

DAVID Y. IGE  
GOVERNOR



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

FORD N. FUCHIGAMI  
DIRECTOR

Deputy Directors  
JADE T. BUTAY  
ROSS M. HIGASHI  
EDWIN H. SNIFFEN  
DARRELL T. YOUNG

IN REPLY REFER TO:

Board of Land and  
Natural Resources  
State of Hawai'i  
Honolulu, Hawai'i

ISSUANCE OF A DIRECT LEASE TO HAWAIIAN AIRLINES, INC.  
FOR A CARGO AND MAINTENANCE HANGAR FACILITY  
HONOLULU INTERNATIONAL AIRPORT  
TAX MAP KEY: (1) 1-1-002: 014 (PORTION)

O'AHU

REQUEST:

Issuance of a direct lease to Hawaiian Airlines, Inc. (Hawaiian Airlines) for the operation, maintenance, and construction completion of a Cargo and Maintenance Hangar Facility at Honolulu International Airport (HNL).

APPLICANT:

Hawaiian Airlines, Inc., whose business address is 3375 Koapaka Street, Suite G350, Honolulu, Hawai'i 96820-0008

LEGAL REFERENCE:

Section 171-59 (b), Hawai'i Revised Statutes (HRS), as amended.

LOCATION:

Portion of HNL, Honolulu, Island of O'ahu,  
Identified by Tax Map Key: 1<sup>st</sup> Division, 1-1-002: 014 (Portion).

AREA:

Bldg/Room No. 157-100, containing an area of approximately 264,052 square feet;  
Area/Space No. 004-107, containing a land area of approximately 466,717 square feet; and  
Area/Space No. 538-120A, containing a land area of approximately 189,285 square feet.

ZONING:

State Land Use District:	Urban
City and County of Honolulu:	Industrial (I-2)

**ITEM M-1**

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LAND TITLE STATUS:

Non-Ceded – Section 5(a) lands of the Hawai‘i Admission Act  
DHHL 30% entitlement lands pursuant to the Hawai‘i State Constitution: YES \_\_ NO X

CURRENT USE:

Land presently encumbered by Governor’s Executive Order No. 3529, setting aside a portion of HNL under the control and management of the Department of Transportation, Airports Division, State of Hawai‘i, for Airport Purposes.

CHARACTER OF USE:

Maintenance and Operation of a Cargo and Maintenance Hangar Facility.

TERM OF LEASE:

Thirty-Five (35) years.

LEASE COMMENCEMENT DATE:

Upon execution of the lease document.

ANNUAL LEASE RENTAL:

GROUND RENTAL:

First Five (5) Years (1 through 5): \$2,164,806.60 per annum, based upon the fair market ground lease rental rate published in the HNL portion of the Statewide Schedule of Rates and Charges.

Second Five (5) Years (6 through 10): \$2,489,527.59 per annum, based upon the product of 115% and the annual rental in effect for the 5<sup>th</sup> year of the lease term.

Third Five (5) Years (11 through 15): \$2,862,956.73 per annum, based upon the product of 115% and the annual rental in effect for the 10<sup>th</sup> year of the lease term.

REOPENING OF ANNUAL GROUND LEASE RENTAL:

Remaining Four (4), Five (5)-Years (through end of lease): Annual ground lease rental for each of the remaining four, five-year periods shall be determined separately when due at the time of reopening, in accordance with the provisions of Section 171-17, Hawai‘i Revised Statutes, relating to Appraisals, by an independent real estate appraiser whose services shall be contracted for and paid by the DOT.

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ANNUAL APRON RENTAL:

\$701,671.00

BUILDING RENT:

See attached Hawaiian Airlines Replacement Facilities Rental Rate Methodology.

PERFORMANCE BOND:

Sum equal to three (3) months rental then in effect.

MINIMUM IMPROVEMENTS REQUIREMENT:

Hawaiian Airlines will complete the construction of the Cargo and Maintenance Hangar Facility at a cost of approximately \$10,000,000.00 (Ten Million Dollars).

CHAPTER 343, HRS - ENVIRONMENTAL ASSESSMENT:

The final Environmental Assessment acceptance notice for the subject project was published in the OEQC's Environmental Notice on February 8, 2013.

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 ____

PURPOSE:

The right, privilege and authority to operate, maintain, and complete the construction of a Cargo and Maintenance Hangar Facility at HNL.

REMARKS:

In accordance with Section 171-59(b), HRS, relating generally to Management and Disposition of Public Lands and relating specifically to Disposition by Negotiation, the Department of Transportation proposes to issue a direct lease to Hawaiian Airlines for the purpose of: (1) maintaining, operating and completing the construction of an Air Cargo and Maintenance Hangar Facility at HNL.

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The DOT has committed to a legislature approved \$2.3 billion statewide Airport Modernization Program (AMP), spanning over a 12-year period that was developed in collaboration with the airlines. The AMP provides necessary infrastructure to the Airports Division. Attached are slides showing projects included in the masterplan for expansion of HNL.

Airlines generally fall into one of two categories. The most important of the categories from the Airport perspective is what is known as the Signatory Carriers. The Signatory Carriers have signed an agreement that obligates them to cover certain operating expenses should those expenses exceed certain operating revenues. The other category is non-signatory carriers, which are those carriers that have not signed a signatory agreement.

Signatory Carriers, including Hawaiian Airlines, committed to AMP by amending their Signatory Lease Agreements under the First Amended Lease Extension Agreement effective January 1, 2008, to jointly develop a Capital Improvement Program to modernize HNL and make significant capital improvements to airports throughout the Hawai'i Airport System.

In an earlier phase of the AMP, the cargo and associated office facilities, which became DOT property following the bankruptcy and dissolution of Aloha Airlines, were demolished and the taxiways leading to the Interisland and commuter terminals were realigned to readily accommodate larger aircraft.

The current phase of AMP requires that (1): the existing Hawaiian Airlines cargo and maintenance facilities, as well as hardstands, will be demolished to continue the expansion of the taxiways and ramp areas to make way for the development of a new concourse, named the Mauka Concourse, that will connect to the existing Inter-Island Terminal, and (2) Hawaiian Airlines be relocated to a replacement facility.

The new taxiways and ramp areas will facilitate construction of the Mauka Concourse and provide six wide-body gates and 11 narrow-body gates. The additional gates at the Mauka Concourse will reduce the peak hour demand for gates at the Overseas Terminal. The additional gates will encourage competition in the aeronautical industry because more gates will enable all airlines to schedule additional flights.

Currently, during peak arrival times, some arriving aircraft must wait for an aircraft parked at a gate to depart before the waiting aircraft can use the gate and allow passengers to disembark. Moving six wide-body Hawaiian Airlines aircraft from the overseas terminal gates to the Mauka Concourse during peak traffic times will allow those gates to be used to service other air carriers and reduce gate holds.

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The existing Hawaiian Airlines cargo and maintenance facilities are covered in its Signatory Lease No. DOT-A-62-0032. The number 62 in the title of the lease indicates the year the lease was issued. Like all of the 1962 airline leases, the Hawaiian Airlines Lease was issued prior to the enactment of the statutory restriction that limits directly negotiated leases to a maximum term of 35 years.

In 2000, the DOT voluntarily submitted all of the 1962 leases to the Land Board and the Land Board's approval started the 35-year limitation. At this point, the Hawaiian Airlines cargo facility lease has another 19 years before it reaches the statutory limitation.

Hawaiian Airlines agreed to relocate to accommodate the AMP, and to an early termination of the existing 1962 lease. In exchange, the AMP is constructing new cargo and maintenance facilities to replace those given up by Hawaiian Airlines. Unfortunately, the DOT was forced to default the contractor building those improvements when the contractor stopped paying its sub-contractors and work on the facilities was brought to a halt.

As part of an agreement between DOT and Hawaiian Airlines, Hawaiian Airlines will complete the unfinished portions as part of its tenant improvements.

Airports Division acknowledges that this lease agreement is based on unanticipated and unique circumstances and situations; therefore, special terms and conditions in the best interest of the State of Hawai'i and the travelling public are warranted. If appropriate, these special terms and conditions will be applied to other Signatory Carriers situated at HNL, if they are similarly impacted by AMP.

DOT believes that the proposed direct lease is in accordance with the underlying intent of Section 171-59(b), HRS, since it will encourage competition amongst air carriers that will be able to use the overseas terminal gates during peak traffic times, and it will provide expanded air service to the public. In enacting direct negotiation for aeronautical and airport-related operations, the Legislature recognized that, in addition to competition and income, service to the public was an essential interest. The committee report that passed the direct negotiation amendment to Section 171-59(b), HRS, states in part:

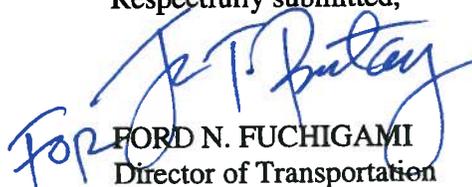
Your Committee recognizes that the best interests for the State are usually better Protected by disposing of by public auction because it is more democratic and in the long run results in more income to the State. **However, where the lease is to airports and maritime operations which are public utilities by nature the prime interest is service to the public and the preservation of competition in addition to income.** Sen. Stand. Com. Rep. No. 876-70, H.B. 974, H.D.1, S.D.1 (emphasis added).

