

STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES  
Division of Forestry and Wildlife  
Honolulu, Hawaii 96813

January 28, 2005

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

Land Board Members:

SUBJECT: Continuation and Amendment of Timber Land License  
No. H-101 held by Tradewinds Forest Products, LLC

**Background:** At its October 8, 2004 meeting, the Board of Land and Natural Resources heard a request from the Division to start the termination process on Timber Land License H-101 for failure to initiate the project on a timely basis. The submittal had a staff recommendation to issue Tradewinds Forest Products, LLC (TFP) a notice of default, so that the State could move to termination if TFP was not able to show satisfactory progress in obtaining product test results, financial backing, and commitments for a mill site and timber sources from third parties. The Board heard testimony from Tradewinds Forest products, LLC (TFP) that they were on the verge of obtaining product test results, and based on favorable results were confident they would be able to negotiate timber supply and mill site agreements and obtain financing to allow completion of the permitting stage. Tradewinds requested additional time to the end of the year to obtain results and complete negotiations and arrangements. The Board agreed and moved to deny staff recommendation, and asked staff to bring the issue back in January 2005 with a status report on progress, and requested that TFP provide documentation on:

1. Test results from physical tests being conducted on samples of Hawaiian grown timber.
2. That start-up capital for TFP's proposed mill project has been secured.
3. Submit a detailed project schedule that includes the permitting process.

Through communications between the Division and TFP dating from October 2004 to the present, and in a statement (Exhibit A) submitted on January 11, 2005 (hereafter referred to as "Correspondence") TFP has provided the following information on their progress:

1. Strength test results: TFP reported that the laminated veneer lumber made from Hawaiian eucalyptus had positive test results to generate investor support. TFP reported

ITEM C-5

the eucalyptus samples exceeded the minimum strength tests for edge modulus of rupture of 2,950 pounds per square inch by a factor of two or more. The Division requested and will be evaluating the full test results prior to the January 28<sup>th</sup> Board meeting.

2. Written commitments for \$1 million in start-up funding (engineering and permitting): TPF hired Veber Partners to raise the capital for the project and reported the following progress. A commitment to invest was received on January 9, 2005 for the initial engineering and permitting process and to hire key personnel. Marketing documents and private placement memos were created the week of January 10<sup>th</sup> and marketing began concurrently. TPF has solicited proposals from URS Greiner for engineering and permitting services and West Coast Industrial Systems for engineering, permitting and construction services, and intends to hire West Coast for detailed engineering and URS to take the lead on permitting.

The Division has requested copies of the letters of commitment from investors and those reportedly will be available prior to the January 28th Board Meeting.

3. Detailed project schedule including the permitting process: TPF provided dates and deadlines for various project benchmarks in its 1/11/05 correspondence and other communication. The following actions and corresponding deadlines are summarized from Mr. Bryan's communications:

- a. Obtain written commitments for \$1 million in startup funding by January 15, 2005.
- b. Hire a community liaison by March 1, 2005 (until that time Mr. Bryan will serve as Community Liaison).
- c. Engage an engineering firm to design the mill and obtain permits, and apply for all necessary construction permits by September 1, 2005.
- d. Obtain written commitments for construction funding by March 1, 2006.
- e. Commence construction within sixty days of obtaining the permits and funding.

The Division has requested that TPF provide a more detailed project schedule in a consolidated and concise format. That is being prepared by TPF, and reportedly will be available prior to the January 28th Board Meeting.

4. Access to wood resources: In addition to the State timber represented by the Timber Land License, TFP requires additional timber from lands managed by PruTimber in its business plan. TFP reported that PruTimber has agreed to execute a letter of intent concurrent with contract negotiations. Tradewinds has indicated they will provide this documentation at the January 28, 2005 meeting or earlier if possible.
5. Mill site: TFP reported it has reached an agreement on the lease of a mill site, and will produce a letter of intent or memorandum of understanding for the mill site. TPF expects

to contract West Coast Industrial Systems to do site development and build the veneer mill. The Division has requested a copy of the letter of intent or MOU prior to the January 28th Board Meeting.

6. Community liaison and community advisory board: TFP reported that it has made an offer, and will hire a Community Liaison by March 1, 2005. Until that time Mr. Bryan will temporarily serve as the Community Liaison. TFP also reported that Mr. Tommy Crabb and Mr. Carl Masaki have been selected to serve on the Community Advisory Board. They hope to be able to announce more members at the January 28<sup>th</sup> meeting.
7. Construction funding: TFP reports that they expects to obtain written commitments for construction funding by March 1, 2006.

**TFP proposal to amend their TLL:** In their 1/11/05 letter, TFP proposes the following amendments to their TLL:

1. The time requirements for construction the mill be advanced three years.
2. A provision is added requiring TFP to apply for state and federal permits by September 1, 2005.
3. In consideration of the extension, TFP would propose that the price schedule for stumpage payments be indexed to the consumer price index based on 2001, with annual adjustments.

**Analysis:** TFP appears to be actively pursuing the implementation of the TLL and construction of a veneer mill facility, although this represents a three to four-year delay from the benchmarks and deadlines stipulated in section 3.1 of the TLL. Assuming that TFP is able to meet all of the benchmarks discussed in items 1-7 of the “Background” section above in a timely manner and in satisfactory terms, the Division believes that it is in the interest of the State to continue its partnership with TFP as defined by the TLL.

Furthermore, the Division believes it would be appropriate to amend the TLL to revise key deadlines for performance and increase the stumpage payments as follows:

1. The Licensee will apply for state and federal permits by September 1, 2005.
2. The Licensee will begin construction of the mill facility prior to July 1, 2006.
3. The Licensor reserves the right to terminate the TLL if the facility is not substantially completed by January 1, 2007.
4. The Licensor agrees to not unreasonably terminate the TLL if the Licensee is making good faith efforts to complete the facility, obvious progress has been made, and the mill completion date is expected by January 1, 2008.

5. The price schedule for stumpage payments for tree species harvested under this License be indexed to the consumer price index based on 2001, with annual adjustments.

RECOMMENDATIONS

That the Board of Land and Natural Resources:

1. Approve the Department's continued partnership with TFP as defined by the TLL.
2. Approve the amendment to the TLL as detailed above, subject to review and approval of the Department of the Attorney General.

