

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

March 27, 2015

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

Hawaii

Consent to Mortgage and Extension of Lease Term; General Lease No. S-4331 and S-4332, James William McCully, Trustee of the James William McCully Revocable Living Trust dated September 24, 1992 and Francine Marie Morales McCully, Trustee of the Francine Marie Morales McCully Revocable Living Trust dated September 24, 1992, Waiakea, South Hilo, Hawaii, Tax Map Key: 3rd/2-2-37:144.

APPLICANT AND REQUEST:

James William McCully, Trustee of the James William McCully Revocable Living Trust and Francine Marie Morales McCully, Trustee of the Francine Marie Morales McCully Revocable Living Trust, requesting consent to mortgage from First Hawaiian Bank, Mortgagee, in an amount not to exceed \$ 450,500.00.

For Mortgagor to qualify for this mortgage, Mortgagee requires extension of General Lease No. S-4331 and S-4332 of 10 years, commencing on April 16, 2026 and expiring on April 15, 2036 for an aggregate term (initial term plus all extensions) of 65 years.

LEGAL REFERENCE:

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

LOCATION AND AREA:

GENERAL LEASE NO. S-4331: Lot 6, Hilo Industrial Development, Leilani Street Section, Waiakea, South Hilo, Hawaii, containing 22,495 square feet. TMK: 3rd/2-2-37:144, as shown on the attached map, labeled Exhibit A.

GENERAL LEASE NO. S-4332: Lot 7, Hilo Industrial Development, Leilani Street Section, Waiakea, South Hilo, Hawaii, containing 23,802 Square feet. TMK: 3rd/2-2-37:145, as shown on the attached map, labeled Exhibit A.

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:

General industrial purposes.

TERM OF LEASE:

Original term of 55 years, commencing on April 16, 1971 and expiring on April 15, 2026.

Requested extension of 10 years commencing on April 16, 2026 and expiring on April 15, 2036

ANNUAL RENTAL:

General Lease No. S-4331: \$10,500.00, due in quarterly installments of \$2,625.00 on January 16, April 16, July 16, and October 16 of each year.

General Lease No. S-4332: \$12,500.00, due in quarterly installments of \$3,125.00 on January 16, April 16, July 16, and October 16 of each year.

USE OF LOAN PROCEEDS:

Funds in the amount of \$269,121 will be used to re-finance an existing mortgage for the property.

Funds in the amount of \$181,283 will be used to perform improvements to the property.

- replacement of the warehouse roof - \$112,100,
- removal and replacement of rain gutters – \$13,600,
- prime and re-paint interior and exterior surfaces – \$43,583
- replace drywall near loading dock – \$12,000.

REMARKS:

At a public auction of government leases, General Lease Nos, S- 4331 and S-4332 were awarded to JBL Hawaii Limited, a Hawaii Corporation on April 16, 1971.

At its meeting of December 14, 1979, the Board of Land and Natural Resources under Agenda Item F-1-e, consented to the assignment of the subject leases from JBL Hawaii Limited, to William Prichard Jenkins. Further, at its meeting of February 24, 1984, the Board of Land and Natural Resources under Agenda Item F-1-g, consented to the assignment of leases from William Prichard Jenkins to Pacific Consolidated Investments, a Hawaii General Partnership.

At its meeting of October 14, 1988, the Board of Land and Natural Resources under Agenda Item F-1k, consented to the assignment of leases from Pacific Consolidated Investments, a Hawaii General Partnership, to George R. Madden, Jr. and Jean S. Madden, husband and wife.

Later, at its meeting of February 23, 1990, the Board of Land and Natural Resources under Agenda Item F-1-j, consented to the assignment of leases from George R. Madden, Jr. and Jean S. Madden, husband and wife, to Mary J. Young, unmarried.

On December 7, 1990 (Agenda Item F-1-e), the Board, at the request of Mr. Glenn S. Hara, attorney for the Maddens, rescinded its action consenting to the assignment of leases from the Maddens to Mary J. Young. In the same agenda item (F-1-e) on December 7, 1990, the Board consented to the assignment of General Lease Nos. S-4331 and S-4332 from George R. Madden, Jr. and Jean S. Madden, husband and wife, Assignors, to L & M Exchange, Ltd. a Hawaii corporation, Intermediary Assignee, and L & M Exchange, Ltd. Assignee, and from S.T. Exchange, Inc. Intermediary Assignor, to James Wm. McCully, Trustee of the Ainako Realty Trust dated May 5, 1985 (undivided 55% interest), and James Wm. McCully and Francine M. McCully, husband and wife (undivided 45% interest), Assignees.