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RECOMMENDATION:

That the Board authorize the Department of Transportation to issue a direct lease to Hawaiian Airlines, subject to: (1) terms and conditions herein outlined, which are by reference incorporated herein; (2) such other terms and conditions as may be prescribed by the Director of Transportation to best serve the interests of the State; and (3) review and approval of the Department of the Attorney General as to the lease form and content.

Respectfully submitted,

  
FORD N. FUCHIGAMI  
Director of Transportation

APPROVED FOR SUBMITTAL:

  
SUZANNE D. CASE  
Chairperson and Member

**State of Hawaii Airports System  
Hawaiian Airlines Replacement Facilities  
Rental Rate Methodology**

**Building Rent Cost Recovery Formula**

The new building rent for turnkey replacement facilities will be based upon a cost recovery formula as described below.

1. Replacement Cost will be determined by the actual costs incurred to construct the replacement facility. Costs for site preparation, planning, design and program management shall be considered terminal modernization program costs allocated to the terminal cost center.
2. Net Replacement Cost for tenant-owned buildings will be determined by subtracting the appraised value of the existing facility from Replacement Cost. Net Replacement Cost for State-owned buildings will be equal to Replacement Cost.
3. Net Replacement Cost will be amortized over 30 years at the coupon rate for bond proceeds used to fund the improvements that are equivalent to the Annual Debt Service.
4. Annual Operating Expenses will be equal to the State cost of maintaining State-owned facilities and will be equal to zero for tenant-maintained facilities.
5. The Annual Cost Recovery Rental Rate per square foot per year shall be computed by dividing the sum of Annual Debt Service and annual Operating Expenses, if applicable, by rentable square footage of the replacement facility.
6. The Annual Cost Recovery Rental Rate per square foot per year shall be phased in over a Transition Period. The Transition Period shall be equal to the lease term (in years) for the replacement facility divided by 2. Those tenants with leases that expire after the date of beneficial occupancy of the replacement facility shall execute a letter of intent or new lease for the replacement facility prior to the beginning of construction of the replacement facility or there shall be no Transition Period upon expiration of the current lease.
7. The Adjustment Factor during the Transition Period will be equal to 2 divided by the lease term in years multiplied by the number of years from the effective date of the lease.
8. The Existing Lease Rental Rate shall be the cost per square foot being charged to the tenant immediately prior to the date of beneficial occupancy of the replacement facility.
9. The Annual Cost Recovery Rental Rate per square foot per year during the Transition Period will be computed by first multiplying the difference in the Annual Cost Recovery Rental Rate and the Existing Lease Rental Rate by the Adjustment Factor and then adding the Existing Lease Rental Rate.

**Building Rent Computation and Adjustments**

- **Building Rent Computation** – The building rent computation will be based upon the DOT-A’s total costs to construct the building, exclusive of site preparation costs, soft costs, and escalation and delay costs. DOT-A’s total building costs will be designated as 1) replacement-in-kind, or 2) new, based upon the percentage of the square footage of the old facilities versus the new facilities; 60.5 percent is considered replacement-in-kind, and 39.5 percent new.
  - **Replacement-in-kind** – Building rent will be determined based upon the cost methodology above and applying the coupon rate for bond proceeds that were used to fund the improvements and amortized over a 30-year period. In addition, based upon a 35-year lease, the following adjustment factors will be utilized to determine the building rent for the initial 17.5 years of the lease, with the subsidy decreasing in a straight-line pattern over that period.

Year 1	0.00%	Year 11	58.82%
Year 2	5.88%	Year 12	64.71%
Year 3	11.76%	Year 13	70.59%
Year 4	17.65%	Year 14	76.47%
Year 5	23.53%	Year 15	82.35%
Year 6	29.41%	Year 16	88.24%
Year 7	35.29%	Year 17	94.12%
Year 8	41.18%	Year 18 (1/2 year)	97.06%
Year 9	47.06%	Remainder of lease term	100.00%
Year 10	52.94%		

- **New** – Building rent for the new portion of the facility will be full cost recovery from the first day of the lease.

Building rent will be determined based upon the cost methodology above and applying the coupon rate for bond proceeds that were used to fund the improvements and amortized over a 30-year period.

- **Adjustments to the Building Rent Computation (Prior to Lease Execution)** – Due to the unique circumstances of this project, the following adjustments to the Building Rent Computation shall occur.
  - **Defective/Unacceptable Workmanship** – Costs to correct defective/unacceptable workmanship not in accordance with the approved construction documents (which includes all approved change orders at the time DCK’s contract was terminated) under the DCK contract will be credited to

reduce the amount of the construction costs utilized to calculate the Building Rent.

- **New Contractor Premium** – If HA’s contracted price to complete the project in accordance with the approved construction documents (which includes all approved change orders at the time DCK’s contract was terminated) exceeds the amount remaining to be expended in the DOT-A’s budget (\$8,003,730), the difference will be credited to reduce the amount of the construction costs utilized to calculate the Building Rent.

HA must submit credit requests with supporting documentation to the DOT-A and the final amount credited will be solely determined by the DOT-A after consultation with HA and the Airlines Committee of Hawaii (ACH).

- **Adjustments to the Building Rent Computation (Post Lease Execution)** – Due to the fact that the costs to mitigate the items below are unknown at this time, adjustments to the Building Rent, if necessary, must be addressed after the commencement of the lease. The DOT-A and HA agree that the following items could result in further adjustments to the Building Rent.
  - **Defective/Unacceptable Workmanship (Identified Post-Construction Commencement)** – Although the majority of defective/unacceptable workmanship issues have been identified, it is likely that additional issues related to defective/unacceptable workmanship will be identified once HA’s contractor commences work and until construction is completed.
  - **Additional Design Costs** – Design costs incurred by HA for design work not completed as well as design work necessary to correct deficiencies.
  - **Warranties** – The DCK contract included the installation of various systems, fixtures and equipment. It is likely that all of these items included warranties for a certain period of time. However, due to the termination of the DCK contract, it is unclear at this time if any of the warranties will be honored. If warranties are not honored for the original warranty term commencing with HA’s date of beneficial occupancy, HA will receive rent credits for costs that are reasonably incurred by HA to repair/replace components that would otherwise have been covered by a manufacturer’s warranty.

HA must submit a credit request with supporting documentation to the DOT-A; final amount credited will be solely determined by the DOT-A after consulting with HA and the ACH.

### **First Year Building Rent Computation**

- **First Year Building Rent** – Building Rent for the first year of this Lease will be computed as follows.

Total Building Costs Incurred by DOT-A	\$56,473,310
Deduct:	
Defective/Unacceptable Workmanship <i>(to be validated)</i>	(\$7,000,000)
New Contractor Premium <i>(to be validated)</i>	(\$3,153,414)
Net Building Costs	\$46,319,896

Net Building Costs are allocated as follows:

Replacement-in-kind (60.5 percent)	\$28,025,737
New (39.5 percent)	\$18,294,159

Annual Debt Service on the Net Building Costs is computed as follows:

Replacement-in-kind	\$2,337,597
New	\$1,525,897

Annual Debt Service/Building Rent for Year 1 is computed as follows:

Replacement-in-kind	\$2,337,597
Adjustment Factor (Year 1)	0.00%
Replacement-in-kind rent	\$0

New	\$1,525,897
Adjustment Factor (Year 1)	100.00%
New rent	\$1,525,897

Total Building Rent for Year 1:

Replacement-in-kind	\$0
New	\$1,525,897
Total	\$1,525,897

Additional Building Rent Adjustments Prior to Lease Execution:

- **DOT-A's Contracted Price (RIK Benefit)** – Assuming DCK completed the project in accordance with the DOT-A's contract, the methodology to recover the building costs for "replacement-in-kind" and "new" facilities would be applied to determine HA's building rental rates.

Based upon the DOT-A's contracted price with DCK for the approved construction documents (which include all approved change orders at the time DCK's contract was terminated), less the amount DOT-A disbursed to DCK through September 30, 2015, \$8,003,730 would have been expended by the DOT-A to complete the Building. Accordingly, based upon the square footage of the existing facilities in comparison to the new facility, 60.5 percent is replacement-in-kind and 39.5 percent new; thus \$4,842,637 is considered replacement-in-kind and \$3,161,093 new. The annual debt service on \$4,842,637 is \$403,919.

Since HA will contract to complete the project and enter into a 35-year lease, HA will be credited for the amount of the replacement-in-kind subsidy for the initial 17.5 years of the lease. The amounts will be based upon the coupon rate for bond proceeds that were used to fund the improvements, amortized over a 30-year period, and applying the respective adjustment factors below to determine the annual credits over the initial 17.5 years of the lease.