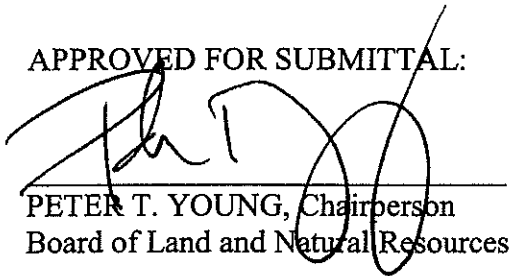
Respectfully submitted,



PAUL J. CONRY  
Administrator

Attachment: Exhibit A

APPROVED FOR SUBMITTAL:



PETER T. YOUNG, Chairperson  
Board of Land and Natural Resources

# *Tradewinds LLC*

11 January 2005

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

Subject: Discussion of Tradewinds' Current Status and Next Steps Forward

Following is our report of progress made since our meeting in Kona last October.

## **Obtain written commitments for \$1 million in start-up funding**

Since our last meeting with the Board, the emphasis for Tradewinds has been on funding. We concluded in November that we were not on track to raise the \$1 million we had committed to raise by January 15<sup>th</sup>, therefore it would be prudent to engage professional assistance in raising capital. After several weeks of exploratory conversations and negotiations, Tradewinds hired Veber Partners, an investment banking firm based in Portland, to raise the necessary capital. Veber was selected for two reasons: they enjoy an excellent reputation in the Northwest and because they have a successful track record of raising capital for forest products manufacturing facilities in the Pacific Northwest.

The first step for Veber was a detailed review of Tradewinds' business plans. Business concepts, relationships, principals' reputations and financial assumptions were reviewed. Veber was satisfied at the end of this extensive process that the business has merit and the capital could be raised. Veber Partners underlined their confidence by offering to take a portion of their compensation in shares of Tradewinds.

The next step was a thorough vetting of all details of the financial pro-formas and management plans. The final steps in this process were completed in the last two weeks of December and the first week of January.

Tradewinds is planning to bring a representative of Veber Partners to provide testimony to the Board at the January 28, 2005 BLNR meeting. The vetting process was concluded on January 8. The first (small) commitment to invest was received on January 9<sup>th</sup>. Marketing documents and private placement memos are being created the week of January 10<sup>th</sup>. Informal marketing began concurrently.

The first round of funding is for \$1.3 million is to finalize engineering, obtain permits and hire key personnel. The second round will be for mill construction. Second round funds will be held in escrow until key milestones have been met. Tradewinds still expects to obtain written commitments for construction funding by March 1, 2006.

#### **Engage an engineering firm to design the mill and obtain permits**

We have received a proposal from URS Grenier to do basic engineering and obtain permits (Appendix A). We also have a proposal from West Coast Industrial to perform both of these tasks (Appendix B). We intend to hire URS for some engineering tasks and for the major permitting responsibilities. We expect West Coast to do the detailed engineering and URS to take the lead on permitting issues. We intend to perform all engineering necessary to apply for permits and apply for all necessary construction permits by September 1, 2005

#### **Hire a Construction Manager**

We have received a proposal to do site development and construct the cogeneration facility and veneer mill from West Coast Industrial (see Appendix B). We expect to accept West Coast's proposal to do the site development and build the veneer mill. Further discussions on the cogeneration facility construction are necessary. A search is underway for the Project Manager position. At this point we have two apparently fully qualified applicants. We will continue to recruit and conduct interviews in January. With all necessary permits in hand, Tradewinds believes it can commence construction within sixty days of obtaining the permits and funding. We have in hand a right of first refusal to purchase a lathe which will meet our needs.

#### **Designate a Community Liaison by March 1, 2005**

An employment offer has been made for the position of Community Liaison and we are waiting for a response. Results of these recruiting processes will be discussed at the January 28, 2005 meeting. Until that time Mr. Bryan will serve as Community Liaison.

#### **Develop a Community Advisory Board**

We have begun the process of forming a Community Advisory Board. Tommy Crabb has agreed to become the first member. Carl Masaki has also confirmed he will participate. We hope to be able to announce more members at the January 28<sup>th</sup> meeting.

#### **Timber Supply**

Contract negotiations are underway with PruTimber. We do not expect final contracts to be in place as of the January 28, 2005 Board meeting. PruTimber has agreed to execute a letter of intent concurrent with contract negotiations. Tradewinds will provide this documentation at the January 28, 2005 meeting or earlier if possible.

### **Strength Test Results**

Thirty samples of LVL (laminated veneer lumber) made from Hawaiian eucalyptus were tested at Hines, Oregon. The samples were tested for modulus of rupture, edge and flat, modulus of elasticity (edge and flat) and tension. In the signature test for LVL edge modulus of rupture, the eucalyptus samples all exceeded the minimum of 2,950 pound per square inch by a factor of two or more. We will bring sample pieces of this LVL to the meeting on January 28 for the Board's perusal.

### **Veneer and Chip Customers**

Louisiana-Pacific has agreed to execute a letter of intent to purchase veneer on an ongoing indexed agreement. Negotiations are also underway with Roseburg Forest Products although no agreement has been reached. Each of these companies has a veneer demand well in excess of Tradewinds' production capacity. Tradewinds will provide this documentation at the January 28, 2005 meeting or earlier if possible. We intend to sell our surplus wood chips to Fulghum, who has agreed to negotiate such a contract. As a backup plan, we will burn the wood chips to produce power.

### **Power Customer**

HELCO informs us that they are obligated by regulation to purchase the surplus power we produce. Certain details of this arrangement will need to be negotiated with HELCO's parent company, HECO.

### **Next Steps**

Although our agreements with first round investors are still to be negotiated, we expect investors to require holding funds in escrow until raw material supplies are secured. This requirement would likely be satisfied by amending Section 3.1 of Tradewinds' Timber Land License No. H-101 (TLL) to reflect modified deadlines for initiation and completion of mill construction, amending Section 10.7 of the TLL regarding designation of required community liaison and community advisory board, and on the renewal of the PruTimber lease with similar provisions. Tradewinds proposes that the Waiakea lease be extended on the following conditions:

- 1) The time requirements for constructing the mill be advanced three years.
- 2) A provision is added requiring Tradewinds to apply for state and federal permits by September 1, 2005.
- 3) In consideration of the extension, we would propose that the price schedule for stumpage payments be indexed to the consumer price index based on 2001, with annual adjustments.

We're looking forward to seeing you on January 28<sup>th</sup>.

