Chairperson and Members
Board of Land and Natural Resources
State of Hawai‘i
Honolulu, Hawai‘i

Land Board Members:

SUBJECT: DENIAL OF REQUEST FOR CONTESTED CASE HEARING BY GKM, INC. REGARDING AUGUST 11, 2017 DECISION TO AUTHORIZE PUBLIC AUCTION OF A LEASE FOR BOAT/TRAILER STORAGE FACILITY AND PARKING AT HONOKŌHAU SMALL BOAT HARBOR, NORTH KONA, HAWAI‘I ISLAND (TAX MAP KEY (3) 7-4-008:003).

SUMMARY:

GKM, Inc. (GKM), a Hawai‘i corporation, requests a contested case hearing concerning the August 11, 2017 Board of Land and Natural Resources (Board) decision to authorize public auction of a lease for boat/trailer storage facility and parking situated at Honokōhau Small Boat Harbor, North Kona, Hawai‘i Island, Tax Map Key (3) 7-4-008:003. The Division of Boating and Ocean Recreation (DOBOR) recommends that the Board deny the contested case hearing request. GKM is not entitled to a contested case; the Board already decided on the issue; GKM did not request a contested case hearing at the August 11, 2017 Board meeting; and GKM filed a contested case hearing request later than the ten-day deadline required by Hawai‘i Administrative Rule (HAR) § 13-1-29.

BACKGROUND:

Gentry Properties, Inc. (Gentry), a Hawai‘i corporation, held a long term master lease at Honokōhau Harbor for haul out and boat storage facilities. In 1994 the Board authorized an additional lease for six acres of property adjacent to the master lease. This lease was for five-years from January 1, 1994 through December 31, 1998. Gentry used the property to operate a boat/trailer storage facility and vehicle parking. After the lease expired Gentry remained at the six acres on a revocable permit (RP).

At the Board’s January 24, 2003 meeting, as Agenda Item J-4, the Board approved the assignment of the master lease from Gentry, assignor, to GKM, assignee, for the property.
At the Board’s March 14, 2003 meeting, as Agenda Item J-3, the Board approved the cancellation of the RP to Gentry and the issuance of an RP to GKM for the six-acre property. GKM expressed interest in an additional three acres for expanding the site and securing a long-term lease for the property.

At the Board’s June 8, 2012 meeting, as Agenda Item J-1, the Board approved issuance of revised RP BH-010-07 to GKM to allow for the expansion of the three additional acres and acceptance of the final environmental assessment for the expansion project. The revised RP covered 9 acres. GKM still held the master lease.

At the Board’s July 24, 2015 meeting, as Agenda Item J-3, the Board approved the continuation of RP BH-010-07, to GKM for the one-year period, retroactively from July 1, 2015 through June 30, 2016, subject to increase in rent and execution of a new RP.

At the Board’s August 12, 2016 meeting, as Agenda Item J-1, the Board approved the continuation of RP BH-010-07 to GKM, retroactively from July 1, 2016 through June 30, 2017 on a month-to-month basis only. The Board amended the August 12, 2016 submittal to decrease the duration of RP BH-010-07 by six months, making the continuation effective through December 31, 2016.

At the Board’s January 27, 2017 meeting, as Agenda Item J-1, the Board approved the continuation of the RPs at Honokōhau, inclusive of RP BH-010-07, to GKM retroactively from January 1, 2017, through June 30, 2017, on a month-to-month basis only, subject to new rent set at appraised value.

DOBOR originally intended to consolidate RP BH-010-07 into the GKM master lease. But DOBOR did not pursue the consolidation of RP BH-010-07 by direct negotiation pursuant to Hawaii Revised Statutes § 171-59, as it could not be demonstrated that competition would be encouraged by negotiating, and public auction would instead be the appropriate method to offer the property.¹

At the Board’s May 26, 2017 meeting, as Agenda Item J-2, the Board approved continuation of RP BH-010-07 from July 1, 2017 through June 30, 2018, on month-to-month basis. The Board requested that DOBOR work on offering the nine acres at public auction at fair market value.

At the Board’s August 11, 2017 meeting, as Agenda Item J-1, the Board authorized public auction of the lease for boat/trailer storage for the nine acres of land. On August 22, 2017, GKM filed a petition for a contested case hearing concerning the Board’s decision on Item J-1 of its August 11, 2017 meeting (see Exhibit 1 for GKM’s written contested case request).