Year 1	100.00%	Year 10	47.06%
Year 2	94.12%	Year 11	41.18%
Year 3	88.24%	Year 12	35.29%
Year 4	82.35%	Year 13	29.41%
Year 5	76.47%	Year 14	23.53%
Year 6	70.59%	Year 15	17.65%
Year 7	64.71%	Year 16	11.76%
Year 8	58.82%	Year 17	5.88%
Year 9	52.94%	Year 18 (1/2 year)	2.94%

Rent credits due to HA are as follows:

Year 1	\$403,919	Year 10	\$190,080
Year 2	\$380,159	Year 11	\$166,320
Year 3	\$356,399	Year 12	\$142,560
Year 4	\$332,639	Year 13	\$118,800
Year 5	\$308,879	Year 14	\$95,040
Year 6	\$285,119	Year 15	\$71,280
Year 7	\$261,359	Year 16	\$47,520
Year 8	\$237,600	Year 17	\$23,760
Year 9	\$213,840	Year 18 (1/2 year)	\$11,880

Additional Building Rent Adjustments Post Lease Execution:

- **Defective/Unacceptable Workmanship (Identified Post-Construction Commencement)** – Although the majority of defective/unacceptable workmanship issues have been identified, it is likely that additional issues related to defective/unacceptable workmanship will be identified once HA's contractor commences work and until construction is completed.
- **Additional Design Costs** – Design costs incurred by HA for design work not completed as well as design work necessary to correct deficiencies.

- **Warranties** – The DCK contract included the installation of various systems, fixtures and equipment. It is likely that all of these items included warranties for a certain period of time. However, due to the termination of the DCK contract, it is unclear at this time if any of the warranties will be honored. If warranties are not honored for the original warranty term commencing with HA's date of beneficial occupancy, HA will receive rent credits for costs that are reasonably incurred by HA to repair/replace components that would otherwise have been covered by a manufacturer's warranty.

HA must submit a credit request with supporting documentation to the DOT-A; final amount credited will be solely determined by the DOT-A after consulting with HA and the ACH.



# Airports Division HNL Airport Modernization Program

## DESCRIPTION

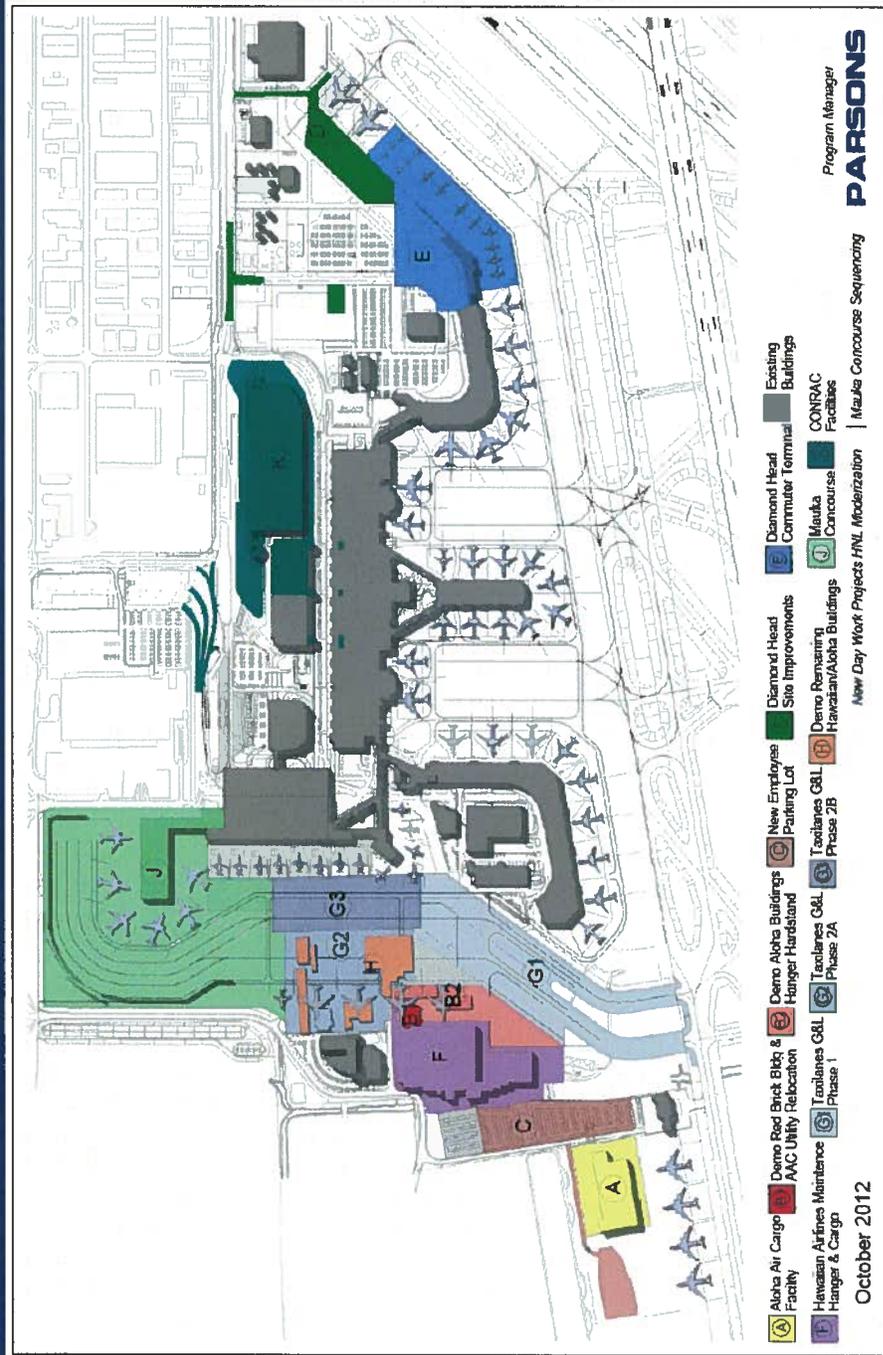
Projects include:

- AAC Cargo (Tenant)
- AAC Maintenance (Tenant)
- AQ Cargo Demo Ph. I
- AQ Cargo Demo Ph. II & Hardstand
- New Employee Parking Lot
- DH Commuter Terminal
- HA Maintenance & Cargo
- Taxilanes G& L Widening
- AQ & HA Facilities Demo
- Mauka Concourse
- CONRAC

## SCHEDULE

Start June 2013

Est. Completion Dec 2020





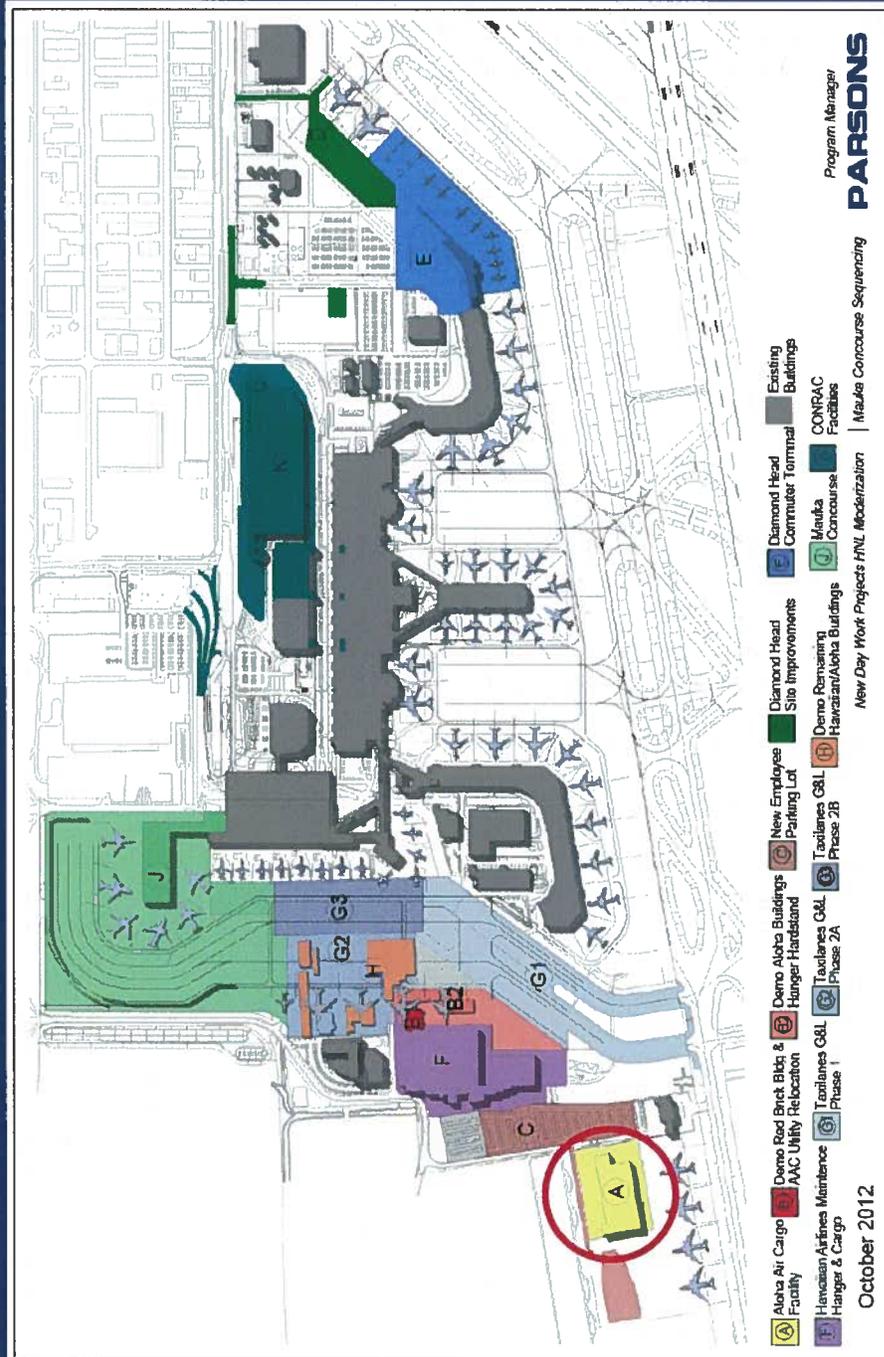
# Airports Division AAC Cargo (Tenant)