Don Bryan, Member

**Appendix A. Correspondence from URS Grenier Corporation to Tradewinds Forest Products, LLC.**

Via E-mail: donbryan@thetimberexchange.com

Xx September 2004

Mr. Don Bryan, Member  
Tradewinds LLC  
Century House  
2574 Northwest Thurman Street  
Portland, OR 97210-2524

Subject: Proposal for Professional Services  
Permit Acquisition – Hawaiian Veneer Project

Dear Mr. Bryan,

We are pleased to present our proposal to assist Tradewinds LLC to acquire the necessary permits to construct and operate the planned veneer facility near Hilo, Hawaii. URS combination of local Hawaiian resources, extensive permitting experience and our industrial design capability make the URS team a perfect fit to obtain the necessary permits in a timely and cost effective manner.

**Approach**

Based on our general industrial permitting experience and the experience of our Hawaii office we believe the following permits will be required. This list is not based on direct conversation with any permitting agency about Tradewinds project and will undoubtedly change as the scope and extent of the work is revealed to the various permitting authorities. However, this list does represent a reasonable summary of the number and scope of the permits and studies that will likely be required.

- Notice of Construction for air emission source
- State Air Permit
- Title V Air Operating Permit
- Land use permit (depending on current zoning of site)
- Shorelines Development Permit (depending on siting relative to shorelines)
- County building permits (electrical, plumbing, civil)
- Sanitary discharge permit (leachfield engineering approval)
- Water well use permit
- Industrial wastewater discharge permit
- NPDES Permit (if any discharge to a navigable waterway).
- Stormwater permit
- Spill Prevention Control and Countermeasure (SPCC) Plan Approval (depending on amount of petroleum products on site)

- Emergency Services Permit
- Fire Department Permit for operation of fuel tanks
- HELCO electrical interconnect approval
- Hawaii Department of Transportation road/access permit

In addition to the actual permits, several studies or plans will be required as part of the permitting process:

- Phase I Environmental Assessment of the proposed site
- Air emissions estimates, BACT review and emissions modeling.
- Environmental assessment or environmental impact study
- Traffic study
- Noise study
- Visual impact study, e.g. lighting, superstructures, stacks
- Solid waste generation study

The process of identifying the necessary permits, applying for those permits and managing the permit approval process will be conducted in four distinct phases:

- Pre-application project definition
- Verification of agency/permit requirements
- Preparation of complete applications
- Managing the approval process

### **Phase 1: Pre-application Project Definition**

Prior to contact with the various agencies a project package should be developed that presents the basic project concept to the agency. We have found that preparation of a package helps get all agencies operating from the same basis and that subsequent claims by permit writers that they “didn’t understand the magnitude” of the project are minimized. Our specific experience in Hawaii suggests that regular agency updates and conversation will be necessary to keep agency focus on our project to avoid having to “go back to go” each time the subject is raised with the agency. This package should include, as a minimum,

- Basic project description of what will be built
- Process block flow diagram
- Description of raw materials used, products produced, hours of operation, employment, traffic flow, hazardous/petroleum materials on site
- Description of known emissions/discharges, i.e. powerhouse, sanitary, process water, solid waste.
- Site map showing location of the project site with respect to roads, utilities, shoreline, etc.
- Site layout drawing showing the arrangement and extent of buildings and facilities on the site.
- Basic rendering of the plant as it will appear when complete

This package represents the first, comprehensive step in the design of the overall facility. The information developed here would be required even if no permits were required. It is assumed that some of the information required is contained in the HGI Report to HELCO (February 2003) though the specific content will have to be revised to reflect the current project scope.

For the purposes of this proposal we have assumed that all of the project description information necessary for development of a pre-application package is available in electronic format with a level of detail similar to that found in the HGI report. If additional scope development is required, e.g. development of process flow diagram, overall energy balance, equipment concept selection, additional effort will be required. A contingency for this work is shown as Phase 1b in the table of estimated cost and effort in the Commercial Terms section of the proposal.

While the scope of this proposal specifically covers only permitting activities and effort required to put together an effective pre-application proposal, it is also necessary to begin to develop the "bankable" project cost estimate required by prospective contributors of equity and debt. We believe the most cost effective and credible approach to developing a comprehensive construction cost estimate is for Tradewinds to engage the URS to produce both the pre-application package and the subsequent cost estimate as well.

### **Phase 2: Verification of Permit Requirements**

Phase 2 consists of face-to-face meetings with all the agencies and authorities who will issue the permits or approve the plans to build and operate the plant. The pre-application packages are reviewed and the agencies are asked to verify what information they will require to issue the necessary permits and approvals. Actual permit applications are obtained in this phase of the work.

Based on the information gathered from the agencies, a preliminary permitting schedule will be developed that shows the preparation time for each permit and the likely time for review and approval by the various agencies.

### **Phase 3: Preparation of Complete Applications**

The required permits are then prioritized by the order in which they can be completed and the effort required to complete the application, e.g. the air emissions permit can be started without knowing the detailed design of the buildings, the building permits cannot be obtained until detail design is essentially complete. This prioritization is necessary to ensure that effort on detail design is not expended until more general permit requirements are known.

Applications and required studies are then completed for the various agencies and submitted for their review. It is likely that at least one revision of most applications will be required before the agency deems the application "complete" and takes official action on the application. The application process will require significant additional engineering as details of powerhouse operation, stormwater management, traffic flow, water usage, building design and other project information must be finalized and committed to prior to application.

#### Phase 4: Managing the Approval Process

Permitting of significant projects requires skillful, articulate management of the agencies, press and local interest groups. In addition to the expected series of questions from regulators, it is likely that public hearings will be involved. It is imperative that a positive impression be created in the public arena. While URS's role may be limited to developing the technical material Tradewinds will need in this venue we are experienced in public participation situations and can assist as required. The time and effort required of Tradewinds in this effort should not be underestimated.

#### Estimated Effort, Schedule and Cost

Because the final number and scope of required permits is unknown until direct discussion with the agencies have verified their requirements (Phase 3), one cannot precisely estimate the cost or time involved, however we can more precisely estimate the effort to develop a pre-application package (Phase 1) and verify the permit requirements (Phase 2).