¹ HRS § 171-59 Disposition by negotiation […] (b) Disposition of public lands for airline, aircraft, airport-related, agricultural processing, cattle feed production, aquaculture, marine, maritime, and maritime-related operations may be negotiated without regard to the limitations set forth in subsection (a) and section 171-16(c); provided that: (1) The disposition encourages competition within the aeronautical, airport-related, agricultural, aquaculture, maritime, and maritime-related operations.
DISCUSSION:

HAR § 13-1-29(a) provides that “[a]n oral or written request for a contested case hearing must be made to the board no later than the close of the board meeting at which the subject matter of the request is scheduled for board disposition. An agency or person so requesting a contested case must also file (or mail a postmarked) written petition with the board for a contested case no later than ten calendar days after the close of the board meeting at which the matter was scheduled for disposition. For good cause, the time for making the oral or written request or submitting a written petition or both may be waived.”

GKM did not meet either of the deadline requirements under HAR § 13-1-29(a). The Board can waive deadline requirements, but DOBOR staff does not recommend waiver under the circumstances. In particular, GKM admits in its contested case hearing request (see Exhibit 1) that it had actual notice of the meeting and therefore had sufficient time to prepare and submit a request for a contested case hearing.

Moreover, GKM has no property right in RP BH-010-07 and no property right or expectation of receiving a direct negotiated lease. GKM is not entitled to a contested case even if it had timely requested one.

And finally, the Board has already acted on the item. If the Board were to now allow a contested case hearing, this would raise significant Due Process and “cart before the horse” issues pursuant to Mauna Kea Anaina Hou v. Bd. of Land & Nat. Res., 136 Hawai‘i 376, 363 P.3d 224 (2015).

RECOMMENDATION:

DOBOR recommends that the Board:

1) Deny GKM, Inc.’s petition for a contested case hearing, pursuant to HAR § 13-1-29 on the bases that GKM, Inc. did not properly request a contested case hearing within the required ten-day time limit pursuant to HAR § 13-1-29(a); GKM is not entitled to a contested case; and the Board has already decided the issue.

Respectfully Submitted,

EDWARD R. UNDERWOOD, Administrator
Division of Boating & Ocean Recreation

APPROVED FOR SUBMITTAL:

SUZANNE D. CASE, Chairperson
Board of Land and Natural Resources
PETITIONER GKM, INC.’S REQUEST FOR CONTESTED CASE HEARING ON BLNR DECISION CONCERNING ITEM J-1 ON AUGUST 11, 2017 AGENDA

INTRODUCTION

Comes now, GKM, INC. a Hawaii corporation ("GKM"), by and through its undersigned counsel, Joseph Fagundes, III, Attorney at Law, A Law Corporation and hereby requests a contested case hearing on the Board of Land And Natural Resources ("BLNR" or the "Board") August 11, 2017 decision to authorize public auction of a lease for Boat/trailer storage facility and parking situated at Honokohau Small Boat Harbor, North Kona, Island of Hawai‘i, Tax Map Key: (3) 7-4-008:003.

First, GKM respectfully requests that the time for oral and written request for a contested case hearing pursuant to HAR §13-1-29 be waived for good cause on the following grounds:

1. Lack of reasonable notice. GKM was not notified of the matter coming before BLNR. While GKM had received a letter from the Department of Land and Natural Resources, Division
of Boating and Ocean Recreation ("DOBOR") dated July 13, 2017 informing GKM of the intent to request authorization of BLNR for a public auction of GKM’s 9 acre boat park and trailer storage under Revocable Permit ("RP") No. 5, by letter dated July 18, 2017 DOBOR informed GKM that the matter was being "redacted" to a future date and that no projected date was established. In the July 18, 2017 letter DOBOR did agree to keep GKM updated as to when “we will have a Submittal prepared”. A true and correct copy of the July 13, 2017 letter from Property Manager Keiki E. Kipapa to GKM is attached hereto, marked Exhibit “A”. A true and correct copy of the July 18, 2017 letter from Planning and Development Manager Dana Yoshimura to GKM is attached hereto, marked Exhibit “B”.

