



HOW KANALOA WORKS

An Explanation of Our Management System

2/1/23

We have many new owners at Kanaloa and we learned while implementing the Guest Registration Program that many long-term owners had misconceptions about the management model that Kanaloa has operated under since the project was built. One long-time owner even thought our property management company was contractually obligated to provide front desk service.

Sometimes we on the Board are so immersed in the operational issues at our property, we assume that owners are as familiar as we are with the basics of Kanaloa's management. The purpose of this letter is to review how Kanaloa is managed.

Our homeowners' association, known as the Association or the AOA (for Association of Apartment Owners) elects a seven-person Board of Directors to normally serve three-year terms. Elections are held at the annual Homeowners' Meeting on the last Friday of April. The Board meets quarterly on the last Friday of January, July, and October, with the April Board meeting usually just before the Homeowners' Meeting. All homeowners are encouraged to attend all the meetings but can vote only at the Homeowners' Meeting.

The Board contracts with a managing agent, presently Castle Resorts and Hotels, to manage and control those portions of Kanaloa within the jurisdiction of the Board; that is, to manage the common elements of the property, arrange and administer our quarterly and annual meetings, and do the association's billing and accounting. Castle also serves as a resource for the Board on the many management and operational issues facing Homeowner Associations (HOAs).

Castle is allowed to run a SEPARATE operation at Kanaloa, its rental management program. This has been the management model since Kanaloa's inception, with two separate operations administered by the same management company.

These two operations, property/HOA management and rental management, are separate entities, and great care has always been taken to separate the finances of

the two, but they must work closely together. This is facilitated by having the General Manager oversee both operations.

Although the ownership of the clubhouse and the laundry building is shared by all of us owners as common elements, parts of the clubhouse and all of the laundry building are leased to Castle for its rental program. Castle leases the Front Desk area, the upstairs offices, and the laundry facility. Those leases generate an income for the Association that offsets the monthly management we pay Castle for their services. We give up some of our rights to those leased areas in exchange for the rent.

We sometimes refer to employees as “ours” or “Castle’s”, but in fact, all employees on the property are employees of Castle. The Association reimburses Castle for the salaries and benefits of the Maintenance staff, Security staff, and previously the Grounds crew (until we decided to contract that out to a private contractor). These are “our employees.” The salaries of the front desk, the laundry facility, and the rental (or resort) manager are paid by Castle with no reimbursement from the Association. Those are “Castle’s employees.”

The salary and benefits of Jim Heather, our experienced and valued General Manager, are split between Castle and the AOA.

Please keep in mind that our front desk area is leased to Castle Resorts and Hotels *to serve their guests*. They have always been “good neighbors” as far as providing services to non-Castle owners and will, I’m sure, continue to do so. But they are not obligated to provide those services any more than their laundry facility is obligated to do personal laundry for all owners. That is why Castle is reimbursed by the Association for registering guests that are not part of their rental program.

Castle Resorts and Hotels has done an admirable job of managing Kanaloa. During the very difficult pandemic time, when Castle was forced to lay off much of its staff, Castle’s Director of Condominium Administration, Renette Carpio, filled in as our property manager while maintaining her other Castle responsibilities. In addition, she often worked all day on-site, then did a security guard’s job overnight.

Many of you have seen Dean Yamamoto, Castle's Vice President of Finance, answering questions at our meetings. Renette's and Dean's salaries are NOT reimbursed in any way by our Association. That's all part of the many services Castle provides for its monthly management fee, which as mentioned previously is mostly offset by their lease payments to the Association.

One more point I'd like to make: from the beginning of Kanaloa, the on-site managing agent, be it Castle, Outrigger, or Colony before that, has made it clear that their primary source of revenue is not property management. They make their money from the rental program. So it has always been beneficial to the Association to have a strong on-site rental program. It allows us to afford better management, including front desk services, to have an on-site manager, and to have management that sees things from a resort perspective. The management model discussed here has worked well for decades and presently seems the best way to move forward. But please be assured the Board is always receptive to and considering procedures and management models to maximize your Kanaloa investment and improve our resort standards, while always striving to maintain fairness for all owners.

Mahalo for taking the time to read this explanation,

Steve Tanberg,
President, Kanaloa Board of Directors