The estimates for Phases 1 and 2 shown below should be considered not-to-exceed estimates for our services. If additional effort is required to develop the scope of the project necessary for the preparation of a pre-application package a not-to-exceed (NTE) estimate will be prepared following the initial kickoff meeting. The estimate for Phase 1b shown below is based on a quick review of the HGI document and our experience producing similar pre-application packages. The estimated costs for Phases 3 and 4 are our best estimate, based on experience and the information provided by Tradewinds. URS will prepare a final proposal for Phase 3 and an estimated cost for Phase 4 after the initial agency discussions and the completion of Phase 2.

Tasks	Est. Effort, Hr.	Duration	Estimated Cost, \$
Phase 1: Pre-application Package	160	3 weeks	\$19,200 NTE
Phase 1b: Additional scope description development	120	3 weeks	\$14,400 (Est.)
Phase 2: Verification of Permits	160	6-8 weeks	\$19,200 NTE
Phase 3: Complete Application	2-3,000	6-12 mo.	\$175-260,000 (Est.)
Phase 4: Managing Approval	250	4 mo.	\$30,000 (Est.)
Engineering Disbursements	\$5.50/h	-	\$14,900
Total Professional Services	~2700	8-16 mo.	\$270-360,000

In addition to the cost of services estimated above we anticipate at least one trip to the site will be required during Phase 2 at an estimated cost of \$3500. If additional travel is required URS will request additional approval prior to the travel.

The cost shown in the table above are based on the rates in the attached rate sheet. However, URS understands the nature and risk associated with project development and proposes to execute the work on the following basis:

- Phases 1 and 2: Time and materials, not-to-exceed, with a discount of 20% from the rates on the attached rate sheet.
- Phase 1b: Time and materials, not-to-exceed, based on an effort estimate development after kickoff of Phase 1 at a discount of 20% from rates on the attached sheet.
- Phase 3: Time and materials, based on a proposal finalized after Phase 2, with a discount of 20% from the attached rate sheet.
- Phase 4: Time and materials based on rates shown on the attached rate sheet.

The discount allowed for Phases 1, 1b and 2 is contingent upon a commitment by Tradewinds to engage URS to provide Phase 3 and 4 services. The discount for Phase 3 services is contingent upon Tradewinds engaging URS to provide the balance of preliminary and final engineering for the project (based on good faith negotiation of those costs). In exchange for granting the discount to Tradewinds, a success fee equal to twice the total discount provided will be paid to URS at financial closing.

This proposal is valid for 30 days from the date herein and is contingent upon Tradewinds LLC and URS Corporation reaching mutually agreeable terms and conditions. A copy of a proposed Professional Services Agreement is attached for your review. You may authorize acceptance of our proposal, terms and conditions by signing and returning the agreement and the final page of the proposal.

### **Resources**

The URS team will be managed by Mr. Henry Bisner with Ms. Kystal Li as project sponsor. Jim Miller, senior permitting specialist and Mike Roberts as principal in charge round out the Portland team. Mr. David Yogi, URS Honolulu general manager will lead local Hawaiian efforts.

Mr. Bisner's forest products experience will be key in developing an effective project package and in focusing the project scope. He has personal experience with veneer and veneer-related power projects that will be invaluable. Mr. Bisner's experience also qualifies him to manage the project through any additional preliminary or detail design engineering that is required. Such continuity will give Tradewinds the best opportunity to execute the project on time and on budget.

Ms. Li has hands on experience with building authorities in Hawaii and has worked with our Hawaii staff on a number of assignments. She will provide an additional point of communication for Tradewinds in parallel to the traditional project team organization.

Mr. Miller has led the permitting of a number of forest products facilities in the Northwest, California and Alaska. He is very experienced with regulators and knows how to keep agencies focused on "yes" rather than reasons why a project can't be permitted.

Mr. David Yogi will lead the efforts of the Hawaiian office of URS in providing the most cost effective, local presence to the project.

Mike Robert's experience with project development comes into play as the permitting effort is integrated with overall project development. He will be the primary technical/environmental contact with lenders and legal advisors who are involved in reviewing the project with respect to possible financial participation.

**Summary**

We have proposed a team of knowledgeable engineering and environmental permitting professionals who understand your project, its technical and business challenges, local issues and the permitting task you face. Our team will give Tradewinds the most cost effective, expedited path to obtaining your permits that is possible. We have suggested a commercial approach that recognizes the developmental nature of this effort and partners URS with Tradewinds to see the project through to successful operation.

We consider every proposal to be a work in progress that should be tailored to meet your specific technical and commercial needs. This proposal is no exception. We welcome the opportunity to develop our approach further and to develop a plan and agreement to go forward.

Sincerely,  
URS Corporation

Michael A. Roberts  
Vice President

Cc: K. Li, H. Bisner, J. Miller

For Tradewinds LLC

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Signature

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Print Name and Title

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Date

**Appendix B. Correspondence from West Coast Industrial Systems, Incorporated to Tradewinds Forest Products, LLC.**



1995 Airway Road      Phone: (541) 451-6677  
PO Box 2067              Fax: (541) 451-6681  
Lebanon, OR 97355

<b>Services Provided</b>	<b>Page 2</b>
<b>Company History</b>	<b>Pages 3 &amp; 4</b>
<b>Our People</b>	<b>Pages 5, 6 &amp; 7</b>
<b>Sample List of Current Customers</b>	<b>Page 8</b>
<b>Proposal for Preliminary Engineering</b>	<b>Pages 9, 10, 11 &amp; 12</b>

## **WEST COAST INDUSTRIAL SYSTEMS, INC.**

### **THE SERVICES WE PROVIDE:**

- **Engineering/Civil-Mechanical and Electrical**
- **Feasibility Studies: Sawmill**
  - Planer Mills**
  - Plywood and Veneer Plants**
  - L.V.L. Plants**
- **Full Custom Machine/System Design**
  - Material Handling**
- **Return on Invested Capital**
- **Education**
- **Complete Plant Design and Detail**
- **Construction Project Management**
- **Construction Services**

## HISTORY

Founded 1987 in Sweet Home, OR

Moved to new facility in Lebanon, OR in 1997

In 1987 West Coast Industrial Systems, Inc. opened the doors as a design build, construction business. For the first few years, we did small projects and industrial maintenance, in about a 50/50 split. Gradually as time went on, our customers gave us more responsibilities in Engineering and Project Management and industrial maintenance decreased for lack of time.