GKM was never notified of a new submittal or of a new BLNR hearing date. In fact, Ms. Tina Prettyman, General Manager of GKM, became aware of the submittal and the subject agenda item J-1 on August 7, 2017 when viewing the BLNR online website. Ms. Prettyman promptly prepared an opposition letter to the Chair and Board Members dated August 7, 2017, a copy of which is attached hereto, marked Exhibit “C”. The lack of reasonable notice of the hearing on the agenda item did not allow GKM a reasonable opportunity to prepare for and to meaningfully present its opposition on the matter.

2. Absence of Counsel. As this Board may recall, GKM is represented by the undersigned counsel and has appeared before BLNR on two occasions earlier this year on GKM’s behalf on unrelated matters. At the time of Ms. Prettyman discovering the agenda item and revised submittal, yours truly was out of the country and unavailable to either advise GKM or to appear at the August 11, 2017 hearing, or even to issue a request for withdrawal and/or continuance of the item J-1 matter. During the August 11, 2017 hearing, upon information and belief, Ms. Prettyman made the Board aware of counsel’s absence from the State but, not being a professional advocate, did not request a continuance of the matter to a later date. The lack of counsel at the hearing before BLNR was prejudicial to GKM’s ability to meaningfully oppose the authorization requested.

It is respectfully submitted that had DOBOR given GKM the promised “update” offered in the July 18th letter (Exhibit “B”) and notified GKM of the pending hearing, and had GKM had more than 4 days notice of the hearing to secure counsel, a more thorough briefing and presentation of the opposition would have been possible. It is GKM’s belief that there is good cause to waive the timely request for Contested Case Hearing under HAR §13-1-29(a).
BACKGROUND FACTS

GKM's predecessor in interest, Gentry Properties, Inc., had been the lessee of 6 acres of the subject property under a five year Harbor lease from January 1, 1994 through December 31, 1998 then continued the operation of a boat/trailer storage facility under RP.

On January 24, 2003 the Board approved the assignment of adjacent Harbor lease H-82-4 from Gentry Properties, Inc. to GKM. On March 14, 2003 the Board approved termination of the RP for the 6 acres and issuance of an RP to GKM. At that time Gentry Properties and GKM had expended hundreds of thousands of dollars to improve the subject property including, but not limited to, conducting an environmental assessment, archeological studies, obtaining permits for and conducting grading operations and installing chain link fence. At that time, as well, GKM had expressed an interest in obtaining a long-term lease for the subject property and acquiring the adjacent 3 acres of land to expand the boat/trailer storage facility.

It is relevant to note that throughout the entire occupancy, GKM and its predecessor had been assured by DOBOR land manager and staff that a long-term land lease to GKM was probable. In reliance upon those representations, GKM continued to build the boat/trailer storage facility as an integral portion of its adjacent Marina/repair/haul out business.

On July 8, 2012 the Board approved issuance of RP No. BH-010-07 to GKM for the adjacent 3 acres of land requested. GKM proceeded to improve portions of the 3 acre parcel and expand its boat/trailer storage facility. Through mesne approvals by the Board, GKM has remained a tenant of the lands under RP No.5 through the current date. GKM has also continued to repeatedly request to enter into a long-term lease of the 9 acres and/or to consolidate the 9 acres into its existing harbor lease. GKM has provided a service to the maritime community in the development and maintenance of the subject property into a secure boat and trailer storage facility. GKM has continued to be a stellar tenant by timely paying its rent and performing its obligations under the RP and lease. GKM has also cooperated fully with DOBOR in the storage of impounded and derelict vessels impounded from the public.

CONCISE STATEMENT OF ENTITLEMENT

1. As described above, GKM has a significant interest in the Board's action authorizing public auction of the subject 9 acre parcel, in that it has expended hundreds of
thousands of dollars improving the land, creating and developing a business upon the land, and generally acting as a quality steward of the land. GKM is, therefore, entitled to participate as a party in a contested case hearing on the issue of authorizing a public auction of the land.

2. GKM disagrees with the submittal of DOBOR requesting authorization for a public auction of the parcel as there is no provision for GKM to recoup its substantial monetary and time investment incurred in developing and improving the land. Further, GKM possesses significant accounts receivable over which its only leverage is the possession of the stored vessels accruing past due rents. GKM will lose such leverage in the event of a public auction to a third party.

3. GKM seeks a long term lease of the subject parcel and believes that disposition of the parcel to it will continue to support and encourage competition within the maritime community. An alternative boat/trailer storage facility has been developed nearby Honokohau Harbor demonstrating that competition exists to GKM’s business for the benefit of the community and the maritime industry.

