STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
Land Division
Honolulu, Hawaii 96813

September 14, 2012

Board of Land and Natural Resources State of Hawaii
Honolulu, Hawaii

PSF No.: 12OD-114

Approval in Principle for Issuance of Direct Lease to Ka’ala Farm, Inc. for Educational, Cultural, Agricultural, and Workforce Development Program and Activities Purposes, Waianae, Oahu, Tax Map Key: (1) 8-5-006:004.

APPLICANT:

Ka’ala Farm, Inc., a domestic non-profit corporation and 501(C)(3) organization.

LEGAL REFERENCE:

Section 171-43.1, Hawaii Revised Statutes, as amended.

LOCATION:

Portion of Government lands of Waianae situated at Waianae, Oahu, identified by Tax Map Key: (1) 8-5-006:004, as shown on the attached map labeled Exhibit A.

AREA:

1,122.426 acres, more or less.

ZONING:

State Land Use District: Agriculture
City & County of Honolulu LUO: AG-2

TRUST LAND STATUS:

Section 5(b) lands of the Hawaii Admission Act
DHHL 30% entitlement lands pursuant to the Hawaii State Constitution: No

CURRENT USE STATUS:

Encumbered by Right-of-Entry permit 3925 to Ka’ala Farm, Inc. for maintenance purposes.
CHARACTER OF USE:

Educational, cultural, agricultural, and workforce development programs and activities purposes.

LEASE TERM:

Thirty (30) years

COMMENCEMENT DATE:

The first day of the month to be determined by the Chairperson.

ANNUAL RENT:

$480 per year, pursuant to the Board policy on minimum rent currently at $480 per year.

METHOD OF PAYMENT:

Semi-annual payments, in advance.

RENTAL REOPENINGS:

Every 10th year during the term of the lease, subject to the Board policy on minimum rent applicable at the time of reopening.

PERFORMANCE BOND:

Twice the annual rental amount.

CHAPTER 343 - ENVIRONMENTAL ASSESSMENT:

Upon approval of subject request, applicant will commence the environmental assessment pursuant to Chapter 343, HRS. Outcome of such assessment process will be brought to the Board before final approval of the requested lease is considered by the Board.

DCCA VERIFICATION:

Place of business registration confirmed: YES x NO ___ ___
Registered business name confirmed: YES x NO ___ ___
Good standing confirmed: YES x NO ___ ___

APPLICANT REQUIREMENTS:

None at the time of writing this submittal, subject to insertion of any applicant requirement upon finalization of the environmental assessment process.
REMARKS:

The subject parcel was formerly under Governor’s Executive Order No. 3481 set aside to the Department of Agriculture (DOA) for Waianae Agricultural Park purposes. On June 28, 2011, the Board of Agriculture approved the cancellation of the lease on the subject parcel due to noncompliance by the lessee. Subsequently, DOA requested withdrawing the parcel from EO 3481 and the request was approved by the Board on January 13, 2012 (item D-18). Eventually, EO 4406 was issued to withdraw the parcel from EO 3481.

Ka‘ala Farm, Inc. ("KFI") owns an adjacent parcel and also leases adjacent area from the Department of Hawaiian Home Lands to operate its educational and cultural program. Upon DOA’s termination of the lease on the subject parcel, KFI requested the Board issue a management right-of-entry for maintenance purposes, in anticipation for submitting a request for long term lease. Eventually, the Board approved the issuance of a management right-of-entry to KFI on January 13, 2012, item D-18.

KFI plans to set up its educational, cultural, agricultural and workforce development programs on the property. Therefore, KFI requests the Board issue a long term lease for the proposed uses. KFI intends to work closely with another non-profit organization, Ho‘omau Ke Ola (“HKO”), who provides culturally based substance abuse treatment. KFI will take the lead in programs, such as environmental interactive learning, historic trail systems, aquaculture and aquaponics, community gardens and organic farming, animal husbandry, and community kitchen and food processing. HKO will help out in maintenance of roads, cleaning of aina, fencing, and provision of security on the property. It is noted that KFI will be the tenant of the proposed lease while HKO will be providing the needed services under KFI. Details of the sublease arrangement will have to be worked out between KFI and HKO and any consent for sublease arrangement will be brought to the Board for consideration at a later date. A copy of the lease application and qualification questionnaire together with the letter from the Internal Revenue Service confirming KFI's 501(c) (3) status are attached as Exhibit B1 and B2.

