



EXECUTIVE CHAMBERS
HONOLULU

DAVID Y. IGE
GOVERNOR

GOV. MSG. NO. 1329

July 12, 2017

The Honorable Ronald D. Kouchi,
President
and Members of the Senate
Twenty-Ninth State Legislature
State Capitol, Room 409
Honolulu, Hawai'i 96813

The Honorable Scott K. Saiki,
Speaker and Members of the
House of Representatives
Twenty-Ninth State Legislature
State Capitol, Room 431
Honolulu, Hawai'i 96813

Dear President Kouchi, Speaker Saiki, and Members of the Legislature:

Re: HB575 HD1 SD1 CD1

HB575 HD1 SD1 CD1, entitled "A BILL FOR AN ACT RELATING TO PUBLIC LANDS" will become law without my signature, pursuant to Section 16 of Article III of the State Constitution.

The purpose of this bill is to allow lessees of public lands being used for commercial purposes, and who are in the last ten years of their lease, to enter into a process to determine interest in future land leases thereby providing certainty about future leases. This will help to encourage economic development in leasehold properties and incentivize lessees to maintain public lands and buildings at a high standard.

This could be an essential tool in helping to support lessees obtain bank financing for capital improvement in the latter part of the lease. Banks often consider new buildings and improvements done in the last half of the lease term to be "wasting assets". It is important to provide lease certainty to lessees on public lands to encourage investments and upkeep of lands.

There is a minor concern that this bill could be special legislation because it limits application to only commercial and industrial classed lands without providing any basis

The Honorable Ronald D. Kouchi and Members of the Senate
The Honorable Scott K. Saiki and Members of the House of Representatives
July 12, 2017
Page Two

for distinguishing these from other public lands. Although there are potential legal issues, we have heard from many in our community that the benefits of this bill could resolve many issues regarding lease extensions.

For the foregoing reasons, HB575 HD1 SD1 CD1 will become law as Act 215, Session Laws of Hawaii 2017, effective July 12, 2017, without my signature.

Sincerely,

A handwritten signature in black ink, reading "David Y. Ige". The signature is fluid and cursive, with a large, stylized "Y" and "I".

DAVID Y. IGE
Governor, State of Hawaii

A BILL FOR AN ACT

RELATING TO PUBLIC LANDS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that public land leases
2 are statutorily limited to sixty-five years without the
3 possibility of renewing the terms of the lease, which leaves
4 businesses that have existed in the community for decades with
5 limited options. Additionally, in Act 142, Session Laws of
6 Hawaii 2015, the legislature expressed concern that one of the
7 consequences of the State's public land lease law is that
8 existing lessees may have little incentive to make, or the
9 ability to finance, major repairs or improvements to their
10 leasehold properties during the last five to fifteen years of
11 the lease, which sometimes results in the deterioration of
12 infrastructure and facilities.

13 The legislature therefore concludes that it is in the
14 public interest to provide lessees who are in the final decade
15 of their lease terms with the ability to obtain certainty about
16 future leases, which will encourage economic development in
17 leasehold properties and incentivize lessees to maintain the
18 land and buildings at a high standard.



1 The purpose of this Act is to best serve the public use and
2 public purpose of state lands that are being used for commercial
3 purposes by allowing the lessees of certain state lands, who are
4 within the last ten years of their land leases, to voluntarily
5 enter into a process to determine interest in future land
6 leases.

7 SECTION 2. Chapter 171, Hawaii Revised Statutes, is
8 amended by adding two new sections to be appropriately
9 designated and to read as follows:

10 "§171- Lessees within the last ten years of their lease
11 terms; requests for interest. (a) Notwithstanding any other
12 provision of law to the contrary, and except as otherwise
13 provided in section 171-36(b) and (d), a lessee of public land
14 that is classified as commercial and industrial use pursuant to
15 section 171-10, and that is subject to the management,
16 administration, or control of the board may, during the last ten
17 years of the term of the original lease, submit a written
18 request to the board to initiate a request for interest process
19 as provided in this section.

20 (b) Within one hundred eighty days of a lessee's written
21 request to initiate a request for interest, the board shall:



- 1 (1) Appraise the value of the land and any improvements to
- 2 the land that existed as of the date of the written
- 3 request pursuant to section 171-17(a) and require the
- 4 awardee of a new lease executed pursuant to this
- 5 section to reimburse the department for the appraisal;
- 6 (2) Publish a request for interest and request for
- 7 qualifications notice inviting persons to express
- 8 their interest in leasing the land and their
- 9 qualifications as potential lessees and describing any
- 10 improvements to the land that exist as of the date of
- 11 the written request. The notice shall be given at
- 12 least once statewide and at least once in the county
- 13 where the land is located and shall contain:
- 14 (A) The qualifications required of eligible lessees;
- 15 (B) A general description of the land, including the
- 16 address and tax map key, and of any improvements
- 17 to the land that existed as of the date of the
- 18 written request;
- 19 (C) That the land to be leased is classified as
- 20 commercial and industrial use pursuant to section
- 21 171-10;