4. The public interest is served by GKM’s participation in a Contested Case Hearing as it will create a forum for expressions of differing positions and perspectives by the public and other related private and public entities. Opposition, support and debate allow the public interest to be furthered in a public forum not ordinarily available to citizens who do not know about or do not participate in the auction of public lands.

5. It is submitted that GKM is an interested party and meets the criteria for admission, especially in light of HAR §13-1-21(c) and the fact that no other party—or potential party—shares an identical or similar interest.

CONCLUSION

GKM respectfully requests a waiver of the 10 day notice demand for a contested case hearing. Arguably this submission is on the deadline or at most one day late by postmark.

GKM seeks a long-term lease of the land which it, and its predecessor in interest, have spent over 23 years developing into a going business which provides benefits and services to the West Hawai‘i maritime community as well as to the Island community as a whole. As a model tenant of DOBOR, GKM deserves to continue to provide those services and to participate in the
business it developed. GKM’s marina and haul out facility business on adjacent property is now intertwined with and interdependent upon the boat/trailer storage facility, such that GKM’s marina business will suffer significant injury if not allowed to continue the existing operations. Finally, the expenditure of significant funds to improve the land does not escheat to the State. The improvements which GKM and its predecessor have constructed belong to GKM. The DOBOR submittal regarding “fenced, unimproved land” is misleading to the public and misstates the genuine facts. DOBOR does not own the fences or any of the other security improvements.

GKM requests that the Board approve conducting a Contested Case Hearing on this matter and that proper notice thereof be given to it, with the allowance to participate as a party.

Dated: Kailua-Kona, Hawai‘i August 22, 2017

[Signature]
Joseph Pagundes, Jr.
Attorney for Petitioner GKM, Inc.
Certified Mail
7015 3010 004 6023 4788

GKM, Inc.
c/o Ms. Tina Prettyman
74-425 Kealakehe Parkway
Kailua-Kona, HI 96740

Notice of Intent for Public Auction of a Lease for land situated at Honokohau Small Boat Harbor and Fuel Sales at Gentry’s Kona Marina

Dear Ms. Prettyman,

The Division of Boating and Ocean Recreation (DOBOR) will be going before the Board of Land and Natural Resources (the BLNR) on July 28, 2017 to request Authorization of a Public Auction of a Lease for 9 acres, more or less or unimproved land currently on Revocable Permit (RP) No. 5 to GKM, Inc. The BLNR made a recommendation to DOBOR on May 26, 2017, to transition the parcel from an RP into a Boating Lease.

DOBOR has also been informed of ongoing fuel sale operations being conducted at the GKM site. Our records do not indicate previous approval from the BLNR and we kindly request your assistance in resolving this matter.

Should you have any concerns, please feel free to contact or Property Management Division at (808) 587-2683.

Regards,

Keiki E. Kepua
Property Manager

RECEIVED
JUL 15 2017
BY:

EXHIBIT A
July 18, 2017

Certified Mail
7015 3010 0001 6023 4801

GKM, Inc.
c/o Ms. Tina Prettyman
74-425 Kealakehe Parkway
Kailua-Kona, HI 96740

Postpone Request for Authorization
Public Auction of a Lease at Honokohau Small Boat Harbor

Dear Ms. Prettyman,

On July 13, 2017, the Division of Boating and Ocean Recreation (DOBOR), sent out a letter to GKM, Inc., via Certified Mail, that we would be going before the Board of Land and Natural Resources (the BOARD) on July 28, 2017 to request Authorization of a Public Auction of a Lease at Honokohau Small Boat Harbor.

Upon further review, DOBOR has decided to redact the Submittal to improve the information we will be providing to the BOARD. We apologize for any confusion on this matter. At the moment, DOBOR does not have a projected date as to when we will proceed with BOARD approval however, we will keep you updated as to when we will have a Submittal prepared.

If there are any concerns, please contact our Property Management division at (808) 587-2683.

Regards,

Dana Yoshimura
Planning & Development Manager

EXHIBIT B
Ms. Suzanne Case, Chairperson  
Department of Land and Natural Resources  
Main Office - Kalanikou Building  
1151 Punchbowl St.  
Honolulu, HI 96813

Re: Board Meeting August 11, 2017, Item J-1  
OPPOSE the Authorization of a Public Auction of a Lease for a Boat/Trailer Storage Facility and Parking Purposes (Existing), situated at Honokohau Small Boat Harbor, North Kona, Island of Hawaii, Tax Map Key: (3) 7-4-008:003 (portion)

Dear Chairperson Case:

When GKM, Inc. purchased the assets from Gentry Properties the boat park was included. We were assured by the DLNR Department head at the time that we would be able to get a long term lease on the vessel storage parking area known as the “Boat Park”.