## DESCRIPTION

New cargo facility for Aloha Air Cargo.

## SCHEDULE

Completed



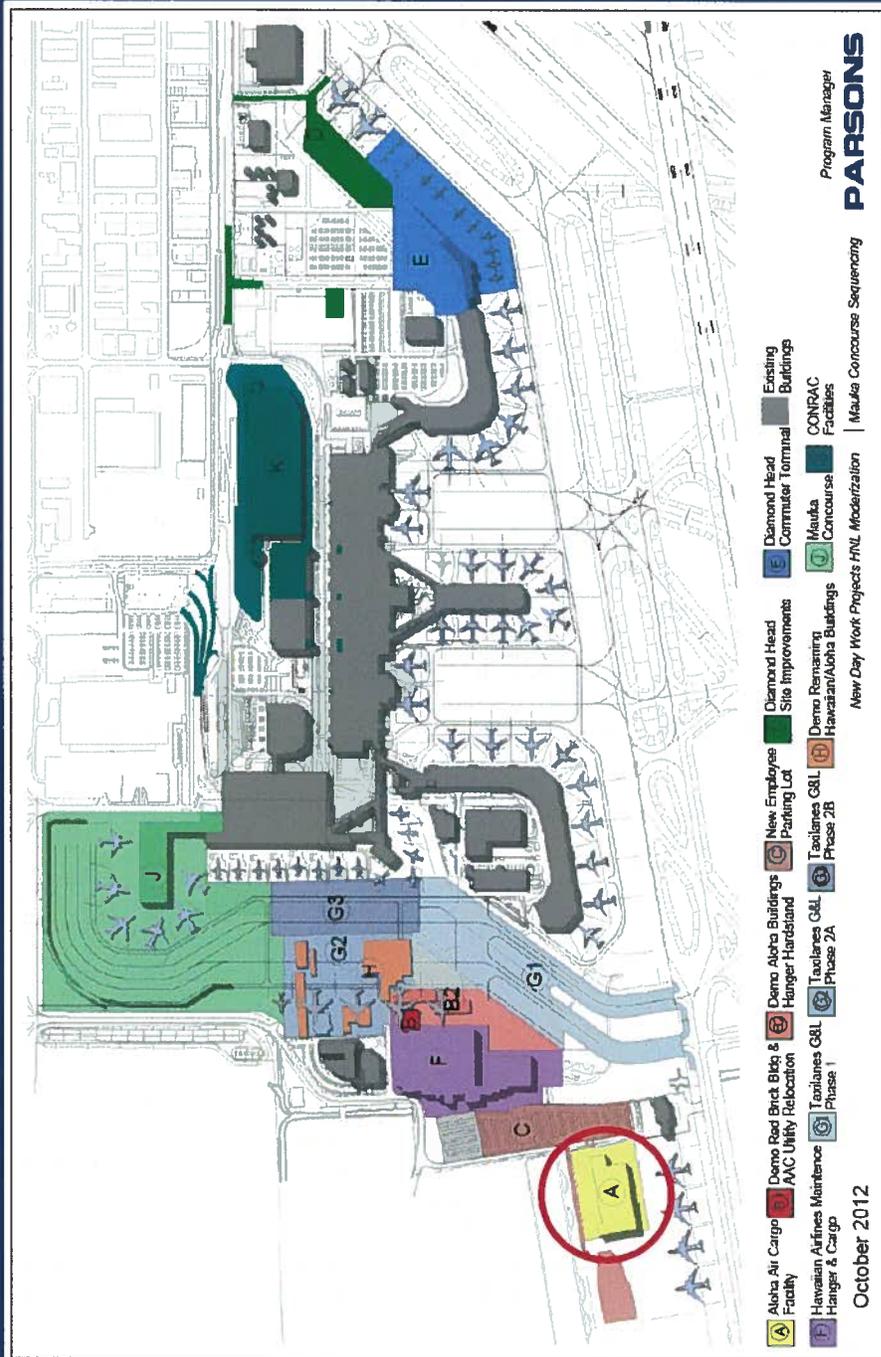
October 2012



# Airports Division AAC Maintenance (Tenant)

**DESCRIPTION**  
New maintenance facility for  
Aloha Air Cargo.

**SCHEDULE**  
Completed





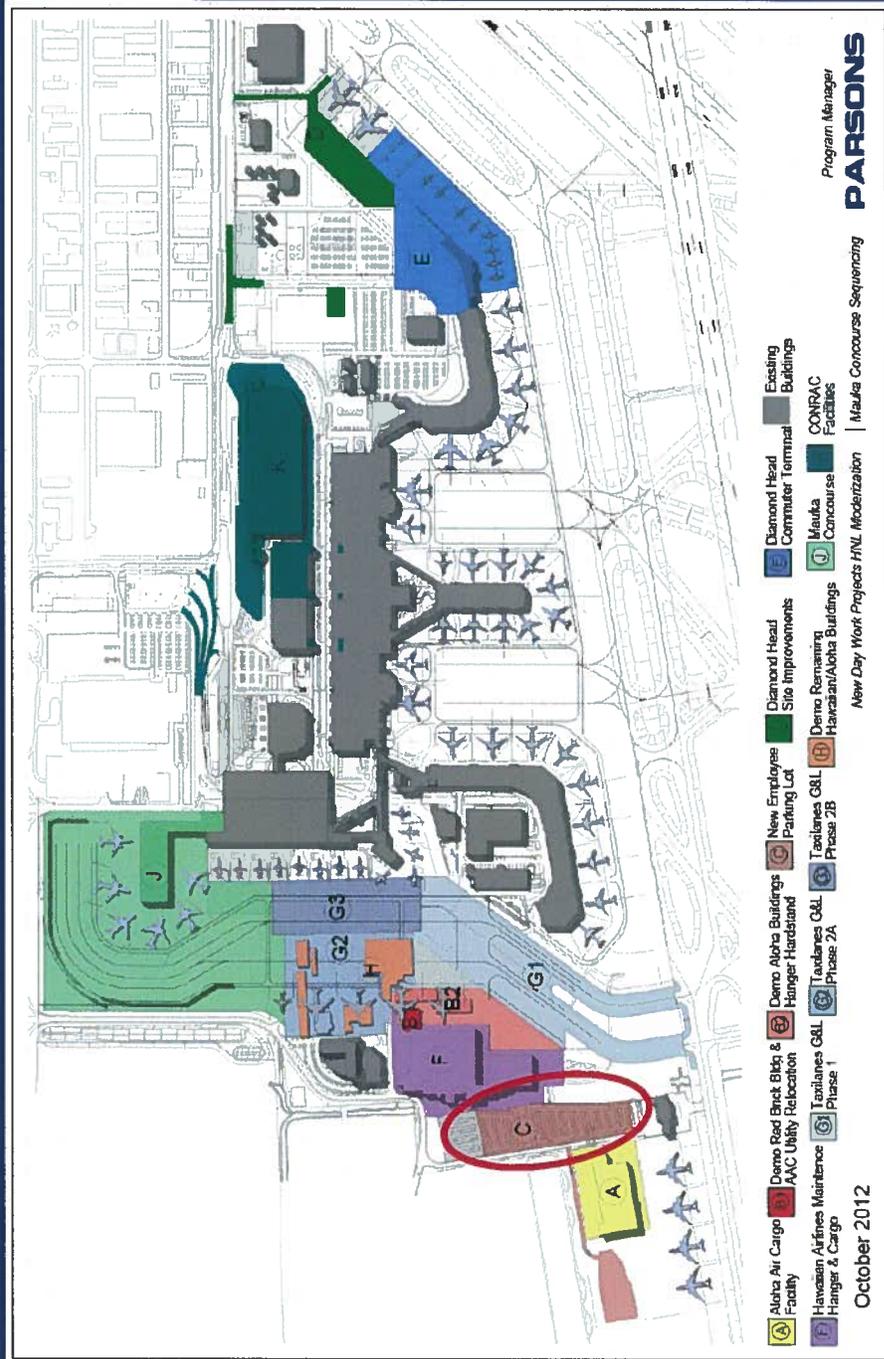
# Airports Division New Employee Parking Lot

## DESCRIPTION

Construction of pervious concrete pavement parking lot for employees using the Elliott Street Support Facilities.