### Early Projects-1987-1990

- Chilkout Lumber Co.-Total sawmill rebuild in Hainse, AK.
- Deco Bark-Willamette Industries-Bauman Division
- Packwood Lumber, Packwood, WA.-Mill upgrades, hundreds of small to medium size upgrades
- RSG Forest Products-New edgers, banders, resaws etc.

### Primary Customers-1990-2002

While we have worked for many good companies for the last 15 years, two simply stand out and have sustained West Coast Industrial Systems, Inc. through good times and bad. They are the following:

#### A. RSG Forest Products

From 1988-2005 West Coast Industrial Systems, Inc. has done all the engineering, designing and construction for this company. I cannot say enough about this great company and our relationship with them. Millions and millions of dollars in upgrades and remodels have come our way through them. The projects are too numerous to list. Details can be furnished upon request.

#### B. Willamette Industries

Beginning in 1988 until the purchase by Weyerhaeuser, West Coast Industrial Systems, Inc. performed many services for Willamette Industries from maintenance to design build of propriety equipment. Through the 90's, virtually no Willamette Industries project was done without some degree, large or small of West Coast Industrial Systems, Inc. involvement.

### A few highlights:

- Spindleless lathe project-1990-1991
- Lebanon Plywood-Chop saws and block bins-1989
- Springfield Plywood Residuals and Presses-1992-1993
- Bauman's Deco Bark-1989-2000
- Bauman's large log infeeds, chop saws, debarker
- Bauman's carriage remodel-1994

- Sawmill Rebuild -1995
- New Turnkey Planer Mill-2000
- Carriage Infeed/Log Loading-1999

Dallas:

- Plywood dryers
- Lathe line remodels
- Plywood Stacker Installs
- Sawmill turnkey upgrade-1999  
Total rebuild of backend with 2 edgers, trimmer line sorter, waste system-5 million upgrade
- Planer mill-3 million upgrade

Eugene MDF:

- Buildings, concrete, permitting and construction

Millersburg LVL

- Complete machinery installation
- 2<sup>nd</sup> Press Line-2 years after Press Line 1
- Merchandizing remodel 2001
- Residual Systems

Winston LVL

- Upgrades after Willamette Industries purchased to improve performance

Simsboro, LA

- Manufactured a complete I-Beam Assembly Line in partners with Willamette Industries Engineering staff. Proprietary equipment was done in our shop under non-disclosure agreements.
- Design and build of all stacking, nesting, cut to length and packaging line
- Note: West Coast Industrial Systems, Inc. has had a major role in all of Willamette Industries LVL expansions

Chester, SC.

- Core handling and small log equipment for a new stud mill, connected to the plywood plant in S.C.

After the Weyerhaeuser buyout, West Coast Industrial Systems, Inc. chose to not be involved until the new merger was complete. Recently we have begun to work for the Weyerhaeuser group and expect that business to grow. We focused on small entrepreneurial companies from 2001 to present and have done well in doing so.

### **OUR PEOPLE**

The experience and variety of backgrounds offered by our staff enable us to perform consulting assignments throughout the Forest Industry. Academic backgrounds included specialized and

advanced degrees. All senior members of West Coast Industrial Systems, Inc have in-depth experience in the industry.

When necessary, we supplement the capabilities of our permanent staff with additional personnel or services of other firms. We always assume total responsibility for all work performed.

Blane Belveal-Owner

27 years of engineering, design, construction and project management

Projects prior to West Coast Industrial Systems, Inc.:

- Clear Lumber Co.-1978  
Brownfield Mill-new sawmill portion  
New planer mill  
Responsibilities-design, detail and construct new facility for grade lumber cutting
- Soledad Forest Products-1981-1982  
Greenfield Sawmill Planer Mill Complex for Redwood Lumber  
Responsibilities-design, detail and construct a state of the art sawmill including the following:
  - Site Prep
  - Underground services, sewer, water, power
  - Power distribution
  - Seismic 4 footings and construction
  - Log yard
  - Sawmill and planer
  - Offices and maintenance facilities
- Colville Indian Precision Pine  
Greenfield Sawmill, boiler, dry kilns and planer mill with all support facilities  
Responsibilities-design, detail and construct the complete facility
  - Site prep
  - Fire sprinkler pond, underground
  - Primary power distribution
  - Floating plant design. 30' of silt required the plant to float on engineered fill and filter cloth
  - Buildings
  - Sawmill

Boiler, dry kilns and fuel handling  
Planer Mill  
Railroad spur  
Log yard, grading and scaling facilities  
Office and maintenance facilities

**Blake Belveal**

24 years of design and construction

- Maintenance supervisor for Clear Lumber Co.
- Project lead man-Colville Indian Precision Pine
- Piping supervisor-Pacific Northern Industrial
- Fabrication shop supervisor-6 years
- Field supervisor-10 years
- Auto cad design conversion-1996
- Current design engineer by customer demand for the following:
  - Mary's River Lumber Co. (3 plants)
  - Reichert Shake and Fencing (1 plant)
  - WKO, Carson, WA (3 plants)
- Willamette Industries, Woodburn
  - Design, build and install a LVL recovery line for downgrade and stack for re-entry

**Ken Lafayette**

- Project Manager-15 years
  - Current Project Manager of most turnkey projects
  - Project manager for turnkey projects with USNR in many construction projects
- Recent projects in conjunction with USNR
- Weyerhaeuser, Warrenton Gang Upgrade
  - Toler Lumber Co., Leola, AR-mill floor 80% new systems
  - Douglas County Lumber-Double Length Infeed support equipment
  - Tubafor Cedar Mills-edgers and resaws, major flow upgrades

**Other projects:**

- Engineer and Project Manager for a turnkey sawmill, dry kilns and boiler for Maine Woods Co., Portage, ME
- Project Manger-Durgin and Crowell, New London, NH-edger optimizer and planer mill
- Project Manager-King Forest Industries, NH
  - Complete chipping Facility
  - Mill Upgrades
- Mount Hood Forest Products
  - Complete mill floor layout and design
  - West Coast Industrial Systems, Inc. Project Manager
  - Planer mill design and Project Manger (currently under construction)
- Western Cascade
  - Residual System Upgrades
- Dismantle and ship from Taylor, LA to Ixtapa, Mexico a plywood green end, 2 dryers and presses-supervised re-installation
- Willamette Industries
  - Millersburg LVL, construction, greenfield
  - LVL plant

- Willamette Millersburg LVL  
Design, build and install a new secondary LVL merchandizing line with paint line, cut up line, stacking line and banding system
- Willamette Industries-Foster Division  
Spindleless Lathe Project-1991  
Remodel Lathe Outfeed-1998  
Dryer Outfeed Systems-1998

Our four detail designers are all mechanical engineers with degrees:

Three are from Oregon State University

One from OIT

All are on the cutting edger of technology in Autocad. Three are currently utilizing the latest in 3-D design programs.