Agencies were solicited for comments on the requested approval in principle. Department of Health, Department of Parks and Recreation, and Department of Facility Maintenance have no objections/comments on the request.

Board of Water Supply notes that the requested area is located on a portion of land that is managed by BWS pursuant to Governor’s Executive Order No. 1150 and 1256 for public water supply water tunnel and easements respectively. Division of Forestry and Wildlife also provides comment as shown on Exhibit C.

Department of Hawaiian Home Lands, State Historic Preservation Division, Commission on Water Resource Management, Department of Planning and Permitting, and Office of Hawaiian Affairs have not responded at the time of writing this submittal.

Staff has forwarded the above-mentioned comments to the KFI’s agent. Since the request is seeking an approval in principle, KFI will have to address the comments in the environmental assessment stage.
Applicant has not had a lease, permit, easement or other disposition of State lands terminated within the last five years due to non-compliance with such terms and conditions.

KFI, being a domestic non-profit corporation and a 501(c)(3) entity, is qualified for a direct lease pursuant to 171-43.1, HRS. Staff has no objection to the request for approval-in-principle for a new lease noting that KFI will undergo the environmental assessment process.

RECOMMENDATION: That the Board approve in principle for the issuance of a direct lease to Ka‘ala Farm, Inc., subject to the following:

A. At its own cost, Ka‘ala Farm, Inc. shall pursue satisfactory compliance with Chapter 343, Hawaii Revised Statutes within twenty-four (24) months of the Land Board’s approval;

B. Should Ka‘ala Farm, Inc. fail to obtain satisfactory compliance with Chapter 343, Hawaii Revised Statutes within twenty-four (24) months of the Land Board’s approval, the Land Board’s approval shall be considered rescinded;

C. Ka‘ala Farm, Inc. acknowledges the following:
   i. All costs associated with the necessary compliance with Chapter 343, Hawaii Revised Statutes shall be borne by Ka‘ala Farm, Inc.;
   ii. That this action is an approval in principle and does not provide any assurance of a direct lease and such approval of a direct lease shall be subject to consideration by the Land Board under a separate action after satisfactorily complying with Chapter 343, Hawaii Revised Statutes; and

D. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

Respectfully Submitted,

Barry Cheung
District Land Agent

APPROVED FOR SUBMITTAL:

William J. Ailā, Jr., Chairperson
APPLICATION AND QUALIFICATION QUESTIONNAIRE
(Non-Profit)

PART I: General Information

1. Applicant's legal name: Ka'ala Farm, Inc.

2. Applicant's full mailing address: P.O. Box 630

3. Name of contact person: Eric Enos

4. Applicant is interested in the following parcel:
   Tax Map Key No.: 8-5-008:011
   Location: Wai'anae, O'ahu, Hawai'i

5. When was applicant incorporated? 1983

6. Attach the following:
   A. Articles of incorporation
   B. Bylaws
   C. List of the non-profit agency's Board of Directors
   D. IRS 501 (c)(3) or (c)(1) status determination
   E. Tax clearances from State of Hawai'i and respective county Real Property Tax Office
      To be submitted
   F. Audited financial statement for the last three years. If not audited, explain why.
      To be submitted. The KFI Audited Financial Statement for 2008 is attached. The financial statements for 2009 and 2010 are in the process of being audited, and will be submitted as soon as they are completed.
   G. Any program material which describes eligibility requirements or other requirements to receive services.
      KFI does not have any specific requirements for participation in its programs.
PART II: Qualification

7. Is Applicant registered to do business in Hawai‘i: Yes / No

8. Has Applicant received tax exempt status from the Internal Revenue Service? Yes / No

9. Is Applicant licensed or accredited in accordance with federal, State, or county statutes, rules, ordinances, to conduct the proposed activities? Yes / No

List all such licenses and accreditation required: The proposed activities

Include environmental and cultural educational programs and restoration of natural and cultural resources of the site, and these activities do not require licenses.