## SCHEDULE

Completed









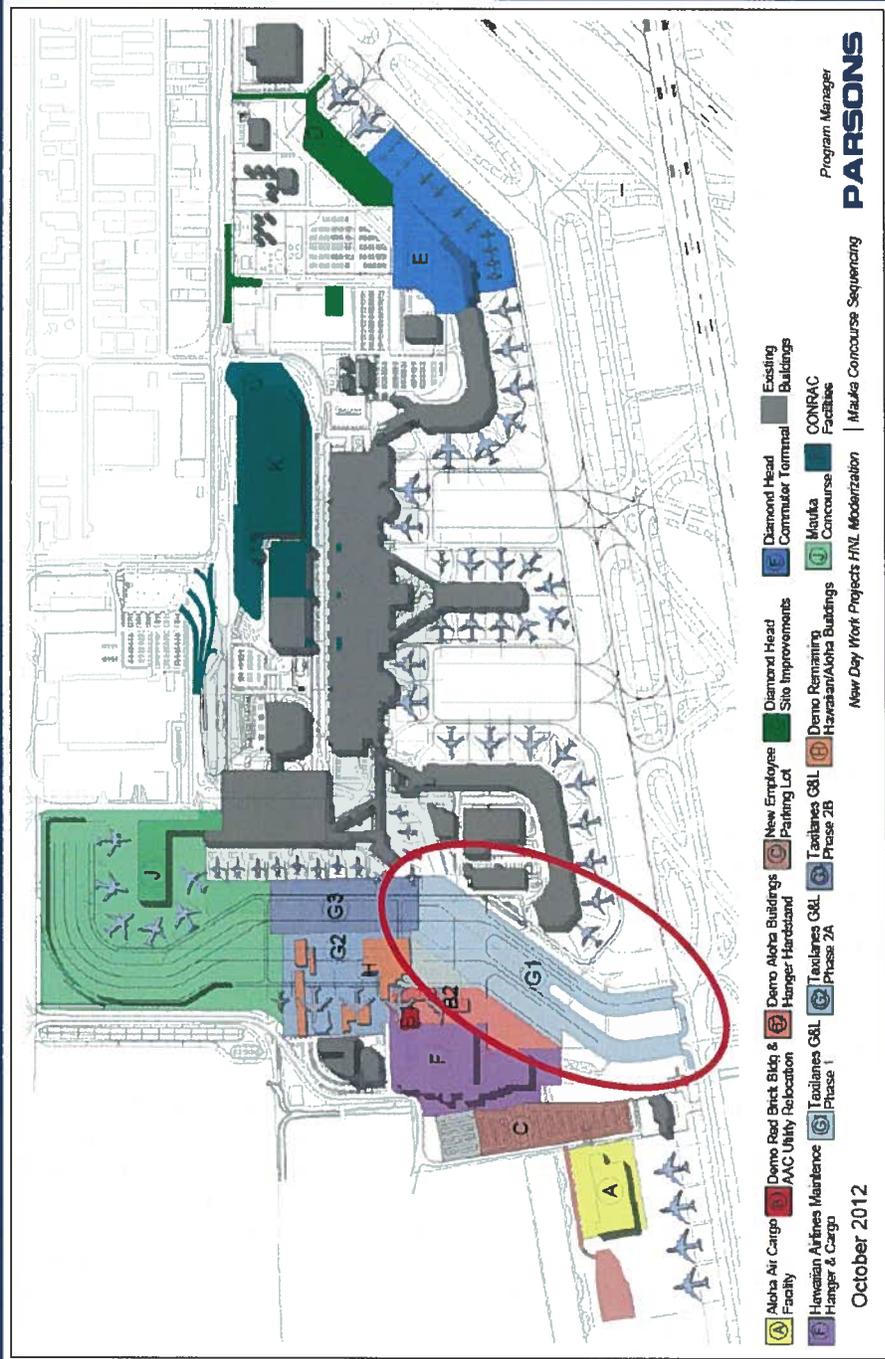
# Airports Division Taxilanes G & L Widening Ph. I

## DESCRIPTION

Widen taxilanes to meet FAA Airport Design Standards to accommodate Aircraft Design Group (ADG) V aircrafts anticipated to use the Mauka Concourse; Cover a portion of the Manuwai Canal to meet ADG V taxilane safety areas.

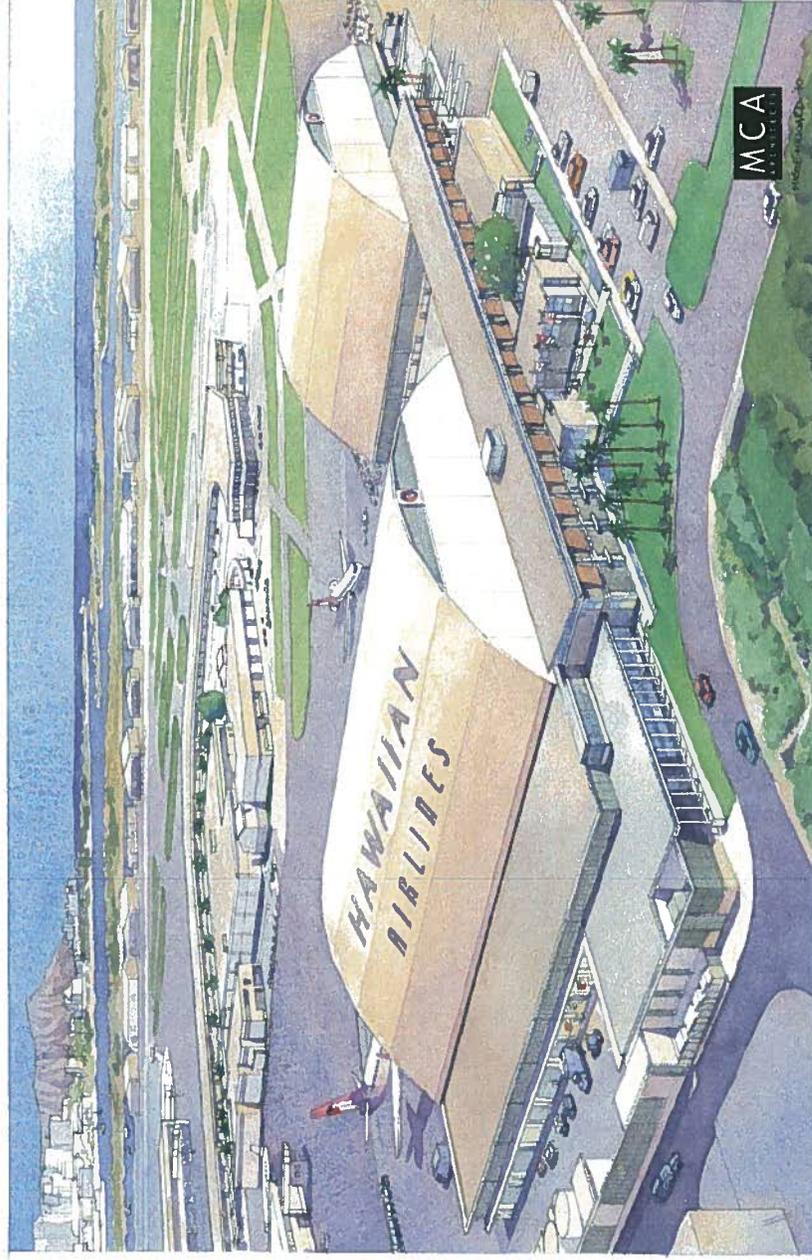
## SCHEDULE

Start Aug 2014  
Est. Completion Aug 2017





# Airports Division HA Maintenance & Cargo



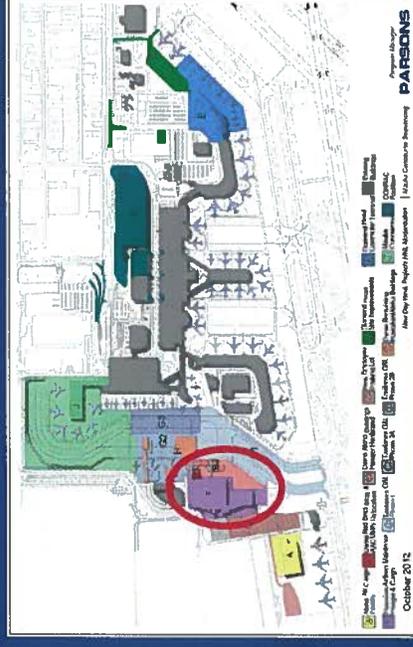
## DESCRIPTION

New maintenance and cargo facility for Hawaiian Airlines.

