

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

December 11, 2015

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

PSF: 15HD-147

Hawaii

Approve a 10-Year Term Extension of General Lease No. S-3601, BCI Coca-Cola Bottling Company of Los Angeles, Lessee, Pursuant to Act 207, Session Laws of Hawaii 2011; Lot 33, Kanoelehua Industrial Lots, Waiakea, South Hilo, Hawaii, Tax Map Key: (3) 2-2-049:007.

APPLICANT AND REQUEST:

BCI Coca-Cola Bottling Company of Los Angeles, lessee, a foreign corporation.

Proposed improvements to the leasehold property will be financed by the lessee pursuant to Act 207, Session Laws of Hawaii 2011 and Section 171-36, Hawaii Revised Statutes in an amount of approximately \$100,000.00 - \$120,000.00.

In order for the Lessee to fully amortize its expenditure, Lessee is requesting an extension of General Lease No. S-3601 of 10 years, commencing on January 16, 2016 and expiring on January 15, 2026 for an aggregate term of 65 years (initial 55 year term plus the 10 year extension).

LEGAL REFERENCE:

Sections 171-36, Hawaii Revised Statutes, as amended.
Act 207, Session Laws of Hawaii 2011

LOCATION:

Portion of Government lands of Kanoelehua Industrial Lots situated at Waiakea, South Hilo, Hawaii, identified by Tax Map Key: (3) 2-2-049:007, as shown on the attached map labeled Exhibit A.

AREA:

33,750 square feet, 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:

Bottling works purposes.

TERM OF LEASE:

Original term of 55 years, commencing on January 16, 1961 and expiring on January 15, 2016.

Request for an extension of 10 years commencing on January 16, 2016 and expiring on January 15, 2026.

ANNUAL RENTAL:

Current rent is \$32,400.00, due in semi-annual installments of \$16,200.00 on January 16th and July 16th of each year.

RENTAL REOPENINGS:

Rental reopenings in the original term were at the end of the 20th, 30th, 40th and 50th years of the term. The last rental reopening occurred on January 16, 2011, therefore, staff is recommending the rent for the extended term be determined by an appraisal that will determine the rent for the extension period of January 16, 2016 through January 15, 2026.

PROPOSED IMPROVEMENTS:

The lessee proposes to replace the roof, perform rust treatment and repairs to siding, paint siding, upgrade electrical and plumbing where necessary to bring up to current building code standards. The cost of the improvements is estimated to be between \$100,000.00 and \$120,000.00.

DCCA VERIFICATION:

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

APPLICANT REQUIREMENTS:

Applicant shall be required to:

1. Complete approximately \$100,000.00 to \$120,000.00 of proposed improvements to the lease premises by July 1, 2016, and provide the Hawaii District Land Office with copies of receipts for the improvements made prior to August 31, 2016.

BACKGROUND:

General Lease No. S-3601 (GL S-3601) was initially issued to Edward Hamilton Inman pursuant to Act 4, First Special Session Laws of Hawaii 1960, which provided for the direct issuance of leases, for other than residential or agricultural purposes, to natural disaster victims who were affected by the 1960 tsunami that struck Hilo and other areas of the State. The lease was for a term of 55 years commencing on January 16, 1961 and expiring January 15, 2016.

By way of lease amendment dated March 24, 1983 and approved by the Board at its meeting of August 27, 1982, GL S-3601 was amended to postpone the 1st scheduled renegotiation of rent until the 21st year due to adverse economic climate.

Between the years 1967-2011, the Board consented to the following assignments of GL S-3601:

- April 28, 1967 from Edward Hamilton Inman to Allan Dale Starr;
- February 10, 1984 (F-1-l) from Allan Dale Starr to William T. White, III;
- October 22, 1993 (F-1-a) from William T. White, III to William Thornton White, III, trustee of the William T. White, III Revocable Trust;
- December 13, 2002 (D-43) from William Thornton White, III, trustee of the William T. White, III Revocable Trust to William T. White, III, trustee of the William T. White, III Charitable Remainder Unitrust;
- June 9, 2011 (D-3) from William T. White, III, trustee of the William T. White, III Charitable Remainder Unitrust to BCI Coca-Cola Bottling Company of Los Angeles (current lessee).

