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December 2, 2004

Lauren Tanaka
Division of State Parks
PO Box 621
Honolulu, Oahu, Hawaii 96809

RE: Draft Master Plan for the Koke'e and Waimea Canyon State Parks

Dear Ms. Tanaka,

I am writing to provide comment to the Board of Land and Natural Resources on the Draft Plan to be presented to the Board pertaining to these two State Parks on Kauai. Although the plan contains many excellent and creative suggestions for management of these valuable State Parks, I take serious exception to the recommended option regarding the residential cabins at Kokee. Below, I will identify a few of the flaws in the logic, assumptions, or calculations that back the recommendations in the Draft Master Plan.

By way of introduction, I would like to say that I have a master's degree in engineering; have been a rental property manager for over 20 years (both on the mainland and on Kauai), and have been a Koke'e cabin lessee for the last 18 years. My interest is in preserving a Kauai resource that I value very much and do not wish to see ruined by ill-conceived commercialization. And, yes, I also want to continue to be able to use my cabin in the years to come.

The Master Plan contains many good suggestions. The ideas for upgrading the facilities at the lookouts, providing for increased access, and expanding and improving the infrastructure are excellent. However, it is difficult to improve and expand the use of a very delicate natural environment without endangering it. Remember the fable of the man with the Golden Goose? You are tasked with a very difficult job to increase the revenue generated by the Parks in order to provide sufficient money to keep them maintained. I am sure that you will take your responsibilities seriously and examine the details of this plan thoroughly before making a decision.

First of all, there are errors in the spreadsheets purporting to justify the financial aspect of the plan. For example, in Table 5, the expenses for "Subsequent Improvements" are not added into the figures for years 2012, 2017, or 2022. This amounts to over \$1.5 M in reduced revenues for the 20-year period in each of those scenarios. Reducing the Net Revenues to the Management Company by \$1.5M over 20 years is going to seriously reduce the Net Present Value of the Project to the Management Company. The same mistake exists in Table 6 for Option 4. These are only the most obvious errors, but they could cause one to question all of the figures in the financial plan.

The plans outlined for the cabins make no provision for compensation to the current owners of the cabins. This is a serious oversight. The legislature has passed a resolution stating that they are in favor of the State compensating the cabin owners if the State takes possession of their private property. While this is not a statute, it should not be summarily ignored in a financial pro-forma. The Board should also consider that, if the State insists on taking cabins without compensating the owners, there might be a number of cabin owners who decide to remove their property prior to the termination of their lease. The houses selected to be moved would, in all

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likelihood be the ones in better condition. Either of these situations would result in the Management Company being required to expend considerably more than the estimated funds in order to pay for or replace existing cabins.

The estimated costs for renovating the current cabins makes no mention of the fact that the Draft Master Plan indicates a number of cabins must either be connected to the sewer system at the Lodge (and the system expanded) or must be supplied with individual septic systems. Roughly 30 lots fall within the area designated "1000 foot radius from well sites". Septic systems are in the order of \$10,000 each to install and will significantly increase the cost of the initial renovations.

Another item missing from the expense side of the pro-forma income and expense statements is property and liability insurance. Insurance is virtually unobtainable for cabins now. If the cabins are put into commercial use, the liability risk is greatly increased. IF any Hawaii insurance underwriter will write the insurance (and I doubt they will), it will not be cheap.

The plan as written, contains no demonstrated need for more short-term rentals. I question this demand. Neither current nor past operators of the Lodge will say that there is an existing need for more rental units. Where did the consultants get their figures? What market research was done? A high percentage of new businesses fail in the US each year and one of the common causes is insufficient market research leading to unrealistic expectations. In the plan, there is an implied demand by visitors for cabin rentals. However, the majority of visitors to Kauai come here for the sun and surf. Why would someone from the mainland or another country come to Kauai to stay in a cabin in the mountains where it is cold and rainy much of the year? There are many destinations that offer mountain locations with more activities that are much closer and cheaper than Kauai.

The daily value to a leaseholder as calculated in paragraph 2f of the Evaluation of Management Options for Cabins is grossly overestimated. If a party will pay \$90/day for a rental cabin that includes all amenities and maid service, why would anyone value a leased cabin at \$85/day? The leased cabin comes with no furniture, a utility bill, a yard that needs upkeep, no maid service, insurance that must be paid, maintenance that is ongoing, and a bill for a share of the cost of roads and other park maintenance. Then the figure used by the consultant to estimate occupancy is OUTRAGEOUS. The estimate of 40% occupancy = 4.8 months/year for a newly renovated cabin is used. Assuming a family owns the cabin this would require that the family stay in Koke'e EVERY WEEKEND plus 8 FULL WEEKS. How many Kauai families have this amount of vacation time? Since these figures are used to estimate the price a family would be willing to pay for a cabin lease, I believe the State will find that the lease revenues are extremely inflated.

Finally, there has been no demonstrated demand for more families to participate in cabin ownership. Since 1985 around 75 leases have had a change in ownership. There have been several that could not be sold even though the owners wanted to sell. Some of these reverted to the State and now produce no revenue. One of the reasons I have heard why people did not want to purchase a cabin lease was that there was only 6 years left on the lease and "no one wanted to buy with that little time left". What makes the State think that there will be a market for 5-year leases? The current price is around \$2500 per year lease payments and it is difficult to sell them. How many local families do you expect can afford to buy leases when the annual payments are \$4,000 to \$10,000? If anyone buys the leases at this price, it will be even more wealthy families than currently. I thought this was one of the situations the State was interested in minimizing?

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I have a suggestion. There are a number of vacant lots that could be leased now. Has the State tried to lease these? Have there been a large number of inquiries from people interested in leasing them? If the State is so confident that there is a demand for cabins, I suggest that the State build cabins on those vacant lots and lease them out first, before trying to implement this plan that relies on flawed assumptions of demand and value. This could be done as a pilot project to see what the market is willing to pay for such places. In addition, this would generate additional revenue for the State and accomplish the goal of expanding the availability of Koke'e cabins. The new lessees would, of course, have to pay for the cost of building the cabins either in a lump sum up-front or in their lease payments. This seems to me to be the most responsible approach.

Finally, I believe that no honest, intelligent, local businessperson would bid on the Master Lease as it is outlined in this document. There is, however, a danger to the State that an overzealous, uninformed, or unscrupulous company will win the bid and then make a mess because the revenues are less than projected and the costs are more than projected. Where will the State be, where will the Koke'e parks be if such the Master Lessee goes bankrupt and leaves the project partially complete?

Mahalo,

Original signed

Susan Stayton