## SCHEDULE

Start Apr 2013

Est. Completion Dec 2017



October 2012  
PARSONS  
A Division of  
The City and County of Honolulu



# Airports Division AQ & HA Facilities Demolition

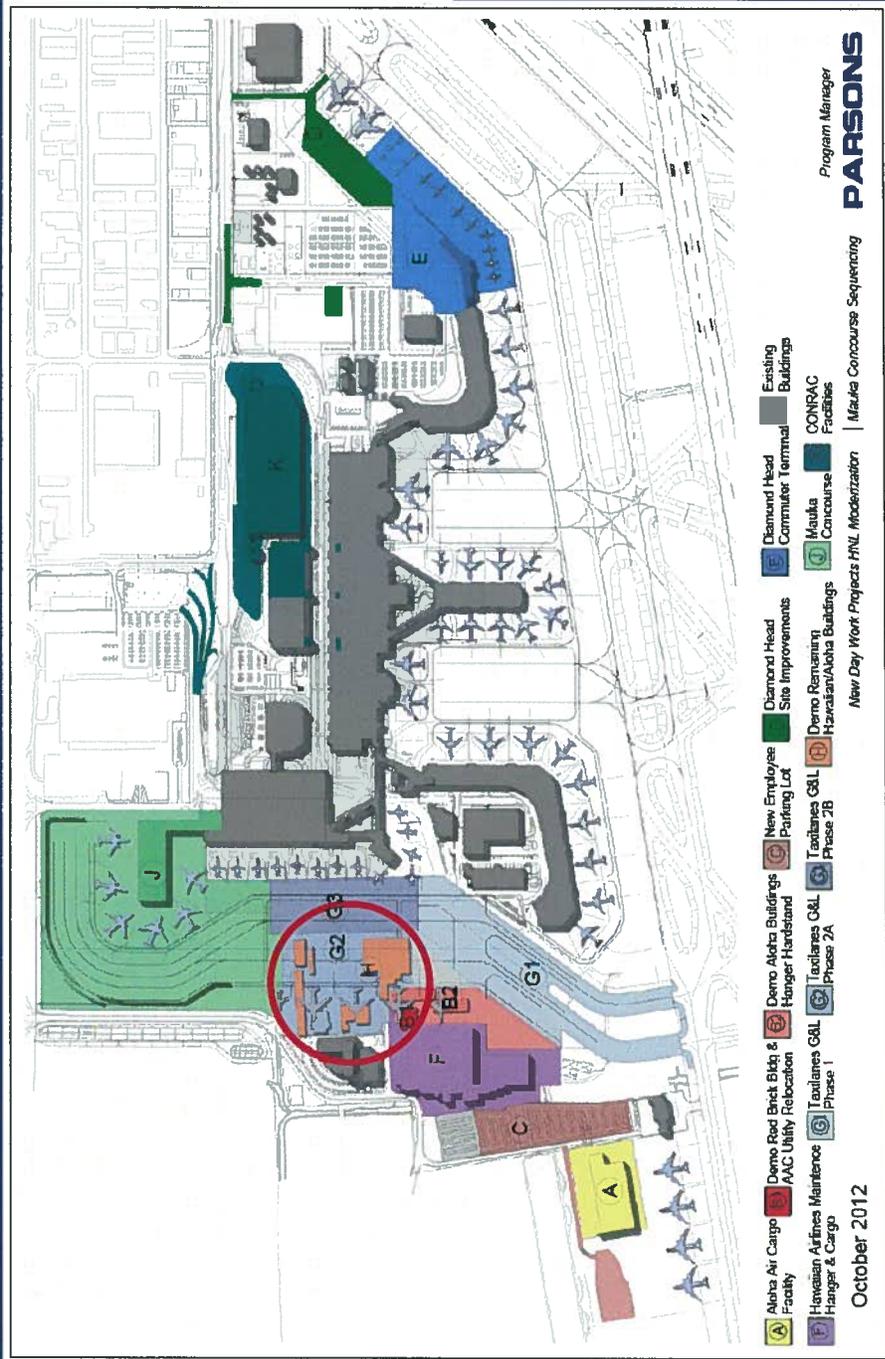
## DESCRIPTION

Demolition of the AQ/HA maintenance facility and HA cargo facilities.

## SCHEDULE

Est. Start Jan 2018

Est. Completion Sept 2018





# Airports Division Taxilanes G & L Widening Ph. II

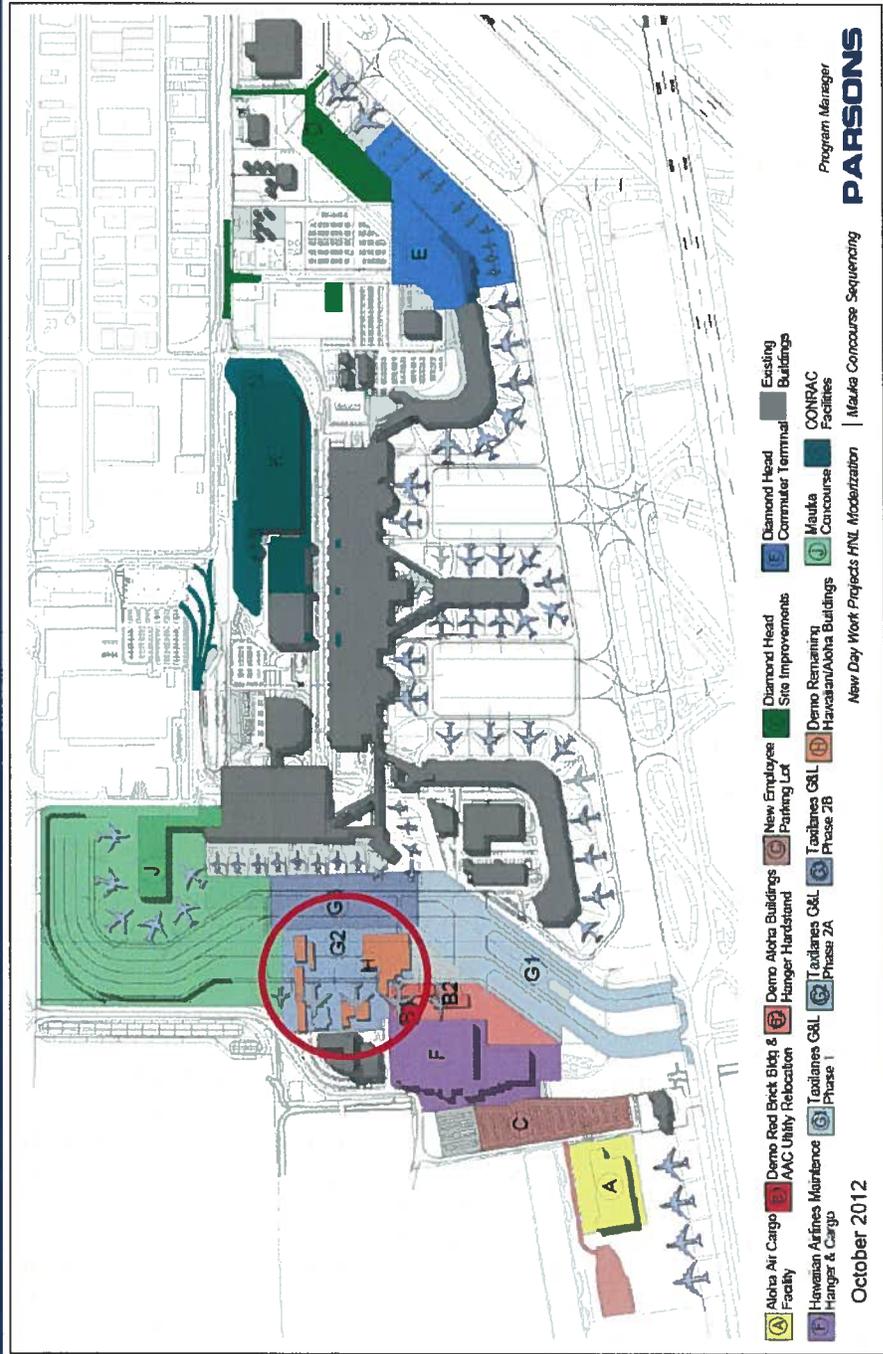
## DESCRIPTION

Widen taxilanes to meet FAA Airport Design Standards to accommodate Aircraft Design Group (ADG) V aircrafts anticipated to use the Mauka Concourse.

