

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
Division of State Parks
Honolulu, Hawaii 96813

May 22, 2015

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

Oahu

Extension of Lease Term, General Lease No. S-5504, Friends of 'Iolani Palace,
Lessee, and Amendment of Terms and Conditions Regarding Admission Fee
Revenues and Reporting Requirements, 'Iolani Palace State Monument,
Honolulu, Oahu, Tax Map Key: (1) 2-1-025:002 (por.)

APPLICANT AND REQUEST:

Friends of 'Iolani Palace, a Hawai'i Non-Profit Corporation

LEGAL REFERENCE:

Sections 184-3.4, 171-22 and 36(b), Hawaii Revised Statutes, as amended.

LOCATION:

Portion of Government Lands situated at Honolulu, O'ahu identified by Tax Map Key:
(1) 2-1-025:002, as shown on the attached map labeled Exhibit A.

AREA:

Portion of 10.982 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: YES _____ NO
 X

ITEM E-2

CHARACTER OF USE:

Educational purposes. The Lessee shall use or allow the premises leased to be used solely for educational purposes; provided, however, that the Lessee shall preserve, maintain, and operate the premises as a historical site for perpetuation of Hawaiian history, consistent with the guidelines as set forth in the lease.

TERM OF LEASE:

1. Original term of five (5) years, commencing on July 1, 1995, and expiring on June 30, 2000;
2. Amendment and extension of lease commencing on July 1, 2000 and expiring on June 30, 2005;
3. Second extension of lease commencing on July 1, 2005 and expiring June 30, 2010; and
4. Third extension of lease commencing on July 1, 2010 and expiring on June 30, 2015.
5. Request for an extension of twenty (20) years commencing on July 1, 2015 and expiring on June 30, 2035 for an aggregate term of forty (40) years.

ANNUAL RENTAL:

Gratis; however, in the event annual gross ticket revenues are in excess of \$1,000,000, fifty percent (50%) of the revenues shall be used in conjunction with State funds and other grants allocated for repairs and capital improvements pursuant to Paragraph 55 of the Lease.

RENTAL REOPENINGS:

None.

DCCA VERIFICATION:

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

APPLICANT REQUIREMENTS:

None.

REMARKS:

Background

The Friends of ‘Iolani Palace (Friends) were issued a general lease beginning July 1, 1995 to operate and manage the ‘Iolani Palace and certain related buildings within the ‘Iolani Palace State Monument. More specifically, the areas under lease include the ‘Iolani Palace, the Coronation Pavilion, the ‘Iolani Barracks and the Kanaina Building. The premises do not include the Kekauluohi Building, the grounds, landscaping elements, driveway, parking areas and walkways. A map indicating the location of each area is attached as Exhibit B.

The Friends’ efforts include restoration work, interpretive activities, operating a venue for special private events and curation. Other events are permitted by the Division of State Parks (State Parks) on a case by case basis and State Parks also permits events on the grounds independently of the lease.

The Board has authorized on three separate occasions, five year extensions to the lease. State Parks notes that over the past 20 years, the Friends have become financially self-sustaining and rely entirely on self-generated revenue to fund the operation and maintenance of ‘Iolani Palace. State Parks has a good working relationship with the Friends and State Parks does not have the staff or operating funds to manage ‘Iolani Palace on its own.

Friends of ‘Iolani Palace Extension Request

The Friends have requested an extension of the lease with proposed amendments as follows:

Term. The Friends have requested an extension to the lease for an additional term of 25-35 years.

Revenue Ceiling. Under the terms of the current lease, if annual gross ticket revenues are in excess of \$1 Million, fifty percent (50%) of the [excess] revenues shall be used in conjunction with State funds and other grants allocated for repairs and capital improvements. The renovations of ‘Iolani Palace planned by the Friends are nearly complete with the exception of the planned renovation of the basement gallery. Once that renovation is complete and to the extent revenues exceed \$1 Million, the Friends may be unable to appropriate funds for capital or repair projects in the manner required under the lease. In a letter dated April 2, 2015 to State Parks, the Friends seeks to increase the capital improvement/repair threshold from \$1 Million to \$3 Million, above which, fifty percent (50%) of the funds would be used for capital improvements.