PART II: Qualification (continued)

10. Is Applicant in default or otherwise not in good standing with any State department (e.g. POS agency, DCCA, DLNR, etc.)? Yes / No

If yes, explain:

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

11. Has Applicant had a State of Hawai‘i permit, license, easement, or sale in fee cancelled within the last five years? If yes, list:

<table>
<thead>
<tr>
<th>Doc. No.</th>
<th>Type of Agreement</th>
<th>Term of Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

Yes / No

12. Does Applicant have any policies which discriminate against anyone on the basis of race, creed, color, national origin, sex, or physical handicap? Yes / No
13. Has Applicant received funding from a federal, State, or county government agency, the Aloha United Way, and/or a major private foundation within the last three years? Please list all such contacts below:

<table>
<thead>
<tr>
<th>Agency</th>
<th>Contract Term</th>
<th>Contract Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>NOAA Bay Watershed Education and Training Program (Federal)</td>
<td>2008-2009</td>
<td>$176,000</td>
</tr>
<tr>
<td>Native Hawaiian Education Act (Federal)</td>
<td>2008-2011</td>
<td>$692,247</td>
</tr>
<tr>
<td>Hawai‘i Tourism Authority (State)</td>
<td>2009-2010</td>
<td>$28,000</td>
</tr>
<tr>
<td></td>
<td>2010-2011</td>
<td>$19,500</td>
</tr>
<tr>
<td></td>
<td>2011-2012</td>
<td>$10,000</td>
</tr>
<tr>
<td>Dept. of Business, Economic Development and Tourism (State)</td>
<td>2010-2011</td>
<td>$23,000</td>
</tr>
<tr>
<td>Alcohol, Drug, and Abuse Division (State)</td>
<td>2006-2009</td>
<td>$100,000</td>
</tr>
<tr>
<td>Hawaii State Tobacco Fund (State)</td>
<td>2009-2012</td>
<td>$225,000</td>
</tr>
<tr>
<td>Dept. of Hawaiian Home Lands (State)</td>
<td>2009-2012</td>
<td>$200,000</td>
</tr>
<tr>
<td>Kamehameha Schools (private)</td>
<td>2008-2009</td>
<td>$186,000</td>
</tr>
<tr>
<td></td>
<td>2009-2010</td>
<td>$167,560</td>
</tr>
<tr>
<td></td>
<td>2010-2011</td>
<td>$158,055</td>
</tr>
<tr>
<td>Hauoli Mau Loa Foundation (private)</td>
<td>2009-2012</td>
<td>$100,000 (per year)</td>
</tr>
</tbody>
</table>

14. If Applicant has not received funding from a federal, State or county government agency, the aloha United Way, and/or a major private foundation during the past three years, describe Applicant’s qualifications to effectively perform the propose services, including but not limited to, grants or subsidies received from non-major, private funders and/or staff or Board members who possess significant experience in Applicant’s service field.

N/A
PART III: Program Activities and Persons Served

15. What activities will be conducted on the premises to be leased?

(1) Environmental Interactive Learning
(2) Restoration of Historic Trails System
(3) Aquaculture and Aquaponics
(4) Community Gardens and Organic Farming
(5) Animal Husbandry
(6) Community Kitchen and Food Processing
(7) Therapeutic 'Āina-based agricultural and horsemanship programs
(8) Therapeutic Art Center
(9) Soil and Water Conservation Programs
(10) Work-Force Development

These activities are described in more detail in KFI's "Request for State Lands (Direct Negotiation) – Application Form."

16. What are the specific objectives of these activities?

The specific objectives of the planned activities at Wai'anae Valley Ranch are:

(1) To conserve and restore the natural and cultural resources of the Ranch;
(2) To provide opportunities for Wai'anae families and young people to learn about the history of these lands, and to develop understanding and skills in the areas of natural and cultural resources management.
(3) To heal people who have substance abuse problems through hands-on agricultural and land restoration activities.