## SCHEDULE

Est. Start Apr 2019

Est. Completion Apr 2020





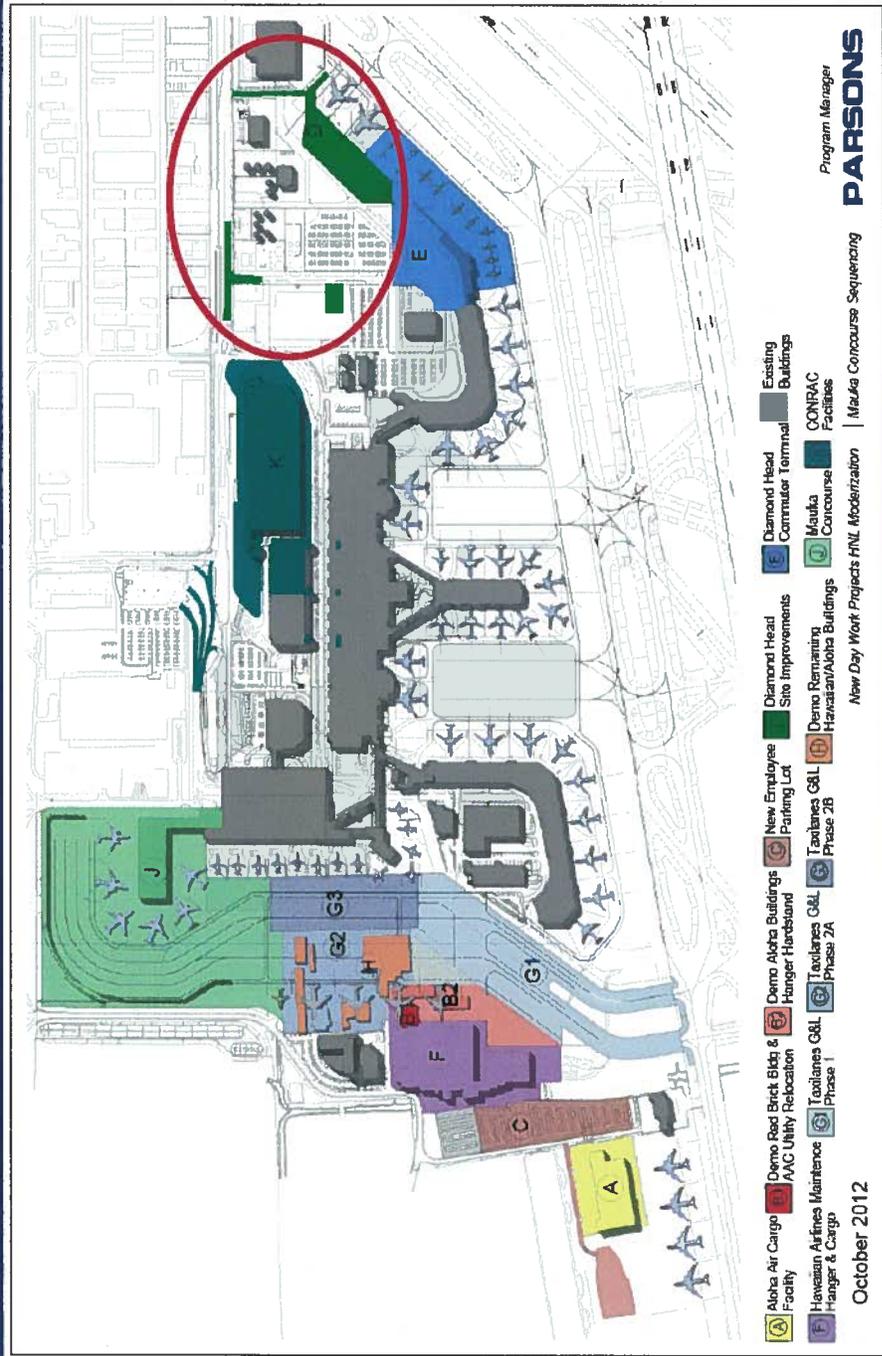
# Airports Division DH Site Improvements

## DESCRIPTION

Site improvements necessitated from the construction of the DH Commuter Terminal.

## SCHEDULE

Completed





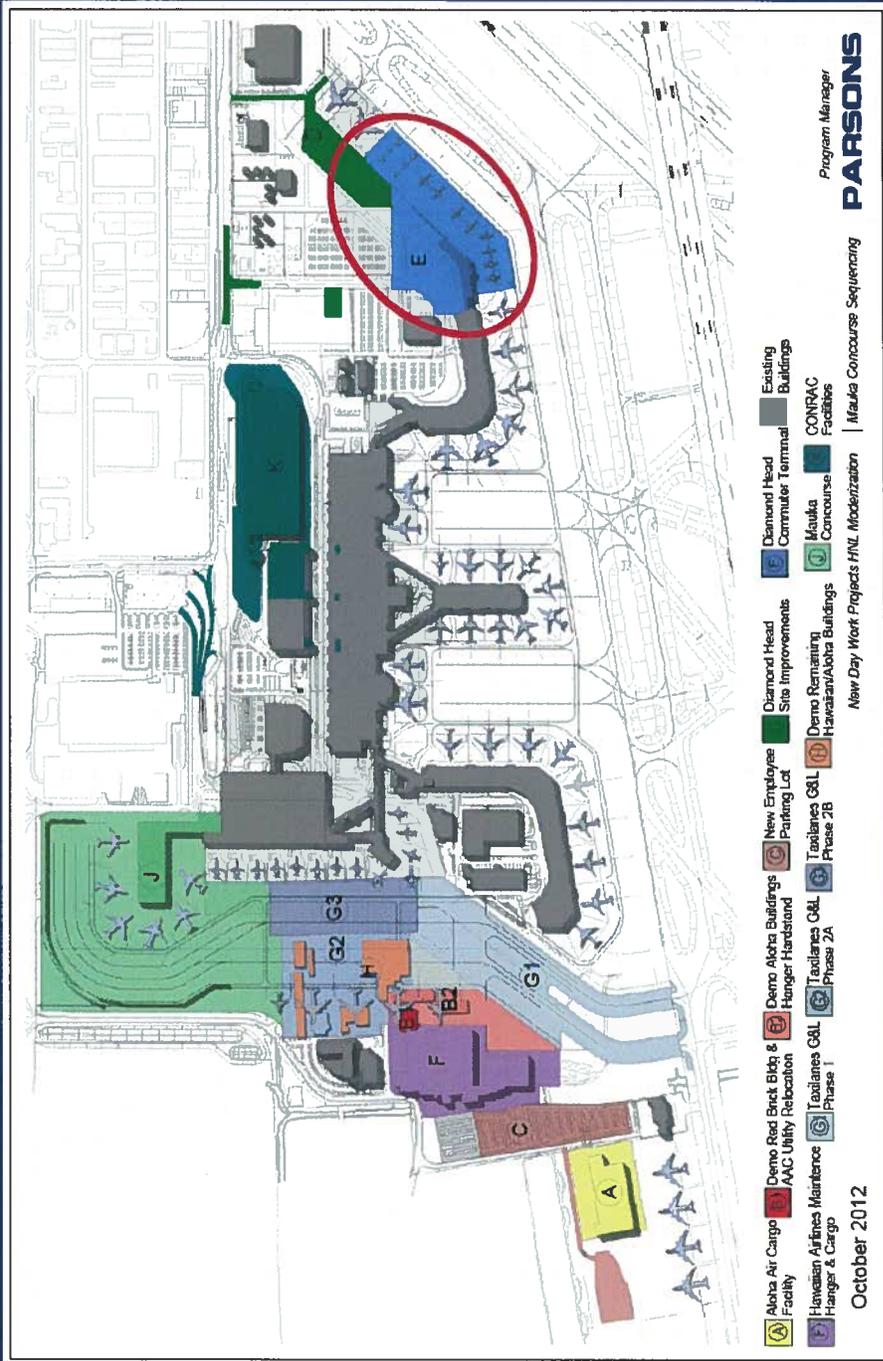
# Airports Division DH Commuter Terminal

## DESCRIPTION

New 35,000 SF Commuter Terminal adjacent to Gate 6 at the end of the Diamond Head Concourse.