- 1 (D) The appraised value of the land and of any
2 improvements to the land that existed as of the
3 date of the written request;
- 4 (E) The closing date and manner by which a person
5 shall indicate interest and submit a statement of
6 qualifications; and
- 7 (F) Notice that a business plan is a prerequisite to
8 participate at time of auction or direct
9 negotiation, if applicable, and shall be made a
10 term of the lease.
- 11 (c) Within ninety days after the closing date specified in
12 the notice, the board shall determine if any persons have
13 qualified under the terms of the request for qualifications and
14 shall notify all persons who expressed interest as to whether
15 they qualified. The board shall also notify the current lessee
16 as to whether any other persons qualified.
- 17 (d) The board shall enter into direct negotiation with the
18 current lessee immediately upon notification if no other
19 qualified persons have expressed interest in the property.
- 20 (e) If the land is not leased pursuant to subsection (d)
21 within three years before the termination date of the lease, the



1 board shall dispose of the land by public auction as provided in
2 this chapter; provided that the board has determined that at
3 least one person, who:

- 4 (1) Is not the current lessee;
- 5 (2) Has been determined by the board to be qualified; and
- 6 (3) Has submitted a business plan prior to the date of the
7 auction,

8 has expressed interest in leasing the land and any improvements
9 to the land that existed as of the date of the written request
10 in subsection (a). The auction upset price shall be the greater
11 of the current rent or the fair market rent pursuant to section
12 171-17(d) based upon the appraised value of the land and any
13 improvements to the land that existed as of the date of the
14 written request.

15 The current lessee may bid on a new lease at the public
16 auction. The current lessee's business plan shall be deemed
17 acceptable to the board and the current lessee shall not be
18 required to submit a new business plan; provided that the
19 current lessee is in compliance with the terms of the existing
20 lease and has submitted a business plan prior to the date of the
21 auction.



- 1 (f) Lease terms for any new lease executed pursuant to
2 this section shall be determined by the board and shall:
- 3 (1) Not commence prior to the termination of the current
4 lease;
- 5 (2) Establish the rent at no less than the greater of the
6 current rent or the fair market rent pursuant to
7 section 171-17(d) based upon the appraised value of
8 the land and any improvements to the land that existed
9 as of the date of the written request;
- 10 (3) If the lease is awarded after public auction to any
11 person other than the current lessee, include a
12 premium equal to the value of any improvements to the
13 land made after the date of the written request in
14 subsection (a), which shall be paid to the current
15 lessee prior to transfer of the land and improvements
16 to the new lessee; and
- 17 (4) Include the previously submitted business plan.
- 18 (g) Unless specifically required to do so by the board,
19 the current lessee shall not be required to remove improvements
20 or restore the land to a vacant condition at the expiration of
21 the lease; provided that, without prejudice to any other rights



1 or remedies that the current lessee or State may have, this
2 subsection shall not alter any obligation of a current lessee to
3 indemnify, defend, and hold the State harmless from any claims
4 regarding pollution or contamination of the land with
5 potentially hazardous substances.

6 (h) This section shall not apply to:

7 (1) Any lessee who is in arrears in the payment of taxes,
8 rents, or other obligations owing to the State or any
9 county or who has had, during the five years preceding
10 the anticipated disposition of the public land at a
11 public auction or direct negotiation, a sale, lease,
12 license, permit, or easement covering other public
13 lands canceled for failure to satisfy the terms and
14 conditions thereof; or

15 (2) Any lease that is subject to cancellation for failure
16 to satisfy the terms or conditions of a lease,
17 license, permit, or easement covering the public
18 lands.

19 (i) As used in this section, "improvements" means all
20 physical improvements constructed, owned, or constructed and
21 owned by the lessee during the lease term and shall exclude all



1 infrastructure constructed, owned, or constructed and owned by
2 third parties, such as water and sewer pipes, electricity and
3 telephone lines and cables, or other infrastructure.

4 §171- Authority of board to extend leases under certain
5 circumstances. Notwithstanding the lease restrictions

6 established pursuant to section 171-36, the board may, without
7 public auction, extend a public land lease that is issued to a
8 school or government entity pursuant to section 171-95 beyond
9 the sixty-five year maximum lease term. The authority

10 established pursuant to this section to extend a lease shall not
11 apply to any lease to the University of Hawaii of lands within a
12 conservation district of which the University of Hawaii has
13 subleased a portion for the purpose of constructing an
14 astronomical observatory."

15 SECTION 3. New statutory material is underscored.

16 SECTION 4. This Act shall take effect on July 1, 2017.

APPROVED this day of , 2017

GOVERNOR OF THE STATE OF HAWAII



HB No. 575, HD 1, SD 1, CD 1

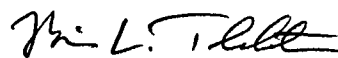
THE HOUSE OF REPRESENTATIVES OF THE STATE OF HAWAII

Date: May 2, 2017
Honolulu, Hawaii

We hereby certify that the above-referenced Bill on this day passed Final Reading in the House of Representatives of the Twenty-Ninth Legislature of the State of Hawaii, Regular Session of 2017.



Joseph M. Souki
Speaker
House of Representatives





Brian L. Takeshita
Chief Clerk
House of Representatives

THE SENATE OF THE STATE OF HAWAII

Date: May 2, 2017
Honolulu, Hawaii 96813

We hereby certify that the foregoing Bill this day passed Final Reading in the
Senate of the Twenty-ninth Legislature of the State of Hawaii, Regular Session of 2017.


President of the Senate


Clerk of the Senate