Decorations. The Friends seek to add the word “lanterns” to the list of permitted decorations.

Brick Mound Area Under the Banyan Tree. This area is located within the grounds of the ‘Iolani Palace and Mauka of the Palace building but is not included in the lease. The Friends have an interest in making improvements to the area, but prefer to not include this area in the lease.

STATE PARKS’ IMPROVEMENTS:

State Parks recently completed air conditioning improvements to ‘Iolani Palace with approximately \$4.5 Million in capital improvement funds. In addition, State Parks is currently completing repairs and restoration of the fencing surrounding the ‘Iolani Palace grounds deploying approximately \$1.2 Million in capital improvement funds. No other capital improvements are planned at this time.

RECOMMENDED AMENDMENTS TO THE LEASE:

Term. State Parks recommends an extension of the lease for a period of twenty (20) years commencing on July 1, 2015 and expiring on June 30, 2035 and recommends the lease be amended to allow for lanterns as the Friends have requested.

Operating Revenue Threshold Ceiling. State Parks recommends maintaining the capital improvement threshold described above at \$1 Million. In 2013 and 2014, the Friends’ audited financial statements report ticket revenues exceeding the \$1 Million threshold by \$230,000 and \$227,000 respectively. With the lease requirement that fifty percent (50%) of these amounts shall be used for repairs and capital improvements, the Friends would be required to allocate \$115,000 and \$114,000 respectively for these years. In 2014, the Friends reported \$357,000 in maintenance and repair costs with \$271,000 in 2013 - more than double the minimum amount.

If the amount allocated to repair and improvement costs were to be reduced, it could result in a greater reliance on State funds for capital costs or the deferral of capital improvements proving more costly in the long run. Likewise, if repair or capital improvement costs are planned to be lower due to renovation projects being completed, the Board may want to revisit the question of the current level of ticket fees and consider a possible reduction. It is also important to note that this requirement only pertains to ticket (admission) revenue; other revenue generation authorized under the lease is not subject to the capital requirement although all revenue is required to be used for ‘Iolani Palace purposes. This would include revenue from special events, gift shop sales, and other uses authorized by the Chairperson.

Ticket Fees. Guided tours for adults are advertised online at \$21.75 each, with lower child and group rates. Under the July 2000 lease amendment and extension, paragraph 55 was amended, in part, to read as follows:

Lessee may set rates for and charge admission fees, which rates shall be subject to approval by Lessor, provided, however, that such approval shall not be unreasonable or capriciously withheld....

State Parks recommends that the Board review the admission fees each year and further recommends requiring lessee to provide annual, audited financial statements to disclose current revenue totals and to report on the repairs and improvements made to ‘Iolani Palace.

The lessee is not in default and the premises have been used for the purpose for which they were leased pursuant to HRS 171-36.

With these amendments, State Parks recommends the Board authorize an extension of the lease to the Friends of ‘Iolani Palace.

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RECOMMENDATION:

That the Board:

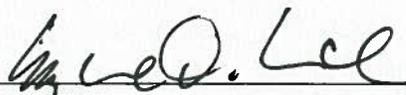
1. Authorize the extension of General Lease No. S-5504 to the Friends of ‘Iolani Palace under the terms, conditions and amendments cited above, which are by this reference incorporated herein and further subject to the following:
 - A. The standard terms and conditions of the most current lease extension 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.
2. Delegate authority to the Chairperson to negotiate any other terms necessary to effectuate the lease and carry out the intent of the Board.

Respectfully Submitted,



DANIEL S. QUINN
Administrator

APPROVED FOR SUBMITTAL:



SUZANNE D. CASE, Chairperson



DEPARTMENT OF PUBLIC UTILITIES SERVICES TAX MAPS BRANCH CITY & COUNTY OF HONOLULU	
ZONE	PLAT
2	1
SECTION	025
FIRST TAVATION DIVISION	
SCALE: 1 INCH = 80 FEET	

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 FOR PROPERTY ASSESSMENT PURPOSES, PARCELS MAY NOT BE LEGAL SUBDIVIDED LOTS - SUBJECT TO CHANGE

HONOLULU, OAHU.

