

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

June 24, 2016

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

Hawaii

Consent to Assignment of General Lease No. S-5542, Nicholas E. Muragin and Lisa K. Muragin, as Assignor, to Kelonukai Ranch, LLC, as Assignee, Ola'a, Puna, Hawaii, Tax Map Key: (3) 1-8-010:038, 043, 044 & 046.

APPLICANT:

Nicholas E. Muragin and Lisa K. Muragin, divorced, as Assignor, to Kelonukai Ranch, LLC, a Hawaii limited liability corporation, as Assignee.

LEGAL REFERENCE:

Section 171-36(a)(5), Hawaii Revised Statutes, as amended.

LOCATION:

Portion of Government lands of Ola'a, Puna, Hawaii, identified by Tax Map Key: (3) 1-8-010:038, 043, 044 & 046, as shown on the attached map labeled Exhibit A.

AREA:

227.74 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: NO

CHARACTER OF USE:

Pasture purposes.

June 24, 2016

TERM OF LEASE:

30 years, commencing on February 17, 1998 and expiring on February 16, 2028. Last rental reopening occurred on February 17, 2008; next rental reopening is scheduled for February 17, 2018.

ANNUAL RENTAL:

\$1,425.00.

CONSIDERATION:

\$ 30,000.00.

RECOMMENDED PREMIUM:

\$ 0.00. Refer to the assignment premium calculation attached as Exhibit B.

PERFORMANCE BOND:

The lease requires a performance bond in an amount equal to twice the annual rent of \$1,425.00, which is \$2,850.00.

DCCA VERIFICATION:

Nicholas E. Muragin and Lisa K. Muragin are individuals, and as such are not required to register with the DCCA.

Kelonukai Ranch, LLC

Place of business registration confirmed:	YES
Registered business name confirmed:	YES
Good standing confirmed:	YES

REMARKS:

General Lease No. S-5542 was sold to Donald W. Hughes and Muriel M. Hughes at public auction on December 17, 1997 for the upset price of \$650.00 per annum. The effective date of the lease was February 17, 1998 for a period of 30 years ending on February 16, 2028.

The Hughes made significant improvements to the property including; the clearing of a 20-acre paddock, installation of perimeter and paddock fencing and gates, construction of a 900,000-gallon reservoir and accompanying irrigation system to various areas of the properties and the creation of an octagonal corral for passive round up of cattle.

June 24, 2016

At its meeting of January 13, 2012, agenda item D-8, the Board consented to an assignment of lease to Nicholas E. Muragin and Lisa K. Muragin. Due to declining health, the Hughes could no longer maintain pasture operations.

The Muragins intended to run a cow/calf operation and expand the pasture areas by clearing invasive plants and overgrowth. However, for personal reasons, the Muragins are requesting consent to assign the lease to Kelonukai Ranch, LLC.

Kelonukai Ranch, LLC has been in business since 2008 as a cow/calf operation specializing in premium genetics and embryo transfer. It plans to expand its operation utilizing the existing pasture and finish the clearing of invasive overgrowth to increase the area of grazable land.

Kelonukai Ranch, LLC has not had a lease, permit, easement or other disposition of State lands terminated within the last five years due to non-compliance with such terms and conditions.

RECOMMENDATION:

- A. That the Board consent to the assignment of General Lease No. S-5542 from Nicholas E. Muragin and Lisa K. Muragin, as Assignor, to Kelonukai Ranch, LLC, as Assignee, subject to the following:
1. The standard terms and conditions of the most current consent to assignment form, as may be amended from time to time;
 2. Review and approval by the Department of the Attorney General; and
 3. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

