



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

FORD N. FUCHIGAMI
DIRECTOR

Deputy Directors
JADE T. BUTAY
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DARRELL T. YOUNG

IN REPLY REFER TO:

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

ISSUANCE OF A DIRECT FIXED-BASE FACILITY LEASE
TO KEAHOLE FBO I LLC
ELLISON ONIZUKA KONA INTERNATIONAL AIRPORT AT KEĀHOLE
TAX MAP KEY: (3) 7-3-43: PORTION OF 003 HAWAI'I

REQUEST:

Issuance of a direct lease to Keahole FBO I LLC to develop, construct, operate, maintain, and repair a fixed-base facility ("FBO") at Ellison Onizuka Kona International Airport at Keāhole (KOA).

LEGAL REFERENCE:

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

APPLICANT:

Keahole FBO I LLC (KELL), a Hawai'i limited liability company.

LOCATION AND TAX MAP KEY:

Portion of KOA, Kailua-Kona, Island of Hawai'i, identified by Tax Map Key:
3rd Division, 7-3-43: Portion of 003.

PREMISES:

ATTACHED EXHIBIT B

Area/ Space Nos. 006-129 and 517-105B, containing areas of approximately 660,034 and 328,294 square feet, respectively of unimproved, unpaved land.

TERM OF LEASE:

Thirty-five (35) years

ITEM M-9

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LEASE COMMENCEMENT DATE:

To be determined by the Director of Transportation.

ANNUAL RENTALS:

*If there are substantial leasehold improvements constructed on the premises, the annual lease rental for the first year shall be waived at the beginning of the lease pursuant to Section 171-6 Powers, HRS.

Years 1 thru 5: \$474,397.44* (as determined from the DOTA schedule of rates and charges established by appraisal of Airports property statewide).

Years 6 thru 10:	\$ 569,276.88
Years 11 thru 15:	\$ 683,132.28
Years 16 thru 20:	\$ 819,758.76
Years 21 thru 25:	\$ 983,710.56
Years 26 thru 30:	\$1,180,452.60
Years 31 thru 35:	\$1,416,543.10

PERFORMANCE BOND:

Sum equal to the annual land rental then in effect.

MINIMUM IMPROVEMENTS REQUIREMENT:

The Applicant shall invest the sum of not less than \$5,000,000.00 for upgrading and improving the leased premises and constructing fixed base facility improvements and other accessory leasehold improvements on the leased premises within two years from the commencement date of the lease. The upgraded and improved leased premises and fixed base facility and other accessory improvements shall be constructed in accordance with construction plans, drawings, and specifications approved by the DOTA, in writing, prior to the commencement of any construction work.

ZONING:

State Land Use District:	Urban and Conservation
County of Hawai'i:	Industrial (MG-1a) and Open

LAND TITLE STATUS:

Section 5(a), Hawai'i Admission Act	<u>Ceded</u>
DHHL 30% entitlement lands	Yes _____ No <u>X</u>

CURRENT USE STATUS:

Aeronautical purposes

CHARACTER OF USE:

Development, construction, operation, maintenance and repair of a FBO operation.

PROPERTY CHARACTERISTICS:

Utilities:	Not available at the site
Improvements:	None located at the site

CHAPTER 343, HRS – ENVIRONMENTAL ASSESSMENT:

This project will have no significant impact as stated in the Final Environmental Assessment/Finding of No Significant Impact for the Airfield, Terminal and Facility Improvements for KOA as prepared for the State of Hawai'i, Department of Transportation, Airports Division by Wilson Okamoto Corporation, Engineers and Planners under WOC Job No. 8027-01 for State Project No. AH2011-05, and dated March 2013.

DCCA VERIFICATION:

Place of business registration confirmed:	YES <u>√</u>
Registered business name confirmed:	YES <u>√</u>
Good standing confirmed:	YES <u>√</u>

REMARKS:

In accordance with Section 171-59(b), HRS, as amended, relating to Management and Disposition of Public Lands and relating specifically to Disposition by Negotiation, the Department of Transportation (DOT) proposes to issue a direct FBO lease to KELL.

The DOT has determined that the issuance of this direct FBO lease encourages competition within the aeronautical-related operations at KOA. Presently, two FBOs under long-term leases competitively serve KOA. One of the FBOs provides ramp and tie-down services for aircraft, performs aviation fueling, maintains aircraft, performs aircraft sales, leasing and brokerage, does catering, rents vehicles for its customers, and provides a pilot lounge in a light facility. A second FBO provides ramp and tie-down services, performs aviation fueling, does catering, rents vehicles for its customers, and provides a pilot lounge in a light structure.

To compete with these two FBOs, KELL's business offers the following in addition to its competitors: a planned 40,000 sq. ft. hangar and adjacent facilities to shelter aircraft from the sun and impurities of salt water-air, spacious lounges, office and conference space for business needs, use of office equipment, internet and Wi-Fi access, rent vehicles for its customers, inventory of aircraft parts, equipment and avionics, provide a pilot lounge with sleeping quarters, provide maintenance and cleaning of aircraft, lavatory services, offer a Maintenance, Repair and Overhaul ("MRO") operation, a pilot school, and an Aircraft Mechanic and Avionics School offering internships. Therefore, the DOTA believes KELL's successful development and operation of its FBO encourages more needed competition at KOA.