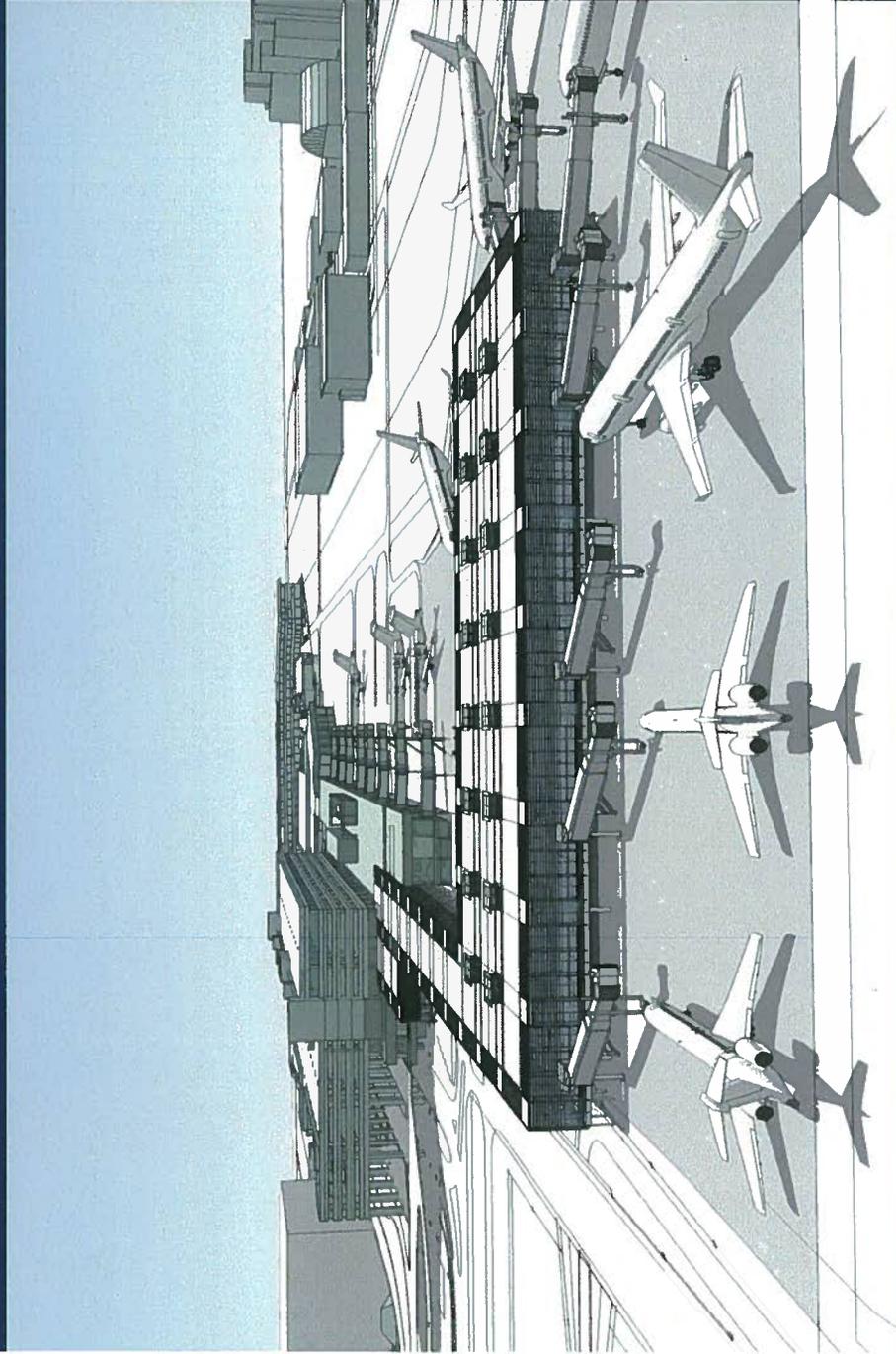
## SCHEDULE

Cancelled. Relocation of Commuter carriers TBD.





# Airports Division Mauka Concourse

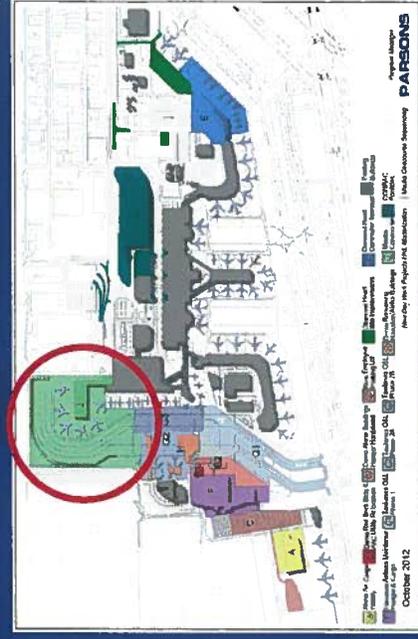


## DESCRIPTION

New 250,000 SF terminal with 6 wide body or 11 narrow body gates.

## SCHEDULE

Est. Start Sept 2016  
Est. Completion May 2019



October 2012  
PARSONS  
Project Manager  
1000 California Street, Suite 1000  
San Francisco, CA 94108  
Tel: 415.774.2000  
Fax: 415.774.2001  
www.parsons.com



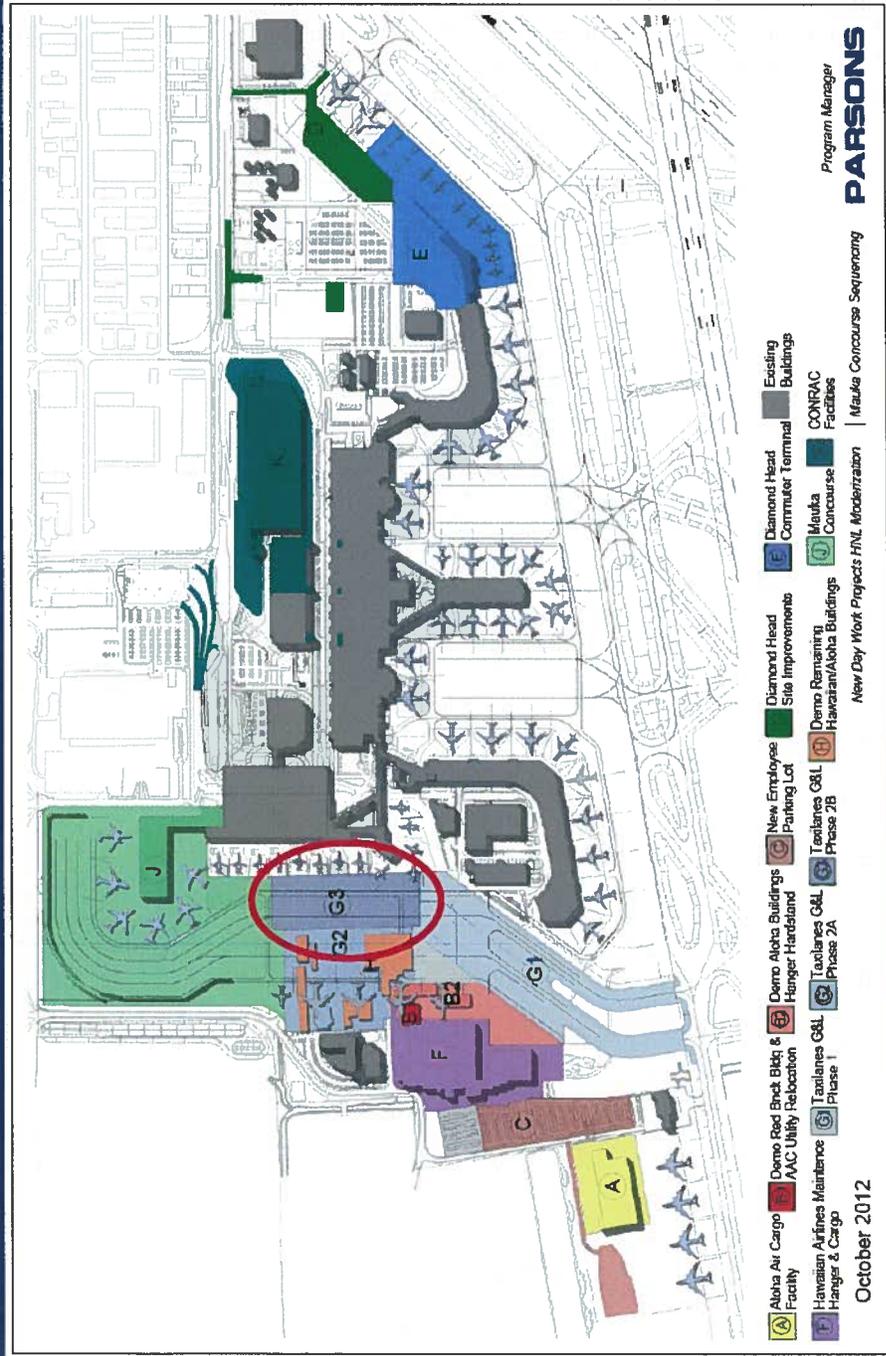
# Airports Division Taxilanes G & L Widening Ph. III

## DESCRIPTION

Widen taxilanes to meet FAA Airport Design Standards to accommodate Aircraft Design Group (ADG) V aircrafts anticipated to use the Mauka Concourse.

## SCHEDULE

Est. Start Sept 2020  
Est. Completion Feb 2021



MASTER PLAN FOR FURTHER EXPANSION  
OF TERMINAL BUILDINGS  
TO ACCOMMODATE INCREASES IN AIR SERVICE  
AT HONOLULU INTERNATIONAL AIRPORT



Figure 1.5 – Hybrid 1 – Ultimate Build Out