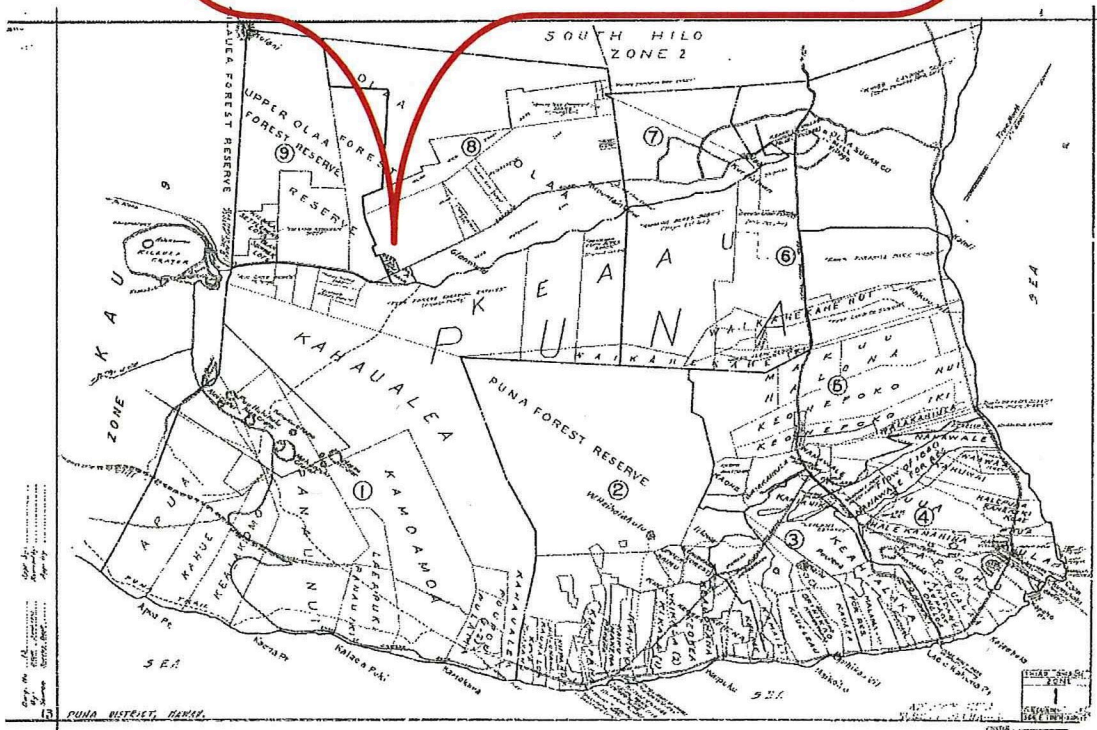
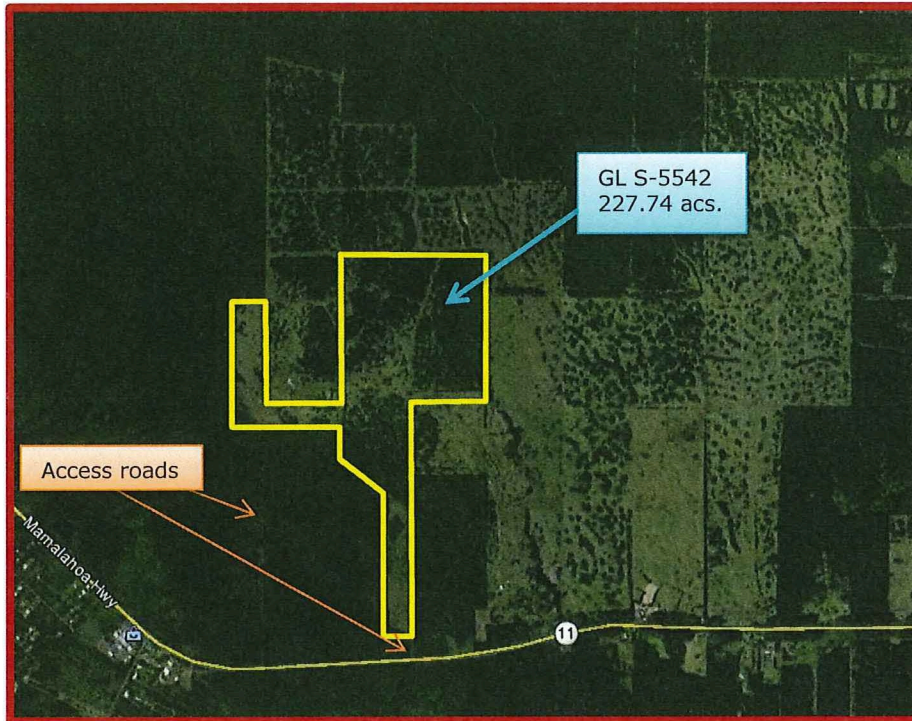
Respectfully Submitted,