With consent of the Board, at its meeting of October 13, 1972, the subject property was subleased to Pacific Bottling Company. Several sublease arrangements occurred over the next 10 years and in 1993 the current lessee, BCI Coca-Cola Bottling Company (Coca-Cola), entered into a sublease arrangement that continued until 2011 when the lease was transferred to them by assignment.

The current 55-year lease is set to expire on January 15, 2016 and the lessee is requesting a 10 year extension pursuant to Act 207, Session Laws of Hawaii 2011¹ to amortize the cost of planned improvements to the property, including roof replacement at a cost in excess of \$100,000.00.

On November 13, 2015, Robert Bloom, lessee consultant, tendered his report regarding the economic life and value of the proposed improvements to the leasehold premises. The report stated the estimated economic life of the improvements is 35 years or more. The \$100,000 - \$120,000 estimated cost of refurbishment translates into an increase in building improvement value of \$400,000.00.

¹ Act 207, Session Laws of Hawaii 2011 amends Section 171-36(b) of the Hawaii Revised Statutes by allowing the Lessee to: Extend or modify the fixed rental period of the lease: provided that the aggregate of the initial term and any extension granted shall not exceed sixty-five years.

EXTENSION REMARKS:

The subject parcel is located in an area served by aging and/or substandard infrastructure. The area also includes numerous other DLNR parcels currently encumbered by long term leases that are also scheduled to expire between 2016 and 2026 (refer to Exhibit B). Most of the DLNR leases in this area were established pursuant to Act 4, First Special Session of 1960 and Act 32, Sessions Laws of Hawaii 1962 resulting from the destruction of the Hilo bay front caused by the 1960 tsunami. Businesses that were severely impacted by the tsunami were given the opportunity to relocate to the newly created industrial area of Kanoelehua. These acts provided the Lessees with an option to purchase the land within two years. Several businesses exercised this option creating an industrial area of mixed DLNR leases and fee simple properties.

The East Hawaii economic region is unique in that a majority of the available land suitable for commercial and/or industrial use is under the management of either the Department of Land and Natural Resources (DLNR) or the Department of Hawaiian Home Lands (DHHL). As one of the largest stake holders of commercial/industrial land in East Hawaii, DLNR recognizes the need for a comprehensive analysis of land use in the area in order to develop an economic strategy that will encourage new enterprises in addition to supporting the established businesses.

With this concept in mind, DLNR-Land Division retained the services of the consulting firm, Munekiyo & Hiraga, Inc., for the purpose of providing a feasibility study and land use planning analysis for the KIA.

Key elements of the study/analysis will be to:

- Determine the market demand for the KIA properties, particularly the demand for industrial-commercial use or some other use for long-term leasing (30 years or more).
- Determine whether some properties should be consolidated and reconfigured to maximize the utility of the land in view of the results from the above findings.
- Assess the feasibility and desirability of placing management of the leasehold properties under a master lease from the State for industrial, commercial or other uses permitted by the applicable zoning.

The studies and public comments thereon will be used to assist DLNR and the Board in formulating a use strategy for the future of the KIA and create an economic region that will benefit both the public and private sectors. However, good planning does not happen overnight; Departmental reviews, revisions and approvals may extend the timeframe for a well-conceived final plan. Many of the key elements aforementioned require lengthy administrative processes which could take several years to accomplish.

The Lessee is in compliance with the terms and conditions of the lease. The Lessee is current with rent, insurance and performance bond. A recent inspection showed good maintenance of the property and existing structures.

Staff is recommending that the rent payable for the 10-year extension period commencing January 16, 2016 be determined by appraisal.

No agency comments were solicited on the request because it involves the extension of

an existing lease rather than a new disposition.

RECOMMENDATION:

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

1. Authorize the extension of General Lease No. S-3601 to BCI Coca-Cola Bottling Company 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. BCI Coca-Cola Bottling Company shall complete the proposed improvements as described above by July 1, 2016 and submit to the Hawaii District Land Office copies of receipts verifying payment for the improvements by August 31, 2016, or be subject to cancellation.
 - C. Review and approval by the Department of the Attorney General; and
 - D. Such other conditions as may be prescribed by the Chairperson which are in the best interests of the State.

Respectfully Submitted,



Candace Martin
Land Agent

APPROVED FOR SUBMITTAL:



Suzanne D. Case, Chairperson

EXHIBIT B