At its meeting of January 25, 1991, the Board under Agenda Item F-1-c, consented to a sublease executed on August 18, 1988, between George R. Madden, Jr. and Jean S. Madden, husband and wife, and Pacific Consolidated Investments, a Hawaii General Partnership, Sublessors, and Loveland Industries, Inc., a Colorado Corporation, dba UAP Hawaii, Sublessee.

At its meeting of March 12, 1993, the Board under Agenda Item F-1-c, as amended, approved an Addendum to Sublease which reduced the area of the sublease to Loveland Industries, Inc.

At its meeting of August 25, 1995, the Board, under Agenda Item F-1-d, approved, as amended, a second Addendum to Sublease to Puna Plantation Hawaii, Ltd., dba KTA Superstores, a Hawaii corporation.

At its meeting of September 18, 1996, the Board, under Agenda Item D-8 approved the assignment of lease from James Wm. McCully, Trustee of the Ainako Realty Trust dated May 5, 1985 (undivided 55% interest), and James Wm. McCully and Francine M. McCully husband and wife (undivided 45% interest), Assignors, to James William McCully, Trustee

of the James William McCully Revocable Living Trust and Francine Marie Morales McCully, Trustee of the Francine Marie Morales McCully Revocable Living Trust, Assignee.

A consent to mortgage was approved by the Chairperson on May 18, 2004 in the amount of \$700,000. The purpose of the mortgage was to refinance an existing mortgage on the property.

REQUEST:

As a requirement of the financing consideration, First Hawaiian Bank (lender) is requiring a ground lease termination of no less than 10 years beyond the full amortized term of the loan request. The current loan secured by the property is set to mature on June 1, 2015. In order to consider a 10-year extension, the lender is requiring the ground lease include a termination date of no sooner than June 1, 2035. Granting a ten-year extension to this lease will not interfere with the Department's planning efforts for the Kanoelehua Industrial Area because there are other leases in the vicinity of the subject lease with scheduled expiration dates around 2035 and even as late as 2044. See Exhibit B, which shows the expiration dates of the State leases managed by the Department in the vicinity.

Improvements to the property include the replacement of the warehouse roof, removal and replacement of rain gutters, prime and re-paint interior and exterior surfaces and replace drywall near loading dock. The Lessee has already made partial roof repairs and installed a new roll up door.

The Lessee is compliant with all lease terms and conditions including rent, insurance (property and liability) and performance bond.

The last rental reopening occurred on April 16, 2011; next rental reopening is scheduled for April 16, 2021. There are no outstanding rental reopening issues.

RECOMMENDATION:

That the Board, subject to the Applicant fulfilling the Applicant requirement listed above:

1. Consent to the mortgage between James William McCully, Trustee of the James William McCully Revocable Living Trust and Francine Marie Morales McCully, Trustee of the Francine Marie Morales McCully Revocable Living Trust, Mortgagee, and First Hawaiian Bank, Mortgagee, subject to the following:
 - A. The loan proceeds shall be used solely for the operations or improvements of the leased premises as identified in the "Use of Loan Proceeds" section above. The Lessee shall maintain records of loan expenditures which may be inspected by the Department;
 - B. The standard terms and conditions of the most current consent to mortgage

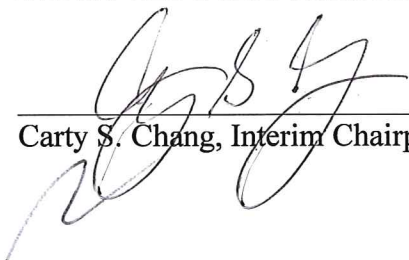
- form, as may be amended from time to time;
- C. Review and approval by the Department of the Attorney General; and
 - D. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.
2. Authorize the extension of General Lease Nos. S-4331 and S-4332 under the terms and conditions cited above, which are by this reference incorporated herein and further subject to the following:
- A. The standard terms and conditions of the most current lease extension form, as may be amended from time to time;
 - B. Review and approval by the Department of the Attorney General; and
 - C. Such other conditions as may be prescribed by the Chairperson which are in the best interests of the State.