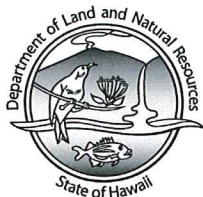

Candace Martin
Land Agent

APPROVED FOR SUBMITTAL:


Suzanne D. Case, Chairperson

EXHIBIT A





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

75 Aupuni Street, Room 204
Hilo, Hawaii 96720
PHONE: (808) 961-9590
FAX: (808) 961-9599

June 1, 2016

MEMORANDUM

TO: Suzanne D. Case, Chairperson

THROUGH: Russell Y. Tsuji, Division Administrator

FROM: Candace Martin, Land Agent

SUBJECT: In-House Recommendation – Assignment of Lease Calculation

GL No.: S-5542
Lessee/Assignor: Nicholas E. Muragin and Lisa K. Muragin
Assignee: Kelonukai Ranch, LLC
Location: Ola'a, Puna, Hawaii
Land Area: 227.74 acres more or less
Tax Map Key: (3) 1-8-010:038, 043, 044 & 046
Character of Use: Pasture purposes

We have been asked to provide an in-house evaluation/recommendation of the assignment premium due to the State for an assignment of GL S-5542 resulting from the sale of assets from Nicholas E. Muragin and Lisa K. Muragin to Kelonukai Ranch, LLC. The lease documents and information provided by lessee were analyzed and staff applied the formula approved by the Land Board on December 15, 1989, agenda item F-10, comprising the Assignment of Lease Evaluation Policy.

General Lease No. S-5542 was sold at public auction on December 17, 1997 with a lease commencement date of the February 17, 1998. The lease has a term of 30 years ending on February 16, 2028. In 2012, the lease was assigned to the current lessee for a consideration of \$25,000. Due to divorce, neither Lessee is able to continue the cow/calf operation and therefore are seeking to sell off the assets.

The terms and conditions of the lease allow the Board to condition its consent on payment by the Lessee of a premium based on the amount of considerations that exceeds the Adjusted Depreciated Cost of Improvements as calculated in accordance with the Assignment of Lease Evaluation Policy.

The total consideration of the sale of lease is \$30,000. The initial cost of the lease was \$25,000 and cost of fencing improvements were \$16,700. An inventory of 20 head of cattle, valued at \$13,300 is included in total consideration.

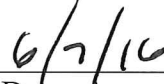
ASSIGNMENT PREMIUM CALCULATION: GL No. S-5642

Total Consideration		\$ 30,000
Actual & Initial Improvement Cost (2012)	\$ 41,700	
Adjusted Improvement Cost (2016)	\$ 43,817	
Less Depreciation (30 year lifespan)	<u>(\$26,290)</u>	
Adjusted Depreciated Cost of Improvements	\$ 17,257	(\$17,257)
Less Value of Inventory		<u>(\$13,300)</u>
Excess		(\$ 557)
Premium Percentage (16-20 years lapsed)		35%
Premium		(\$ - 0 -)

Based on these calculations resulting in a negative excess consideration, there is no premium due to the State on this assignment.

Approved/Disapproved:


Suzanne D. Case, Chairperson


Date

Cc: District Files