A requirement of all of our design staff is to be in the field doing actual construction of the equipment they design. Our senior staff all started as hand on and still are to this day when required. Our equipment goes together and functions because of our firm grounding in the reality of what makes a equipment run.

## **CURRENT CUSTOMER HIGHLIGHTS**

- **USNR-Joint venture and turnkey projects**
- **RSG Forest Products**
- **Weyerhaeuser**
- **WKO**
- **Superior Lumber**
- **Intermountain Forest Products**
- **Yakima Resources**
- **Kinzua Resources**
- **Western Cascade**
- **Collins Companies**
- **Douglas County Lumber**
- **Floragon Forest Products**
- **Toler Lumber Company**
- **Banks Lumber Company**
- **Mary's River Lumber Company**

Dear Don:

We at West Coast Industrial Systems, hereafter referred as WCIS, are pleased to offer the following proposal to act in your behalf as the general contractor for the supply and the construction of a green veneer mill and co-generation plant on the big island of Hawaii in the state of Hawaii.

We understand that the project will consist of the following equipment:

- 5 Megawatt co-generation plant.
- 27" Dual ring debarking line
- Chopsaw line
- Log deck into lathe
- 8ft lathe line with step feeder
- 8ft Rotary clipper
- Green veneer stacker
- One veneer dryer
- Veneer chipper with related conveyors
- Core chipper with related conveyors
- Bark hog with related conveyors
- Surge bins with related conveyors
- Chip screen with related conveyors
- Veneer composer
- Grinding room equipment
- Saran wrapping station
- Steam vats
- Buildings
- Truck scale
- Septic system

WCIS's responsibilities acting as the general contractor to Tradewinds will be, but not limited to, the following:

- Preliminary engineering to develop accurate project costs.
- Collection of all necessary permits.
- Selection and procurement of capital equipment and buildings.
- Reconditioning of capital equipment where necessary.
- Site preparation
- Foundations and concrete.
- Fabrication of support equipment and sub-structure.
- Containerizing and shipment of equipment.
- Arrangement of all shipping of equipment from purchase location to Lebanon for shipment to Hawaii.
- Erection on site of machinery and buildings.
- Fire suppressant system.
- Provide all accounting of project.

- Provide project manager on site for duration of project's construction.
- Provide start-up supervision.

WCIS's usual approach to a project of this magnitude consists of three phases, which would allow each phase to have the parameters clearly set and goals and objectives to be re-analyzed if necessary as each phase is completed.

The format for the entire project will be clearly defined as to the intent of each phase and regular progress reports, usually on a monthly basis, will keep all persons current as to what is happening on the project and why; e.g., on schedule, changes of direction and/or priority changes, expenditures, etc.

#### PHASE I - Project Scope:

This portion is critical in that it sets the pace and the guidelines for the entire project. The degree of participation by WCIS is flexible in that this phase can include one of two objectives depending on your requirements.

- A. First would be the development of the project cost based on the engineering drawings agreed upon.
  - Layout in plan view and elevation view the proposed facility.
  - Travel to the site, evaluate elevations, cut and fill volumes, type of excavation required.
  - Develop facility costs, e.g., site preparation, foundations, buildings, air, water, offices, etc.
  - Develop costs for support structure and erection.
  - Budget equipment costs; e.g., capital equipment, auxiliary equipment and waste system.
  - Equipment installation.
  - Electrical components and installation.
  - Plumbing, e.g., hydraulics, pneumatics, and water.
  - Develop a preliminary time line for planning purposes.

This minimal approach would consist of a detailed plan view of the entire mill, including the barker complex, the waste handling system and the co-generation plant. The details on the co-generation plant will be minimal until a facility has been procured.

The cost for the above would be up to \$ 40-60,000.00, but actually charged as costs are accrued as per the attached rate sheet and billed bi-monthly.

PHASE II. The second option would consist of the above plus the complete analysis of the production and inter relationship with the proposed equipment.

- Log counts at barker
- Block counts at lathe
- Determine volume of veneer based on realistic log diameters.
- Determine production capabilities of the overall plant based on realistic production capabilities at each machine center.
- Determine “bottleneck” areas and their consequences, e.g., at what production levels they develop and to what extent, including the peripheral area, e.g.
  1. Barker complex
  2. Chip handling facilities.
  3. Power plant
  4. Sawdust handling facilities.

The cost for the above, also including the data in objective A, would be up to 50/60.000.00, but actually charged as explained above.

Depending on which objective best fits into your needs, Phase I would be presented and completely documented in a report which would present the pros and cons of each option and conclude with a recommended course of action. This report would then be reviewed with you in detail.

After a decision by you to proceed with one of the options and after necessary parameter adjustments, we would then proceed to:

#### PHASE III - Project Implementation

This phase is the basic heart of the project consisting of:

- Finalization of all drawings, elevations and concept.
- Collect all necessary permits
- Procure all capital and auxiliary equipment
- Bring all capital and auxiliary equipment into Lebanon for reconditioning requirements and for staging for shipment to Hawaii.
- Fabricate necessary auxiliary equipment and sub-structure where practical.
- Commence site preparation work including foundations, concrete and paving.
- Coordinate site prep completion with arrival of buildings and equipment for erection of plant.
- Commence construction the facility.