GKM, Inc. continued to develop the business at its own expense. We built the Boat Park because of public demand for storage of larger boats on trailers. After operating the stacked storage it became clear that boaters wanted to store and launch larger vessels.

DLNR-DOBOR has also utilized the boatpark to store vessels that were removed from their moorings. We were asked by former District Manager, Jeff Bearman, to store a large vessel "Viajero", which was being stored on a trailer on state land in complete disrepair and seemed to be stuck there. The vessel owner stopped paying for storage over 10 years ago. We have several vessels in this situation.

We note that Exhibit C is a copy from the original five year lease that Gary Lambert, (General Manager for Gentry’s Kona Marina) and Larry Cobb (Property Manager for Department of Transportation, Harbors), at that time, collaborated on in 1993. It was thought that if it was to work in conjunction with the existing four-acre Haul-out facility it would need some of the same uses. It was never meant to be an individual parcel with competing uses. As it is there is not enough boat haul-out repair to sustain the existing haul-out facility now. Boat storage is what the boating public asked for and it has not changed!

We have over $300,000 in receivables that we will not be able to collect if GKM, Inc. loses control of the Boat Park. GKM, Inc. has already made those investments. Our
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BLNR Meeting 08/11/17, Item J-1
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only method of collection is restriction or disposition and if this goes away we will not be able to collect on those debts.

We are afraid that the DLNR-DOBOR has been mislead that this type of operation is a “cash cow” and is now seeking unattainable rental amounts setting up the successful bidder to fail. **We urge the Board not to pass this submittal with its numerous errors and misinformation, in order to prevent another “HONEY BEE” type of situation from occurring at Honokohau Harbor.**

There are substantial revenues that will be needed to be able to make a boat storage facility viable. As written (with the condition that lessee pay 50% of Gross revenues), boaters would not be able to afford the storage and this will cost a lot of local families their ability to own their boat and enjoy our ocean. These social and economic impacts need to be evaluated and talked about.

Is the boat park going to get an Environmental Assessment (EA)? There are significant public, social and economic impacts and an EA should be performed. The successful bidder will need bathrooms and utilities. It is our understanding that there is a traditional Hawaiian trail in the area that will need to be dealt with.

With all the other Revocable Permitted land in the area is the reason you chose the Boat Park (Revocable Permit No. 5) because GKM, Inc. has acquired all the necessary county and state permitting prior to making the improvements? We note the use of our Wes Thomas & Associate survey (paid by GKM, Inc.) used in the Board submittal labeled “Exhibit A”.

Also, the submittal, as written, includes improvements not owned by DLNR-DOBOR upon termination or revocation of Revocable Permit No. 5.

In summation, GKM, Inc. is disappointed in DLNR-DOBOR’s attempt to capitalize on all our efforts by putting our business, the Boat Park, out on the auction block.

Sincerely,

Tina Prettyman
General Manager

Cc: Stanley H. Roehrig, BLNR Member
    Christopher Yuen, BLNR Member
    Keone Downing, BLNR Member
    James A. Gomes, BLNR Member
    Thomas Oi, BLNR Member
    Samuel "Ohu" Gon III, BLNR Member
In the Matter of the Petition of GKM, INC. Request For Contested Case Hearing

PROOF OF SERVICE RE:

PETITIONER GKM, INC.'S REQUEST FOR CONTESTED CASE HEARING ON BLNR DECISION CONCERNING ITEM J-1 ON AUGUST 11, 2017 AGENDA

Hearing date: none set
Time: none set

I hereby certify that a full copy of the within PETITIONER GKM, INC.'S REQUEST FOR CONTESTED CASE HEARING ON BLNR DECISION CONCERNING ITEM J-1 ON AUGUST 11, 2017 AGENDA was duly served by U.S. Mail, postage prepaid on August 22, 2017 to the following persons:

Board of Land and Natural Resources
1151 Punchbowl Street, #130
Honolulu, HI 96813
(original and 7 copies)

Dated: Kailua-Kona, Hawai'i August 22, 2017

Sarah Spitler
Associate Attorney