17. Describe the community need and the public benefit derived from these activities.

Before the lands in Upper Wai'anae became known as Wai'anae Valley Ranch, they were part of a complex of fields, commoner houses and associated burials, and religious places. While more modern land uses have impacted these sites, much of the historical landscape still survives in what has been described as "one of the largest, intact cultural landscapes left on O'ahu today" (R. Cordy, archaeologist).
APPLICATION AND QUALIFICATION QUESTIONNAIRE
(Non-Profit)

Over the past 15 years, a portion of Upper Wai'anae has been increasingly impacted by cattle, which were allowed to roam free and damage the flora and water resources of the area. Poor land management has allowed the existing structures and infrastructure to deteriorate to the point where they are inefficient, unusable, or unsafe.

The Wai'anae moku has one of the largest percentages of native Hawaiian residents in the world. The community continues to have strong ties to land and water resources and would benefit from the cultural, educational, healing, and economic opportunities that the Ranch provides.

KFI, together with their partner Ho'omau Ke Ola, proposes to assume responsibility for the long-term management of the natural and cultural resources present on the Ranch lands.

18. Describe the targeted population for these activities by: (1) age group, (2) gender, (3) ethnic background, (4) income level, (5) geographic location of residence, (6) special needs/disability, and (7) other applicable characteristics.

The proposed environmental and cultural activities will be conducted by staff and clients of Ka'ala Farm, Inc. (KFI) and its partner, Ho'omau Ke Ola (HKO). Other community groups and school groups will be invited to visit the Ranch from time to time to participate in the restoration and educational programs.

The “targeted population” for many of these activities will be the 50,000+ children and families that live within the Wai'anae moku. Many of these community members are Native Hawaiians. Income and employment in the Wai'anae community continue to lag behind O'ahu averages, and there are continued problems of substance abuse, antisocial behavior, homelessness and poor achievement of school children. The need for healthy, hands-on, culturally and environmentally focused programs for the children and families of Wai'anae is greater than ever.

Ho'omau Ke Ola is a residential and outpatient substance abuse treatment program that incorporates native Hawaiian culture into its curriculum. A large component of the program is reconnecting clients with the land through once a week work days at Ka'ala Farm. KFI and HKO will continue this partnership as they restore the lands of Wai'anae Valley Ranch.
19. Describe all eligibility requirements of clients to participate in the activities, e.g. age, income level, ethnic background, disability, etc.

Primary participants will be either KFI staff or Ho'omau Ke Ola staff and clients. For other program participants from the Wai'anae community, and from other schools and districts of O'ahu, there will be no particular restrictions or eligibility requirements. However, priority for participation in Ranch activities will be given to organizations and individuals that value hands-on environmental and cultural preservation and restoration.

20. Do you require membership to participate in these activities? Yes/No

If yes, list the requirements of becoming and remaining a member.

"Membership" in a particular organization will not be a requirement for participation in activities at the Ranch.

21. How many unduplicated persons will engage in the activities annually?

KFI and HKO anticipate that several thousand "unduplicated persons" will engage in activities on the Ranch annually.

22. Is State funding made available for the activities to be conducted on the leased premises?

KFI does not currently have State funding for activities to be conducted on Wai'anae Valley Ranch lands, although funding is being sought from the Office of Hawaiian Affairs (OHA) to prepare an Environmental Assessment of planned programs and activities for the Ranch property.

23. List all activities to be conducted on the leased premises which require payment of excise taxes, e.g., subleasing, sale of products or services. Include an estimate of annual gross revenue from each activity.

None of the proposed activities will require payment of excise taxes.
Development of the Land

24. Describe the proposed site development plan for the property, indicating the location and size of buildings, parking areas, landscaped areas, and related uses. Attach a sketch plan, if available.

