



STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097

IN REPLY REFER TO:

HAR-PM.0001346.23

March 9, 2023

Ms. Dawn N. S. Chang, Chairperson
Board of Land and Natural Resources
Kalanimoku Building
1151 Punchbowl Street
Honolulu, Hawaii 96813

Dear Ms. Chang:

OAHA

Request for Authorization to conduct Public Auction for 65-year Lease for use of the former Hawaii Maritime Center and surrounding area, situated at Pier 7, Honolulu Harbor, island of Oahu, Tax Map Key Nos. (1) 2-1-001:057 (P) and (1) 2-1-001:058 (P), Governor's Executive Order No. 3542; and issuance of a month-to-month Revocable Permit (RP) to be replaced with an executed Lease.

LEGAL REFERENCE:

Sections 171-6, 171-13, 171-14, 171-15, 171-16, 171-17, 171-35, 171-36, 171-55 and other applicable sections of Chapter 171, Hawaii Revised Statutes (HRS), as amended.

CHARACTER OF USE:

To occupy and use the premises for a museum and related facilities, with a harbor and wharfage operation component and pier space availability for harbor and wharfage operations as described below.

LOCATION:

Portion of Governmental lands at Pier 7, Honolulu Harbor, Oahu, Tax Map Key Nos. (1) 2-1-001:057 (P) and (1) 2-1-001:058 (P), as shown on the enclosed map labeled Exhibit A.

ITEM M-10

AREA: See attached Exhibit A

- Parcel IA: 1,290 square feet of non-exclusive use for landscaping by the LESSEE, vehicular access by the United States Coast Guard (USCG) for the maintaining, installing, and servicing of its existing range light and as a turnaround area for emergency and service vehicles.
- Parcel IB: 15,345 square feet of exclusive land used by the LESSEE for the construction of museum building and related facilities including improvements.
- Parcel IC: 2,000 square feet of exclusive land for use by the LESSEE for landscaping and for the main public entrance to the improvements.
- Parcel ID: 6,500 square feet of non-exclusive land used for a loading area, parking for handicapped visitors of the LESSEE, vehicular access for the USCG for the maintenance of its range light within Parcel IA, emergency vehicle access, pedestrian access, service vehicles access for cruise boat operations conducted from Parcel IE. Parking of vehicles within the parcel other than those aforementioned is prohibited.
- Parcel IF: 2,800 square feet of non-exclusive land for USCG's vehicles, service vehicles for cruise boats utilizing Parcel IE, access for vehicles of LESSOR required in the maintenance, repair, etc., of Parcel IE. LESSEE has the right to install a maximum of 7 structural supports approved by LESSOR along a 2-foot wide strip. Additionally, the LESSEE shall have the right of the air space 15 feet above Parcel IF and extending to a maximum height of 72 feet for the construction of improvements.

ZONING:

State Land Use Commission:	Urban
City and County of Honolulu:	State Jurisdiction: Aloha Tower Project, B-2 Community Business District

CONSIDERATION:

The initial annual rent for the first 10 years will be fixed at the highest Lease rent offered and accepted at a scheduled public auction above \$300,000 from a pre-qualified bidder. A pre-qualified bidder shall have a verified minimum Altman Z-Score of 3.0 and a financial position to invest a minimum of \$15 million. Annual rents shall be increased by 15% at the start of Year 11 and shall be maintained through the end of Year 15; shall be increased by 15% at the beginning of Year 16 and shall be maintained through the end of Year 20; and shall be increased by 15% at the start of Year 21 and shall be maintained through the end of Year 25.

In the event the initial investment offered exceeds \$20 million, the Department of Transportation, Harbors (Harbors), requests the authority to negotiate annual rents to be increased as follows: annual rents shall be increased by a rate not less than 10% at the start of Year 11 and shall be maintained through the end of Year 15; shall be increased by a rate of not less than 10% at the beginning of Year 16 and shall be maintained through the end of Year 20; and shall be increased by a rate not less than 10% at the start of Year 21 and shall be maintained through the end of Year 25.

Prior to the end of Year 25, rent shall be re-opened and determined by Appraisal in accordance with Section 171-17, HRS. This rental rate shall be effective at the start of Year 26 and shall be maintained for a period of five years through the end of Year 30. Annual rents shall be increased by 15% at the start of Years 31, 36, 41, 46, 51, 56, and 61.

In the event the initial investment made exceeds \$25 million, Harbors requests the authority to negotiate annual rents to be increased at a fixed percentage rate not less than 10% at the start of Years 31, 36, 41, 46, 51, 56, and 61.