#### PHASE IV - Start-Up

- Arrange for your maintenance and or production personnel to spend some time with an existing facility to enable them to become familiar with the

- equipment and maintenance prior to start-up, if desired or necessary.
- Work with mill production and maintenance personnel to work out “bugs” and “hang-ups”, etc.
- Generally assist personnel with recommendations, etc. for achieving the projected production levels with minimal delays as determined to be necessary and desirable

**VENEER MILL PROJECT PRELIMINARY BUDGET:**

- Capital equipment
- Reconditioning cost
- General Labor
- Freight
- Site Prep
- Septic system
- Permits (included in Engineering services)
- Concrete (3,000 yds)
- Engineering Services including permits
- Veneer Plant Building
- Office buildings (2) 2,000 sq. ft.
- Construction mobilization
- Equipment Rentals
- Startup training and trouble shooting
- 

**POWER PLANT PRELIMINARY BUDGET**

- 5 Megawatt Co Gen plant erected per proposal
- Concrete (960 cu. yds @ 400.00/yd)
- Engineering services including permitting
- Site prep (inc. in Veneer mill site prep)
- Startup, training and trouble shooting
- 

Thank you,

Blane Belveal



**MINUTES FOR THE  
MEETING OF THE  
BOARD OF LAND AND NATURAL RESOURCES**

DATE: FRIDAY, JANUARY 28, 2005  
TIME: 9:00 A.M.  
PLACE: KALANIMOKU BUILDING  
LAND BOARD CONFERENCE ROOM 132  
1151 PUNCHBOWL STREET  
HONOLULU, HAWAII 96813

Chairperson Peter Young called the meeting of the Board of Land and Natural Resources to order at 9:08 a.m. The following were in attendance:

**MEMBERS**

Mr. Peter Young  
Ms. Kathryn Inouye  
Mr. Toby Martyn (arrived at 12:20 pm)

Mr. Timothy Johns  
Mr. Ted Yamamura  
Mr. Ron Agor

**STAFF**

Ms. Dede Mamiya, Land  
Ms. Martha Yent, Parks  
Mr. Paul Conry, DOFAW  
Mr. Michael Shinozuka, DOT

Mr. Sam Lemmo, OCCL  
Ms. Karen Motosue, Parks  
Ms. Athline Clark, DAR  
Mr. Steve Molmen, DOBOR

**OTHER**

Mr. Colin Lau, Deputy Attorney General  
Mr. Harry Kim, D-2  
Ms. Linnel Nishioka, D-6  
Mr. Jim Fox, D-2  
Mr. Gregory Dunn, E-3  
Mr. Mich Hirano, K-1  
Mr. Martin Luna, K-2  
Mr. Gayle Veber, C-5  
Mr. Kent Unterman, C-5  
Mr. Les Silva, D-3

Mr. Russell Watanabe, D-19  
Mr. Jon Miyata, D-15  
Mr. Michael Moore, J-2  
Mr. Joe Krueger, K-1  
Mr. Ron Gillespie, K-2  
Mr. Don Bryan, C-5  
Mr. Peter Simmons, C-5  
Mr. Guy Silier, C-5  
Mr. Jerry Plummer, D-3

{Note: language for deletion is [bracketed], new/added is underlined}

**Item A-1: Minutes of January 13, 2005**

Member Inouye recused herself

The Board made the following changes:

Page 1 and 2, third paragraph

**“Mr. Bruce [Flash] Plasch”**

**Unanimously approved as amended by the remaining Board members (Johns/Yamamura).**

**Item A-2: Minutes of January 14, 2005**

Member Inouye recused herself

The Board made the following changes:

Page 1 under “Others” and Page 4, second paragraph

**“Mr. Peter Starn”**

Page 1 under “Others” and Page 4, third paragraph

**“Mr. [Bill] Phil Deaver”**

Page 2, Item D-12

**Ms. Mamiya indicated [she] staff has discussed the proposed waiver of restrictions . . . Ms. Mamiya recommended the Board find that the restrictions on Agricultural use as contained in both Land Patent Grant No. S-15,315 and [~~Lead~~] Land Office Deed No. S-26,644 . . .”**

Page 3, Item D-29, second sentence

**“The Coco Palms Hotel was severely damaged on September 11, 1992 by Hurricane Iniki and [~~because of disputes over repairs the hotel~~] has been closed since then.”**

Page 4, second paragraph, add the following

**“Mr. Starn requested the Board clarify the consent is for both the periods from 1993 to May 30, 2061 and from March 31, 2061 in perpetuity.”**

conservation land. He let it be known in Mr. Gillespie's 1999 letter to the department he included a map, which shows the existence of the house, energy shack and the hot tub. The items that currently exist that were not there in 1999 were the yurt, garden shed and the gazebo. Mr. Luna pointed out in the 1999 letter sent to the department, Mr. Gillespie included a map, which showed further improvements he intended on doing on his property. Due to this notification, Mr. Luna feels the fines levied on his client are excessive. He asked the Board that the fines assessed be based on only the improvements done after the 1998 fines, which would only, included the garden shed. Mr. Luna proposed a fine of \$2500 for the garden shed.

When asked by the Board if he obtained a county permit for the improvements on the structures Mr. Gillespie replied that he did not feel a permit was necessary as the structure was not changed. He also noted he did not obtain a permit for the additional structures on the subject parcel.

Addressing Mr. Luna's comment that the department was sent a map in 1998, which indicated that the existence of the additional structures on the subject parcel Mr. Lemmo noted at that time, he was focusing on the gazebo, which is the subject of the violation. Mr. Lemmo confirmed he may have dropped the ball by failing to contact Mr. Gillespie to inform him his application was incomplete but Mr. Lemmo in no way feels that this action was an authorization to construct the additional structures on the land.

Mr. Gillespie, the landowner confirmed he personally went through the HOAPS program in 1998 and signed the documents pertaining to the program. Mr. Gillespie told the Board at the time he embarked on the renovations he did not know he needed a permit to do the work. He pointed out the work done on the home was interior work that did not include demolishing, constructing or reconstructing of his home. Mr. Gillespie told the Board the work done was just part of home maintenance.

**The Board amended the Recommendation as follows:**

**1. Recommendation 1)**

**"The alleged is fined a total of [\$12,000] \$6,000 for six Conservation District violations;**

**2. Delete Recommendation 4)**

**3. Recommendation 5)**

**"The alleged/landowner shall either remove or apply for an After the Fact (ATF) Conservation District Use Application (CDUA) within 60 days of the date of the Board's action for the subject unauthorized windmill, hot tub, yurt and associated improvements, solar panels and array, concrete pad and garden shed to determine its final disposition otherwise this action to reduce the fine is void."**

**Unanimously approved as amended (Yamamura/Inouye).**

**The Board informed Mr. Gillespie and Mr. Luna of their right to a contested case hearing.**

**Item C-5: Continuation and Amendment of Timber Land License No. H-101 held by Tradewinds Forest Products, LLC.**

Paul Conry, Administrator of the Division of Forestry and Wildlife brought before the Board Time Land License H-101 which is held by Tradewinds Forest Products, LLC. As background information, Mr. Conry reminded the Board at the October 8, 2004 Board meeting a request was made to return to the Board with results to show the applicant was showing satisfactory progress. At that meeting the Board asked for the result of product test as well as start up capitol and a detailed project schedule. Mr. Conry went into detail regarding seven different areas: Strength test results, written commitments for \$1 million in start-up funding, detailed project schedule including the permitting process, access to wood resources, a mill site, a community liaison and community advisory board and construction funding. Mr. Conry informed the Board that the production plans have changed from the original veneer and plywood manufacturing mill. Tradewinds will be peeling and drying veneer at their mill for shipment to a plant on the mainland for final processing into laminated veneer lumber. Mr. Conry recommended the Board approve the Department's continued partnership with TFP as defined by the TLL and approve the amendment to the TLL as detailed in staff's submittal.