Some initial site work at the Ranch is currently being done under the terms of the Right of Entry that was granted to KFI in January 2012. This initial site work is intended to ensure the health and safety of staff and visitors, and to support the long-range planning activities described above. Therefore, physical improvements are limited to general cleanup, repair, and/or replacement of existing facilities and infrastructure in the vicinity of the existing ranch house near the main access gate. One additional mobile structure within the same area is proposed to provide security.

Once KFI has received a General Lease from DLNR, KFI and HKO will proceed with the development of various programs and activities – generally described in section 15 above, and described in more detail in the “Request for State Lands (Direct Negotiation) – Application Form.” KFI has not yet developed a detailed SITE PLAN for future facilities that may be developed after a General Lease has been received – KFI expects to receive in the 3rd Quarter of 2012 a grant from the Hawai‘i Community Foundation in the amount of $20,000 for the development of a conceptual master plan for the Ranch. Generally, KFI and HKO do NOT plan on significant “development” of buildings and facilities for the Ranch. The focus of KFI and HKO future activities on the Ranch will be agricultural activities and restoration of cultural sites, including restoration of some of the traditional dryland agricultural terraces. However, the conceptual master plan will include site plans for a small, multi-purpose building, a hydroponics program building, and unpaved parking areas. These basic facilities will be located in the vicinity of the existing ranch house. A sketch of these planned facilities has been included as part of the General Lease application. A small security office will be constructed under the current Right of Entry. The ranch house is very dilapidated and will be demolished.

25. What improvements to the land do you intend to make and at what cost?

Land improvements will include:
- Repair and maintenance of Ranch roads
- Repair and maintenance of Ranch fences
- Creation, planting and maintenance of gardens and landscaping
- Construction of the afore-mentioned multi-purpose building, aquaponics program building and unpaved parking areas
- Restoration of some of the dryland field terraces
- Control of non-native and invasive plants and animals
- Planting and maintenance of native dryland forest plants
- General land management and fire prevention measures
APPLICATION AND QUALIFICATION QUESTIONNAIRE  
(Non-Profit)

Costs will be relatively modest, as much of the labor for these improvements will be provided at no cost by HKO clients – some 30 people at any given time, working on HKO projects 6 days per week – and community volunteers. The primary costs will be:

- General Liability Insurance: $1,000 per annum
- Equipment and Supplies: $20,000 per annum
- Multi-Purpose Building: $240,000 (one time cost)  
  (say 1,200 sf @ $200/sf)
- Aquaponics Program Building: $20,000 (one time cost)  
  (HKO expects to receive this building and training at no cost from the Hawai'i Adult Mental Health Division (AMHD)  
  Funds for the foundation and utilities will be needed.

26. How will the improvements be funded?

Funds for General Liability Insurance and for Equipment and Supplies will come from a combination of small grants and modest fees that schools and other organized groups will pay in order to participate in Ranch activities. Capital funds for the multi-purpose building and for the Aquaponics Program Building foundation and utilities will be raised from one or more private foundations and/or governmental grant agencies like OHA. KFI and HKO currently receive funding from several City, State, and Federal sources that could be used toward materials and labor. These funding sources include:

- **Kamehameha Schools Grants to KFI**
  Annual Award(s): approximately $190,000

- **Hauoli Mau Loa Foundation Grants to KFI**
  Annual Award: approximately $100,000

- **U.S. Department of Housing and Urban Development and the City and County of Honolulu Grant to HKO**
  Annual Award: $187,000
  Grant Expiration: 2012
  An application for grant renewal to 2015 has been submitted

- **State Alcohol, Drug, and Abuse Division Grant to HKO**
  Annual Award: $800,000
  Grant Expiration: 2013

- **State Judiciary Grant to HKO**
  Annual Award: $528,000
  Grant Expiration: 2015
27. Describe all the environmental, land use and other permitting requirements which must be met to develop the land as proposed.

These lands are designated "AGRICULTURE" under the State of Hawaii Land Use Classification system, and are zoned AG-2 GENERAL AGRICULTURE under the Land Use Ordinance (Luo) of the City and County of Honolulu. Conservation District Use Permits (CDUP) will therefore not be required.