Respectfully Submitted,



Gordon C. Heit
District Land Agent

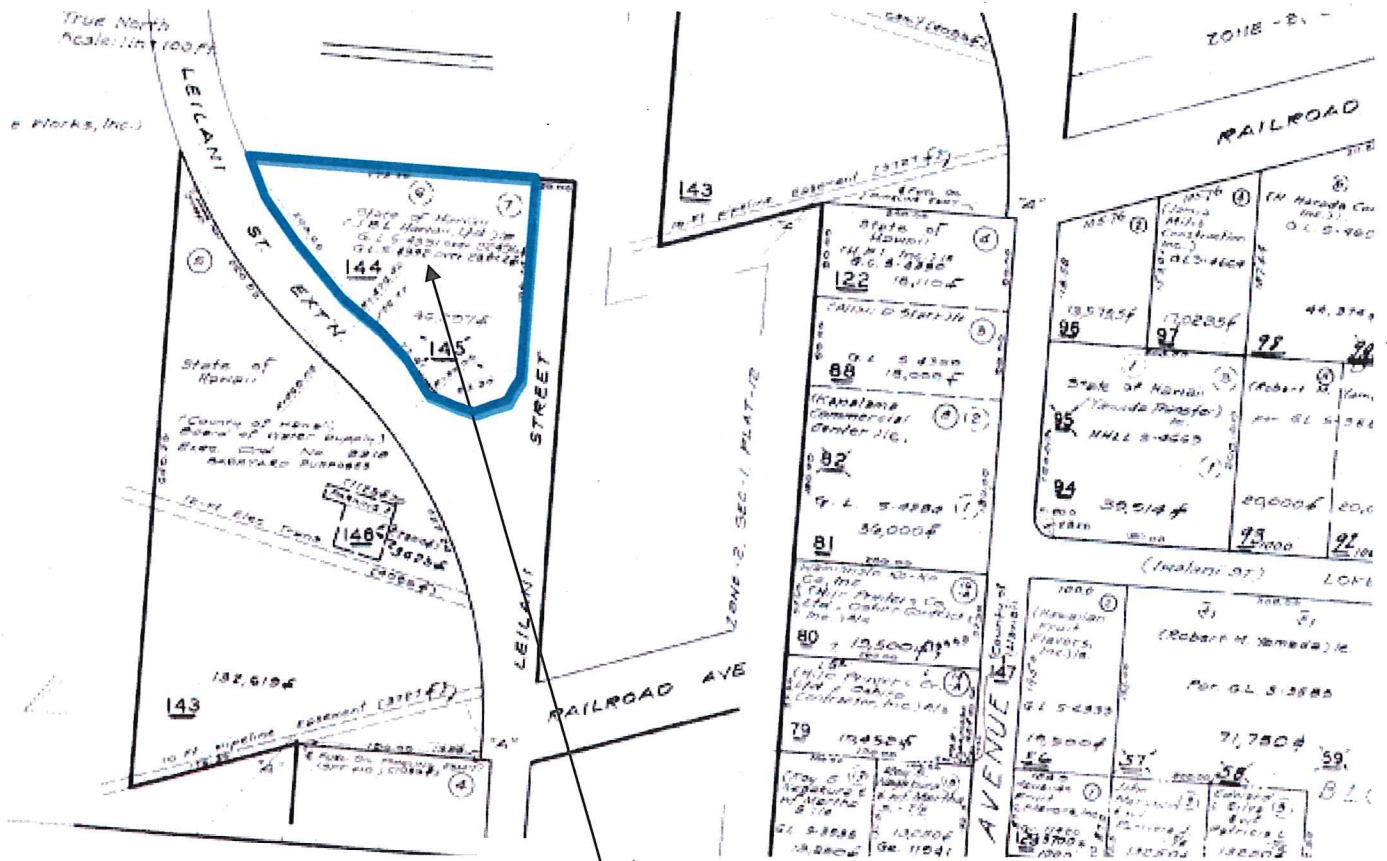
APPROVED FOR SUBMITTAL:



Carty S. Chang, Interim Chairperson

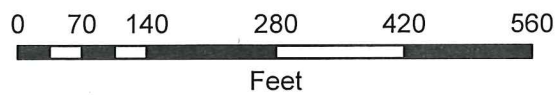
EXHIBIT A

TMK: 3RD/2-2-37:144



SUBJECT PROPERTY

GL S-4331 & GL S-4332





Source: County of Hawaii and Department of Land and Natural Resources

Figure 8 Kanoelehua Industrial Area
South Study Area Lease Expiration Year

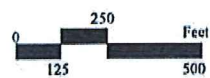


EXHIBIT B

Prepared for: State of Hawaii, Department of Land and Natural Resources

MUNEKIYO & HIRAGA, INC.