

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

May 24, 2013

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

Ref. No. GL S-4786

Hawaii

Consent to 100% Stock Transfer in Hilo Trading Co. Ltd., Lessee under General Lease No. S-4786, from Steven I. Hironaka, Karen R. M. Hironaka and Roy T. Kaneko, Transferor, to Kimberly Snuggerud, Transferee, and Consent to Mortgage, Hilo Trading Co., Ltd. Mortgagor and First Hawaiian Bank, Mortgagee, Waiakea, South Hilo, Hawaii, Tax Map Key: 3rd/2-1-03:08.

APPLICANT AND REQUEST:

Steven I. Hironaka, Karen R. M. Hironaka and Roy T. Kaneko, as Transferor, to Kimberly Snuggerud, whose mailing address is Hilo, Hawaii 96720, as Transferee.

Hilo Trading Co., Ltd., requesting consent to mortgage from First Hawaiian Bank, Mortgagee, in an amount not to exceed \$500,000.

LEGAL REFERENCE:

Section 171-36(a)(5) and 171-22, Hawaii Revised Statutes, as amended.

LOCATION:

Portion of Government lands of Waiakea situated at Waiakea, South Hilo, Hawaii, identified by Tax Map Key: 3rd/2-1-03:08, as shown on the attached map labeled Exhibit A.

AREA:

.970 acres more or less.

TRUST LAND STATUS:

Section 5(b) lands of the Hawaii Admission Act

DHHL 30% entitlement lands pursuant to the Hawaii State Constitution: NO

CHARACTER OF USE:

Restaurant purposes.

TERM OF LEASE:

55 years, commencing on 3/23/1982 and expiring on 3/22/2037. Last rental reopening occurred on 3/23/2002; next rental reopening is scheduled for 3/23/2017.

ANNUAL RENTAL:

\$20,580.00 due in quarterly payments.

CONSIDERATION:

\$850,000.00.

RECOMMENDED PREMIUM:

\$ 0 (Refer to Exhibit B attached.)

DCCA VERIFICATION:

HILO TRADING CO. LTD.:

Place of business registration confirmed:	YES <u>X</u>	NO
Registered business name confirmed:	YES <u>X</u>	NO
Good standing confirmed:	YES <u>X</u>	NO

USE OF LOAN PROCEEDS:

Proceeds from loan will be used to complete extensive renovations to the existing restaurant on property. Lessee has submitted a preliminary floor plan laying out the redesign of the restaurant and kitchen. A more detailed set of plans will be submitted for chairperson approval in the coming weeks.

REMARKS:

General Lease No. S-4786 was sold at public auction on 3/23/1982 at the upset price of \$16,000.00 per annum to Hilo Trading Co., Ltd. for restaurant purposes. The lease encumbered 1.01 acres, more or less for a period of 55 years. The restaurant was constructed in 1983 and is currently doing business as Nihon Restaurant and Cultural Center.

On 4/14/1997, the Lessee entered into a Special Installment Agreement (SIA) for retroactive additional rent owed in the amount of \$271,846.21 resulting from the non-filing of financial statements as required in the lease agreement. This SIA is currently in effect and the Lessee is current with the payments.

Language in the original lease required the Lessee to maintain a portion of State property along the coastline as a park area known as Happiness Gardens. At its meeting of August 11, 2000 under agenda item D-13, the Board consented to the withdrawal of the area being maintained and incorporate it as an addition to the adjacent County of Hawaii Liliuokalani Gardens Park. The lease was amended to reflect the deletion of the maintenance agreement.

A special meeting of the Board of Directors and Shareholders of Hilo Trading Co., Ltd. was held on October 31, 2012 at which time the directors and shareholders authorized the sale of all outstanding shares of the company to Transferee, Kimberly Snuggerud.

The Department of Liquor Control for the County of Hawaii has approved the transferee's request to transfer the 100% stock interest in Hilo Trading Co., Ltd. Transferee advises staff that she has experience in the food and beverage industry as owner/manager of the Hilo Bay Café, an established restaurant in the Hilo area. Staff inspected the lease property on January 2, 2013 and found the premises to be in compliance with the terms and conditions of the lease. The property is well kept and orderly.

The Transferee 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.

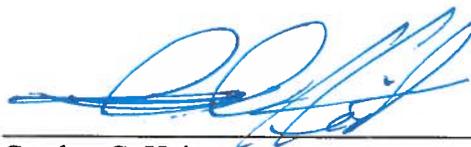
The last rental reopening was on 3/23/2002. The next rental reopening is scheduled for 3/23/2017. An appraisal of the property was performed on 3/31/2002. A new rental fee of \$20,580.00 was offered and accepted by Hilo Trading Co., Ltd. There are no outstanding rental issues at this time.