In order for the Land Board to grant final approval of this General Lease Application, KFI must develop and process an ENVIRONMENTAL ASSESSMENT (EA), in conformance with Hawaii Revised Statutes Chapter 343, Environmental Impact Statements and the guidelines of the Office of Environmental Quality Control (OEQC).

Building permits will be needed for the planned Multi-Purpose Building and for the Aquaculture Programs Building.

28. Will you be subleasing any portion of the property? If yes, describe the sublease uses:

KFI proposes to sub-lease a portion of the Ranch to HKO so that HKO can carry out various agricultural, therapeutic, and workforce development activities, as described in earlier sections of this Questionnaire, and as described in further detail in KFI's General Lease Application.

The terms of any such sub-lease agreement will be in conformance with the requirements of the Land Board and the Department of Land and Natural Resources.
Dear Applicant:

This modifies our letter of the above date in which we stated that you would be treated as an organization that is not a private foundation until the expiration of your advance ruling period.

Your exempt status under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3) is still in effect. Based on the information you submitted, we have determined that you are not a private foundation within the meaning of section 509(a) of the Code because you are an organization of the type described in section 509(a)(1) and 170(b)(1)(A)(vi).

Grantors and contributors may rely on this determination unless the Internal Revenue Service publishes notice to the contrary. However, if you lose your section 509(a)(1) status, a grantor or contributor may not rely on this determination if he or she was in part responsible for, or was aware of, the act or failure to act, or the substantial or material change or the part of the organization that resulted in your loss of such status, or if he or she acquired knowledge that the Internal Revenue Service had given notice that you would no longer be classified as a section 509(a)(1) organization.

As of January 1, 1984, you are liable for taxes under the Federal Insurance Contributions Act (social security taxes) on remuneration of $100 or more you pay to each of your employees during a calendar year. You are not liable for the tax imposed under the Federal Unemployment Tax Act (FUTA).

You are required to file Form 990 only if your gross receipts each year are normally more than $25,000. For guidance in determining whether your gross receipts are "normally" more than $25,000, see the instructions for Form 990. If a return is required, it must be filed by the 15th day of the fifth month after the end of your annual accounting period. A penalty of $10 a day is charged when a return is filed late, unless there is reasonable cause for the delay. However, the maximum penalty charged cannot exceed $5,000 or 5 percent of your gross receipts for the year, whichever is less. This penalty may also be charged if a return is not complete, so please be sure your return is complete before you file it.

If we have indicated in the heading of this letter that an addendum applies, the addendum enclosed is an integral part of this letter.
Because this letter could help resolve any questions about your private foundation status, please keep it in your permanent records.

If you have any questions, please contact the person whose name and telephone number are shown above.

Sincerely yours,

Michael J. Quinn
District Director
Comments from Division of Forestry and Wildlife

Fire
- Provide a Fuel Mitigation and Presuppression Plan including practices such as shaded fuel breaks, fuel breaks, water sources, emergency access, protocols for equipment use (fire extinguishers nearby, spark arresters, etc.). DOFAW will review and approve the plan.

Cattle
- Provide Information on how the remnant cattle will be managed.

Live stock
- Maintain all fences surrounding the ranch.
- Keep livestock within ranch fences and do not allow them access to the Forest Reserve.
- Provide livestock with an ample water supply, year round. It’s recommended that the reservoir have sufficient volume and construction to support helicopter buckets for fire suppression.

Access for the public and management purposes
- Create a process to provide public access through the ranch to visit archaeological features.
- Provide access to DOFAW staff for fire presuppression and fire suppression.
- Provide access to emergency response personnel including HFD, FFD, EMS, DOFAW, DEM, Civil Defense.
- Create a process to provide access for public hunting in the Forest Reserve.

Land Management
- Maintain all roads to the extent that 4WD vehicles may travel over them.
- Remove all unauthorized dwellings.
- Check all non-native plant species against the Weed Risk Assessment score before planting. Should the WRA score indicate high risk or that it should be further evaluated, contact the Oahu Invasive Species Committee for assistance in determining suitability for planting at the site.

EXHIBIT C

(rev. 02/2010)