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GOVERNOR OF HAWAII



**STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES**

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**Testimony of
SUZANNE D. CASE
Chairperson**

**Before the Senate Committee on
WAYS AND MEANS**

**Friday, February 15, 2019
10:15 AM
State Capitol, Conference Room 211**

**In consideration of
SENATE BILL 1252, SENATE DRAFT 1
RELATING TO RENTALS FOR PUBLIC LAND LEASES**

Senate Bill 1252, Senate Draft 1 proposes to authorize the Board of Land and Natural Resources (Board) to approve rental reductions or waivers for leases on public lands that require substantial demolition or infrastructure improvement costs in order to for the lessee to utilize the premises. **The Department of Land and Natural Resources (Department) strongly supports this Administration measure.**

Currently, Chapter 171, Hawaii Revised Statutes, limits the amount of rent reduction or waiver that a lessee of public lands can receive for redeveloping or improving public lands to one year's rent for land leased for resort, commercial, industrial or other business use. In many cases, a rent reduction or waiver equal to one year of ground rent would be an insufficient incentive to induce a developer to invest in the demolition of aged improvements on and redevelopment of public land, or in the provision of basic infrastructure necessary to facilitate the further development of unimproved public land. This measure seeks to authorize the Board to approve a rent reduction or waiver for up to twenty years not to exceed the amount of the lessee's total expenditures for demolition of improvements or provision of infrastructure.

There are a number of long-term leases of public lands originally entered into in the 1940s that have expired in recent years. Some of these leases were used for hotels, and significant hotel improvements were constructed on the premises during the lease term. In some cases, the leasehold improvements have exceeded their useful life and require costly demolition in the range of \$8-10 million for a single property. However, the lease forms used for these leases did not require the lessee to remove the improvements at the expiration of the lease term. As a result, the demolition cost falls on the State unless the State can pass the cost on to a future lessee who undertakes redevelopment of the land. One alternative would require a significant commitment of public funds at a time when critical priorities are competing for a limited amount of resources. Furthermore, simply passing the responsibility to a prospective lessee to assume

SUZANNE D. CASE
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BOARD OF LAND AND NATURAL RESOURCES
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AQUATIC RESOURCES
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CONSERVATION AND RESOURCES ENFORCEMENT
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HISTORIC PRESERVATION
KAHOOLAWE ISLAND RESERVE COMMISSION
LAND
STATE PARKS

such high costs with no avenue for relief will significantly deter demand for the property, reducing the likelihood of a successful development.

Additionally, the Department is currently conducting planning for projects to develop State lands for resort, commercial, industrial, and other business or residential use, for the purpose of generating income to support the Department's resource management and protection programs. However, substantial investments in infrastructure including drainage, sewer, water, electricity, and other utilities will be required to facilitate development of the lands with costs in the tens of millions of dollars. As with the previous scenario, rather than rely solely on public funds, the State seeks to defer, either whole or in part, the infrastructure and other development costs of these lands on to a future lessee of the lands. This measure would facilitate that objective, while also helping to ensure the long term success of projects that benefit the Department and the State as a whole.

Thank you for the opportunity to comment on this measure.