Don Bryan came forward to speak on behalf of Tradewinds Forest Products, LLC. Mr. Bryan told the Board of various accomplishments his company has attained since the October 2004 Board meeting. He let it be known they have secured a engineering firm to deal with the initial design and permitting process, has a commitment with a company to build the mill, has offered the community liaison job to someone, is working on the development of a community advisory board, are in negotiations with Pru Timber to supply timber as well as the completion of the strength test with satisfactory results. Mr. Bryan pointed out his company's intention to build a five mega-watt power plant and noted they've been working with Hawaiian Electric and Hawaiian Electric Light Company on this issue.

Gayle Verber of Verber Partners spoke in regards to financial issues, which includes raising the necessary capitol for this project. He let it me known Verber Partners have been in existence for the past eleven years. Mr. Verber went on to detail his previous work experiences. He confirmed his company has agreed to assist Tradewinds in the fund raising process. Mr. Verber spoke of the funding process and how he intends to raise the 1.2 million for this project.

Peter Simmons of Kamehameha Schools conveyed their commitment to invest in Tradewinds provided they meet certain thresholds. Mr. Simmons pointed out

Kamehameha Schools has already spent about 125 thousand doing financial analysis and due diligence on this project.

Kent Unterman of Koa Plus asked the Board not to derail the process Tradewinds is going through but to instead give them time to complete the process. He did announce his wish that the Board not give Tradewinds an unreasonable amount of time to reach all thresholds established by the division.

Guy Silier, owner and operator of Forest Solutions, which is located on the Hamakua Coast of Hawaii for the past nine years testified. Mr. Silier let it be known they've established and have been running Pru Timber's operation. He informed the Board Pru Timber will not wait around to sell their timber to Tradewinds but will sell it as quickly as they can to whomever will pay a fair price.

Written testimony was received from James E. Quinn

**The Board amended the Timber Land License as follows:**

**1. Amended Condition 4) as follows**

**“4. The Licensor agrees to not unreasonable terminate the TLL if the Licensee is making good faith efforts to complete the facility in accordance with the schedule here in and the mill completion date is expected by January 1, 2008.”**

**2. Added 2 new conditions to the Timber Land License**

**“6. The Licensee will provide documentation of securing \$1.0 million in startup funding by March 31, 2005 and that failure to do so will be grounds for issuing a notice of default of the terms of the license.”**

**“7. The Licensee will provide documentation of securing required construction funding by October 31, 2005 and that failure to do so will be grounds for issuing a notice of default of the terms of the license.”**

Unanimously approved as amended (Johns/Inouye).

**Item D-3: Re-submittal – Sale of Remnant to Carol A. Plummer and Jerry Plummer, Ookala, North Hilo, Hawaii, TMK: (3) 4-1-03: Portion of Remnant 2.**

Ms. Mamiya briefly went over the subject submittal. She indicated there is a house that is encroaching upon a portion of State land that is part of a road. She pointed out back in 1940 a land exchange was to have taken place but there were some errors and the area of encroachment was not sold to the owner therefore the encroachment was not corrected. In 1962, staff asked the Board to sell this remnant for \$1.00 but the Attorney General's Office

indicated the remnant could only be conveyed at fair market rent. Recently, the Plummer's approached staff to clear up this situation. Ms. Mamiya communicated the neighboring property owner, Les Silva has raised concern about the sale of the remnant and the impact it would have on his access. Ms. Mamiya recommended the Board authorize the sale of the remnant as identified in staff's submittal as Exhibit I.

Jerry Plummer the applicant let it be known the house has been in place for over sixty years. He noted his agreement with staff's recommendation but indicated his main concern is to purchase the portion of state land under his home. Addressing the issue that Mr. Plummer moves his home so it does not sit on state property, he conveyed it is beyond his ability, financially and physically.

Les Silva, the neighboring property owner provided the Board with pictures of the subject area. He told the Board he believes that the Plummer's home is not on the roadway but approximately one foot away. Mr. Silva also pointed out if a portion of the Plummer's home is located on the roadway it would include the porch and an extension to the home, which could be removed. Mr. Silva disclosed if the State agrees to sell a portion of land to the Plummer's that they sell only the portion up to his because he will not be able to take heavy equipment to his property. Mr. Silva announced one of the reasons he purchased his property was because it came with a 50-foot easement. He indicated prior to the purchase of his parcel, he called more than one individual to confirm there was a 50-foot easement, which to him was very important. He agreed with the Board that he would be okay with the situation if the movement of the boundary line did not effect the way he operates on the existing pavement.

Ms. Mamiya reminded the Board the Plummer's will be required to do a survey and after the area is surveyed and if there are any discrepancies the item will be brought back to the Board.

The Board asked that a survey be provided that shows the recorded boundary, house, paved area of the road and fences (on the other side of the road). The parties pretty much agreed to allow the Plummer's to buy the remnant up to the paving of the road and the Plummer's would not put up any fencing along that boundary until Mr. Silva completes construction of his house and shop.

Written testimony was received from Board Member DeMello.

**Motion to defer**

**Unanimously approved to defer (Inouye/Johns).**

**Item K-3: Enforcement Case OA-04-11 Regarding Failure to Comply with the Board of Land and Natural Resources Order to Remediate Land Located in the Conservation District and for Continuing to Grub and Grade, and Widen the Top Road without Authorization by O. William and Joyce A. Chandler, Subject Parcel, TMK: (1) 4-4-017:112 and 111, Kaneohe, Oahu.**