As a comparison, KELL's competitors are encumbered under FBO Leases with 30-year terms as follows:

FBO Lease I

Remaining Lease Terms and Annual Rents:

07/01/2013 thru 06/30/2018	\$ 48,310.02
07/01/2018 thru 06/30/2023	\$ 57,972.02
07/01/2023 thru 06/30/2028	\$ 69,566.43
07/01/2028 thru 06/30/2033	\$ 83,479.71
07/01/2033 thru 06/30/2038	\$100,175.60

Required Minimum Investment for Improvements: \$400,000.00

Improvements made: Approximate 10,000 sq. ft. building housing a lounge and greeting facility with an adjacent parking lot for customers, and paving of its ramp area

FBO Lease II

Remaining Lease Terms and Annual Rents:

04/09/2013 thru 04/08/2018	\$46,297.10
04/09/2018 thru 04/08/2023	\$53,241.67
04/09/2023 thru 04/08/2028	Reopening & no less than 115% x prior year rental
04/09/2028 thru 04/08/2033	Reopening & no less than 115% x prior year rental
04/09/2033 thru 04/08/2038	Reopening & no less than 115% x prior year rental

Required Minimum Investment for Improvements: \$400,000.00

Improvements made: Parking lot for customers, and paving of its ramp area

The DOT performed research on this request which resulted in its decision to submit this direct lease request because it risks its compliance with USFAA's Grant Assurances. Grant Assurance No. 22 c. states each FBO operator** at the airport shall be subject to the same rental rates applicable to all other FBO operators making the same or similar uses of such airport to serve any air carrier at such airport. The DOT affirms that a public notice by auction for this disposition would likely cause disparate rental rates in this regard.

** The USFAA defines a FBO Operator as a private company which provides on-airport facilities and services for various aviation-related activities. These activities typically include and are not limited to facilities and services needed for aircraft storage, maintenance and repair, aircraft charters, flight training, aircraft refueling, etc.

RECOMMENDATION:

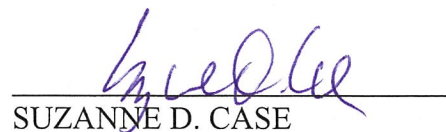
That the Board authorize the issuance of a direct lease for a fixed-base facility to KELL at KOA, subject to: (1) terms and conditions herein outlined, which are by reference incorporated herein; (2) such terms and conditions as may be prescribed by the Director of Transportation to best serve the interests of the State; and (3) review and approval of the Department of the Attorney General as to the lease form and content.

