you in the summer of 2004. This effort culminated last month in the inclusion of a line-item appropriation in President Bush's most recent budget proposal of \$2 million dollars for the first phase of the project. The project was ranked as the number six project nationally for the USDA Forest Service's Forest Legacy Program. A project description prepared by the Forest Service and the President's Forest Legacy national project rankings and allocations are included herewith. You will note, that it is the only project for Hawaii on this year's list and that the bulk of the project's value is being donated by Mr. Pace. We have received the support of our congressional delegation and from most of the territorial Pacific Island governments (Guam, CMNI and American Samoa) for the project. The first phase of the project focuses on the forest core of the Ranch, with its important watershed and ecological importance, and eliminates the ability of Mr. Pace to subdivide within that area. We are excited about this project, we anticipate completing the first phase of the easement shortly after an appropriation has been made and will be moving to the second phase in next year's appropriation cycle.

Much of the supporting information and documentation for the project has been based on the expectation that we were in compliance with the Ordinance (we had no reason to believe that the situation was otherwise). This information and documentation included a comprehensive appraisal funded by Mr. Pace with the Hallstrom Group, detailed land-use documentation and planning provided to the State and Federal governments, and design and shaping of the phased easement boundaries to maximize the ecological and economic benefit of the easement. Your March 1, 2006 letter potentially makes much of this documentation inaccurate and significantly jeopardizes our ability to sustain the project as it goes through the Congressional appropriations process. For the sake of our important efforts on this easement project we request that you reconsider your decision to take the entitlement off track and provide us with an extension of time to rectify any concerns that you may have with our submissions.

### *Forest Management Planning*

Since shortly after our acquisition we have been diligently working on preparing a forest management plan. We have decided, however, to not limit our planning to the upper 8,000 acres of the Ranch but to apply the planning to the entire Ranch. Our focus has been to get the planning done right and comprehensively as opposed to getting the planning done quickly. To assist us in our planning we have engaged the Kohala Center to review the natural and cultural resources of the Ranch, help us organize educational, cultural and scientific programs on the Ranch (programs we had hoped to be implementing within the next year and a half), and informal scoping of community interest and needs in relation to the proposed programs. We are grateful for the extensive and time consuming efforts of the Kohala Center in helping us advance the planning. Their cooperation and enthusiasm has helped us overcome challenges in the process and make hard decisions regarding preserving the ecological and cultural future of the Ranch. A copy of their assessment of the natural and cultural resources on the Ranch is included herewith. We are making every effort to follow the recommendations contained therein.

In terms of preparing the formal plan for the Ranch, we continue to work with the Kohala Center in its preparation and submission to State's Forest Stewardship Coordinating Committee (the "Committee"), headed by Sheri Mann of the State's Department of Forestry and Wildlife. Acceptance of the plan will require the Ranch to comply with its terms as a function of State law. While we do not have a firm date as to when that plan will be completed, we are working diligently toward its submission to the Committee and look forward to receiving their feedback.

In the interim, the Ranch has been preparing for an extensive reforestation effort. We have hired an agricultural specialist to work in an on-site nursery rehabilitated by Mr. Pace for the propagation of native species from seed sources on the property, supplemented with trees acquired from the State tree nursery. We currently have over 5,000 trees growing in the nursery and thousand of additional seeds and seedlings that are being started. Tree types include both commercial and non-commercial species. We are also devising a fencing program intended to exclude cattle from sensitive areas, including areas where there is a need and opportunity for natural regeneration.

Much of our forest management planning and design has been done with the expectation that we were in compliance with the Ordinance. Integral to our land use planning, including reforestation areas, scientific research areas, and cultural access opportunities were predicated on the dimensions of the entitlement set out in the Ordinance. A change in that entitlement backdrop will send us back-to-the-drawing-board, negating significant elements of our planning. We request, that in order to avoid unnecessary disruption of our planning efforts that you reconsider the decision set forth in your March 1, 2006 letter, and provide us with an extension of time to rectify any concerns that you may have with our submissions.

#### *Meeting the Water Requirement*

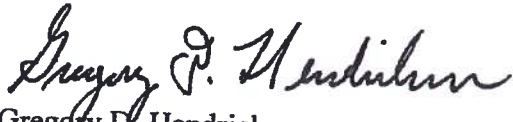
Your March 1, 2006 letter is correct in that we intend to meet the water requirement set forth in the Ordinance with the existing wells on the Hokukano Ranch. You are correct in noting that there have been two completed wells on Hokukano Ranch since 2003 and that both wells have pump installation permits. You are also correct in stating that the capacity of the second well, Well No. 3153-02, has not been verified by pump testing. This has been due to the unfortunate malfunction of two successive pumps installed in this well. We will be installing a third pump beginning on April 6, 2006. We have hired a pump specialist, Don Robb from Idalou, Texas, to supervise the installation and initial testing of this third pump. We are hopeful that this precaution will ameliorate any problems with installation and testing. We are eager to have the well tested for capacity shortly following this third pump's installation. We fully anticipate that we can verify that the production from this well will more than adequately meet the demands of the Ordinance. Please also accept this confirmation that a co ownership relationship for the wells exists between Hokukano Ranch and Kealakekua Heritage Ranch and that all necessary water will be provided to Kealakekua Heritage Ranch in order to meet its water needs and obligations.

*In Conclusion*

While I am aware that you have not been kept up to date on the programs and projects described above, and for that I apologize, I hope you will appreciate our exercise of discretion in the matter. Our hope and anticipation has been, and continues to be, to move toward the completion of our conservation, rehabilitation, educational, and cultural goals without fanfare or braggadocio. Once completed we fully intend to publicize the cooperation and efforts of our public and private partners and the benefits of our projects. We hope that this project will come to the knowledge of the general public as a pleasant surprise and be seen as a concerted gift by Mr. Pace and our public and private partners (as it is!), and not come by way of public expectation.

Once again, for the benefit of our ongoing efforts, and the efforts of our public and private partners we request that you reconsider your decision regarding the status of entitlement on the Ranch included in your March 1, 2006 correspondence to Tom Pace, and provide us with an extension of time to rectify any concerns that you may have with our submissions. Please respond at your earliest convenience to this request.

Best regards,



Gregory D. Hendrickson  
Real Property Administrator,  
Kealakekua Heritage Ranch  
Hokukano Ranch

cc: Mayor Harry Kim  
Councilwoman Virginia Isbell  
Matthews Hamabata, Director, The Kohala Center  
R. Ben Tsukazaki  
Clark Stevens  
Department of Water Supply