RECOMMENDATION: That the Board:

- A. Consent to the transfer of 100% of the issued and outstanding stock of Hilo Trading Co. Ltd. from Transferors Steven I. Hironaka, Karen R. M. Hironaka and Roy T. Kaneko, to Transferee Kimberly Snuggerud with respect to General Lease No. S-4786, subject to the following:

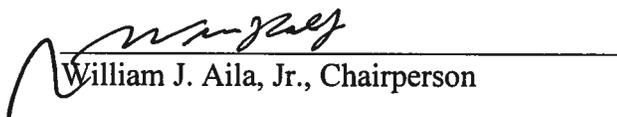
1. The standard terms and conditions of the most current consent to assignment form, as may be modified to reflect the Land Board's consent to the stock transfer;
 2. Review and approval by the Department of the Attorney General; and
 3. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.
- B. Consent to the mortgage between Hilo Trading Co., Ltd., Mortgagor, and First Hawaiian Bank, Mortgagee, subject to the following:
1. The loan proceeds shall be used for the purposes as stated in "Use of Loan Proceeds" above. The Lessee shall maintain records of loan expenditures which may be inspected by the Department;
 2. The standard terms and conditions of the most current consent to mortgage form, as may be amended from time to time;
 3. Review and approval by the Department of the Attorney General; and
 4. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

Respectfully Submitted,



Gordon C. Heit
District Land Agent

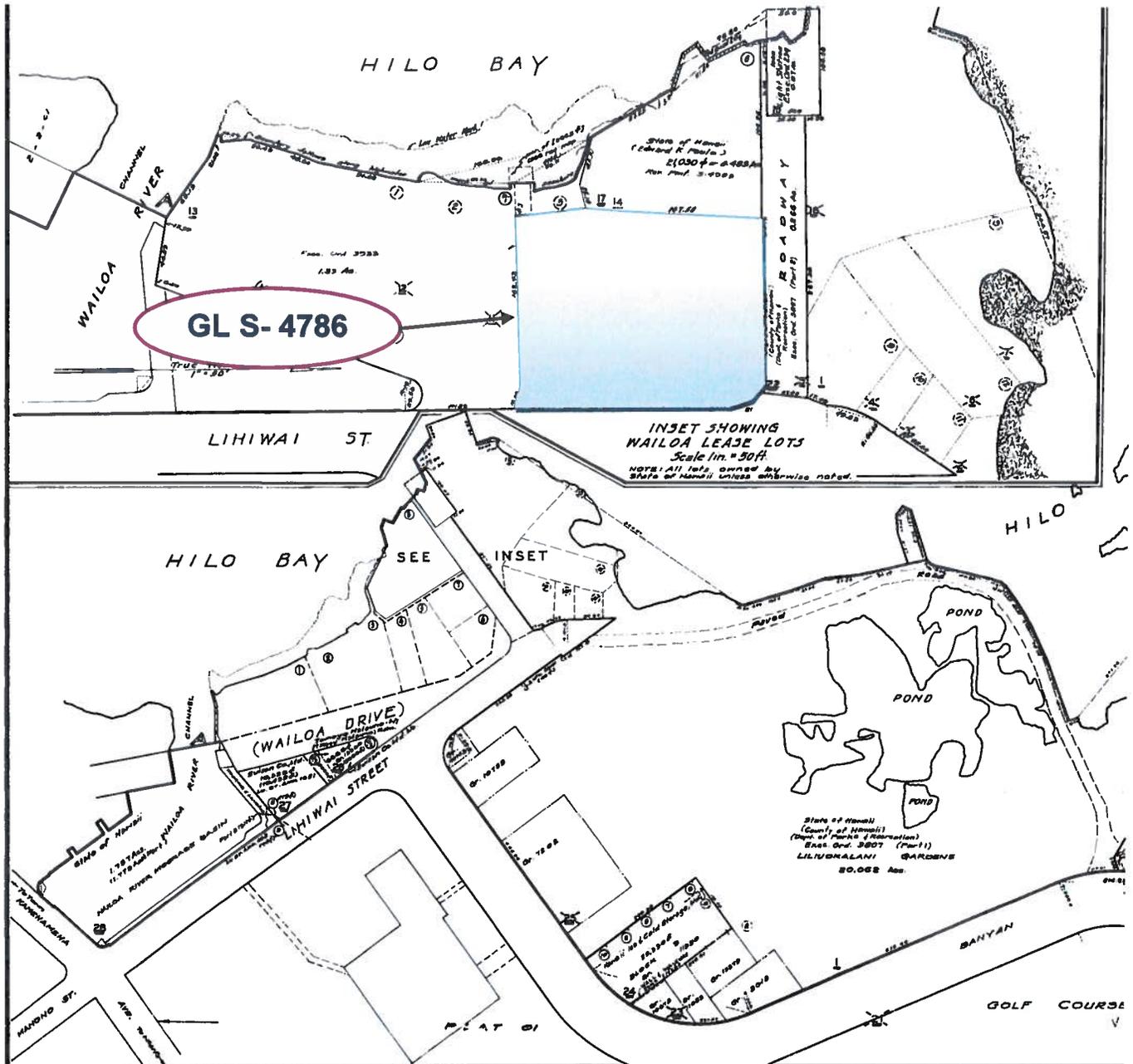
APPROVED FOR SUBMITTAL:



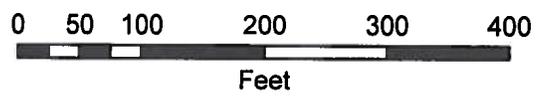
William J. Aila, Jr., Chairperson

EXHIBIT A

TMK: 3rd/2-1-03:08



GL S-4786





STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
LAND DIVISION

POST OFFICE: BOX 621
HONOLULU, HAWAII 96809

May 6, 2013

MEMORANDUM

TO: William J. Aila, Jr., Chairperson
THROUGH: Russell Y. Tsuji, Division Administrator
FROM: Gordon C. Heit, District Land Agent
SUBJECT: In-House Recommendation – Assignment of Lease Calculation

GL No.: S-4786
Lessee/Transferor: Hilo Trading Co., Ltd.
Transferee: Kim Snuggerud (100% stock purchase)
Location: Waiakea, South Hilo, Hawaii
Land Area: .970 acres more or less
Tax Map Key: 3rd/2-1-03:08
Char. of Use: Restaurant and Cultural Center purposes

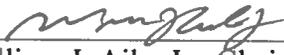
We have been requested to provide an in-house evaluation of the assignment premium due to the State for an assignment of GL S-4786 resulting from the transfer of 100% stock interest in Hilo Trading Co., Ltd., Lessee. The lease documents and information provided by lessee were analyzed and staff applied the formula approved by the Land Board on December 15, 1989, agenda item F-10, comprising of the Assignment of Lease Evaluation Policy.

Net consideration		\$263,080
Actual improvement cost	\$663,400	
Adjusted improvement cost	\$801,640	
Trade fixture cost	<u>\$0</u>	
Total improvement and trade fixture cost	\$801,640	
Less depreciation	<u>(\$456,935)</u>	
Depreciated value of improvements & fixtures	\$344,705	
Less adjusted improvement cost (inc. trade fixtures)		<u>(\$344,705)</u>
Excess		(\$81,625)
Premium % (31-35 years elapsed)		<u>20%</u>
Premium		(\$16,325)

EXHIBIT B

Based on these calculations resulting in a negative premium calculation, the premium due the State is \$0.

Approved/Disapproved:



William J. Aila, Jr., Chairperson

5/28/13
Date

cc: District Branch Files
Central Files

Table 1		Assignment of Lease Premium Calculation	
GL S-4786: Hilo Trading Co., Ltd.			
Net Consideration	\$263,080		
Improvement Cost	\$ 663,400	Value as of January 1, 2013	
CCI (most recent)	210.5	2013	
CCI (base year)	174.2	1983	
Expired Term	373	mos.	
Whole Term	660	mos.	
1 Adjusted Cost of Improvements or Renovations			
	Actual Cost x $\frac{\text{CCI (most recent)}}{\text{CCI (base year)}}$		
	\$663,400	x $\frac{210.5}{174.2}$	= \$801,640
2 Depreciation			
	\$801,640	x $\frac{373 \text{ mos.}}{660 \text{ mos.}}$	= \$456,935
3 Adjusted Depreciated Cost of Improvements or Renovations			
	\$801,640	- \$456,935	= \$344,705
4 Premium Calculation			
Net Consideration		\$	263,080
Adjusted Cost of Imp.	\$801,640		
Depreciation	(\$456,935)		
Adjusted Deprec. Cost of Imp.			<u>\$344,705</u>
Excess		\$	(81,625)
Premium Percentage		x	<u>20%</u>
Premium			<u>(\$16,325)</u>