The desired Annual Rents and percentage increases are summarized in the table below:

If minimum investment >:	\$15 million	\$ 20 million	\$25 million
	Rate/Increase %	Rate/Increase %	Rate/Increase %
Year 1-10	Bid	Bid	Bid
Year 11	15%	Negotiated (10% min)	Negotiated (10% min)
Year 16	15%	Negotiated (10% min)	Negotiated (10% min)
Year 21	15%	Negotiated (10% min)	Negotiated (10% min)
Year 26	Re-open/appraisal	Re-open/appraisal	Re-open/appraisal
Year 31	15%	15%	Negotiated (10% min)
Year 36	15%	15%	Negotiated (10% min)
Year 41	15%	15%	Negotiated (10% min)
Year 46	15%	15%	Negotiated (10% min)
Year 51	15%	15%	Negotiated (10% min)
Year 56	15%	15%	Negotiated (10% min)
Year 61	15%	15%	Negotiated (10% min)

Percentage of net of gross receipts (net of general excise tax), depending on the type of business, shall be negotiated with the Applicant that will be in addition to the land rents effective at the start of Year 11 through the end of Year 25. Percentage of net of gross receipts may be adjusted by the parties as part of the re-opening of rent to be effective at the start of Year 26.

Consideration for the month-to-month RP shall be the monthly rate of the highest Annual Rent submitted by the pre-qualified bidder.

TRUST LAND STATUS:

Subsection 5(a) of the Hawaii Admission Act (non-ceded).

LAND TITLE STATUS:

Land acquired by Department of Transportation, Harbors, through eminent domain proceedings by issuance of Governor's Executive Order No. 3542.

CURRENT USE STATUS:

Encumbered by Harbor Lease No. H-87-30, assigned to Matson Navigation Company, Inc., effective December 20, 2017.

CHAPTER 343 - ENVIRONMENTAL ASSESSMENT:

Any Environmental Assessment, Environmental Impact Statement, and/or Traffic Study requirements will be completed by the Applicant for its proposed use and purpose.

APPLICANT REQUIREMENTS:

The Applicant must meet the following minimum pre-qualifications requirements of Public Auction:

1. Legally registered to conduct business in the State of Hawaii;
2. Current Certificate of Good Standing issued by the Department of Commerce and Consumer Affairs;
3. Minimum Altman Z-score of 3.0; and
4. No canceled sale, lease, license, permit, or easement covering public lands canceled for failure to satisfy the terms, conditions, and covenants thereof during the five years immediately prior to the date of the private auction.

In addition, all Applicants must demonstrate the following:

1. That construction shall commence within three years of the award date, provided two one-year extensions may be granted at the sole discretion of the Director; except matters relating to Force Majeure, whereby the term shall be extended for an additional one year or longer as determined at the sole discretion of the Director;
2. That its proposed operation shall allow the use by the State harbors and wharfage operation component as Parcel IE (passenger dinner cruise or similar) and set aside sufficient pier space for such operations and maintain the space for harbor and wharfage operations, including

vessel loading and unloading of passengers as an example. Parcel IE as shown on enclosed Exhibit A will not be leased; however, Applicant shall have non-exclusive access to the pier space as authorized by Harbors; and

3. A minimum investment of \$15 million toward improvements of the area and its direct surroundings of this parcel, and complete construction within three years, or as extended by the Director, and guaranteed by the submission of the \$15 million performance bond.

Upon award, the successful Applicant:

1. Will be required to obtain current State Tax Clearance Form;
2. Will be required to obtain current City and County of Honolulu Tax Clearance Form; and
3. Shall provide a \$15 million performance bond for three years to ensure the completion of the construction, or up to five years or as extended at the sole discretion of the Director.

REMARKS:

At its meeting on September 12, 2022, the Board granted approval for a similar public auction for the subject property. Harbors conducted the Public Auction in October 2022, with the appraised upset annual rent of \$628,300 and did not receive any bid offer that met the upset rent.

Harbors is revising its request to lower the minimum upset rent to about half the appraised rent and almost double the minimum investment and other terms. Harbors requests approval of the Public Auction and Framework for the rent to include the negotiations of a percent of net gross receipts (less general excise tax), in addition to the annual land rent as set forth above. The request is to authorize additional requirements that the construction be completed within three years, or as extended from the date of the Lease and guaranteed by a performance bond, or other suitable guarantee to assure the completion of the project as determined by the Director.

RECOMMENDATION:

That the Board authorize Harbors to conduct a Public Auction for a 65-year Lease for the area described in Harbor Lease No. H-87-30 for the above-stated purposes as described in this revised submittal, subject to the following terms and conditions:

1. Applicants shall meet all requirements as set forth above; and
2. The successful Applicant shall complete any studies needed, including but not limited to Environmental Assessment, Environmental Impact Statement, Cultural Studies, and Traffic Studies to implement for the improvements of the Lease area.

Sincerely,



EDWIN H. SNIFFEN
Director of Transportation

APPROVED FOR SUBMITTAL:



DAWN N. S. CHANG, Chairperson

Enclosures