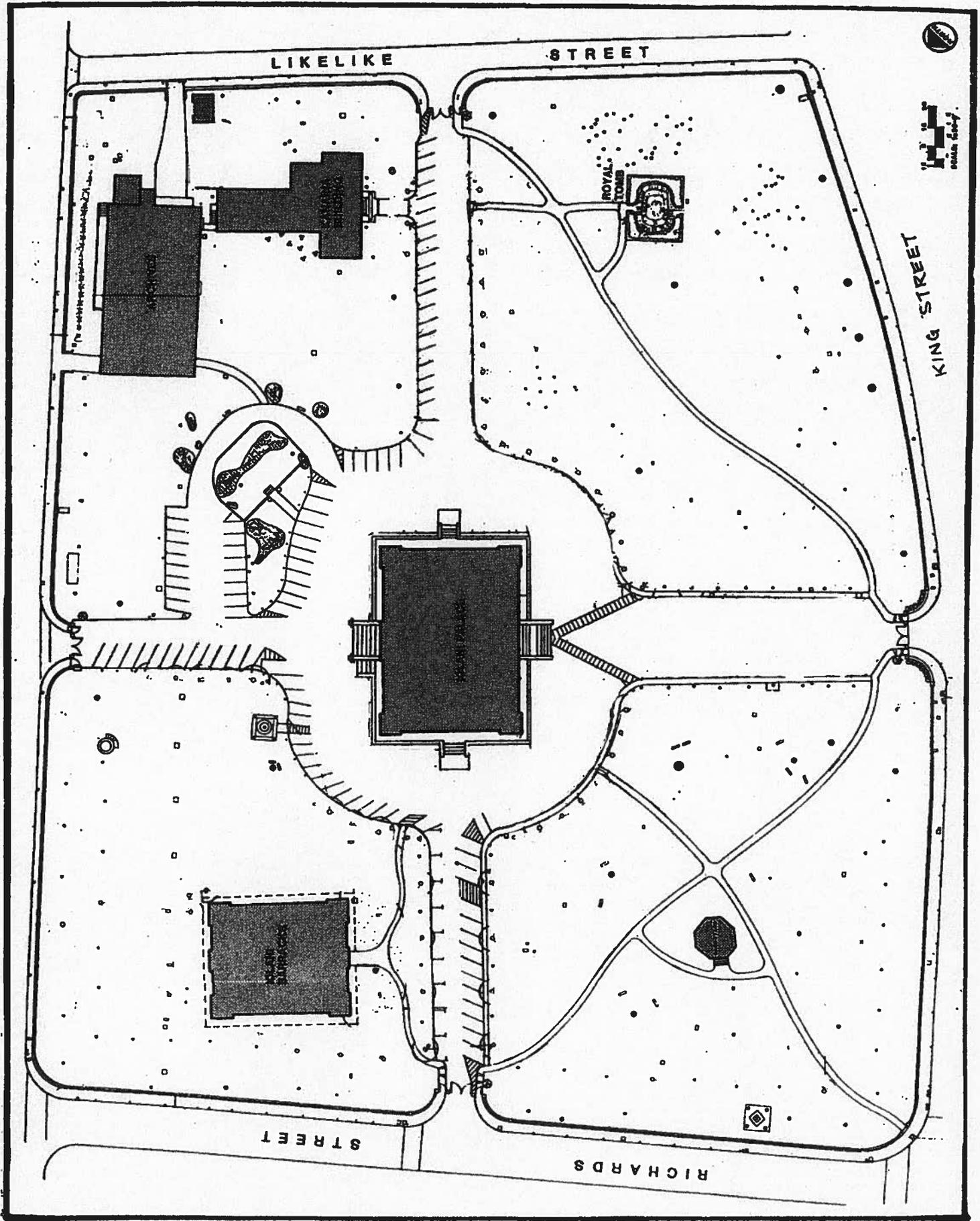


EXHIBIT B