Respectfully submitted,

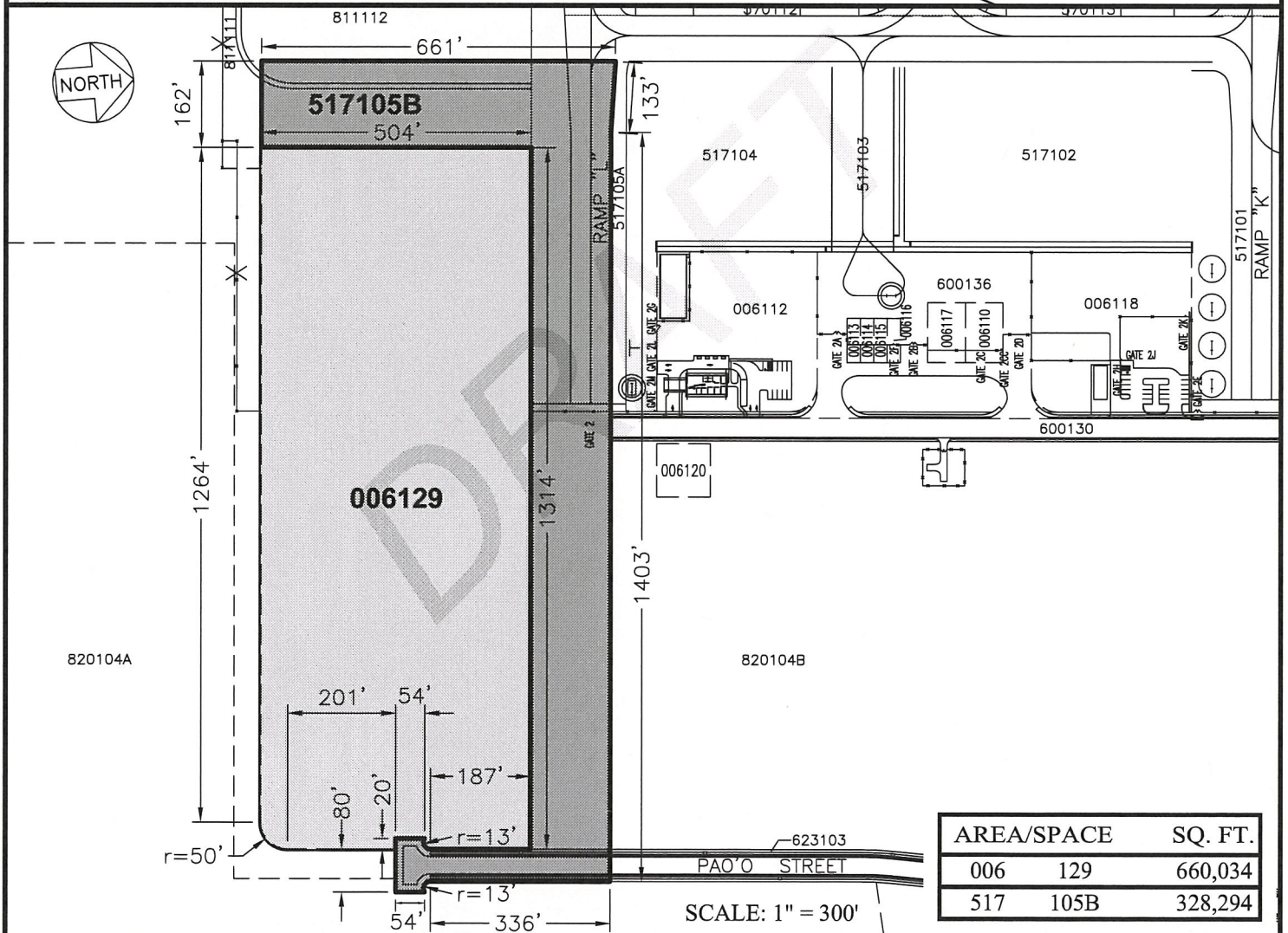
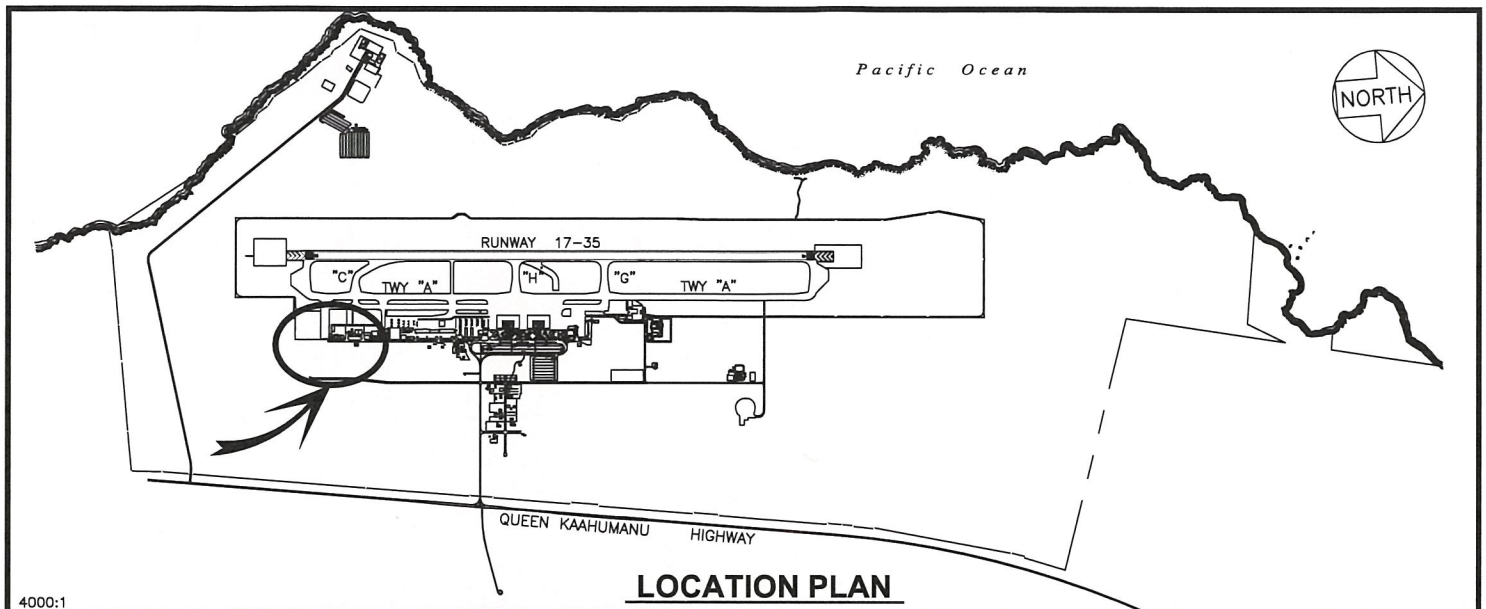


FORD N. FUCHIGAMI
Director of Transportation

APPROVED FOR SUBMITTAL:



SUZANNE D. CASE
Chairperson and Member



DRAFT

DATE : OCTOBER 2017

EXHIBIT: **B**



Airports Division

KEAHOLE FBO I LLC

LOT
SOUTH RAMP

006129
517105B

PLATS 40, 60