

State of Hawai'i
DEPARTMENT OF LAND AND NATURAL RESOURCES
Division of State Parks
Honolulu, Hawai'i 96813

May 22, 2026

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

Kaua'i

Approval to Amend the Following General Leases to Correct the Termination Date to December 31, 2028:

SP0100, Gary Baldwin, Lots 17 and 18, Kōke'e Camp Site Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:038;

SP0101, Lucy Black, Benjamin Alexander and Mary Ann Lentz, Lot 6, Puu Ka Pele Park Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:028;

SP0102, Camp Kōke'e Corp., Lot 90, Kōke'e Camp Site Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:047;

SP0104, Kathryn Cassel, Lot 18, Puu Ka Pele Park Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-002:025;

SP0105, Joel Cavasso, Lot 4, Kōke'e Camp Site Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-003:014;

SP0108, Elizabeth Dunford, Lot 47, Kōke'e Camp Site Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:003;

SP0111, Michael Givens (Trustee), Lot 10, Puu Ka Pele Park Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:043;

SP0113, Kenneth and Catherine Harding, Lot 46, Kōke'e Camp Site Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:010;

SP0114, Frank O Hay, Lot 38, Kōke'e Camp Site Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:043;

SP0117, Bertha Kawakami and Gertrude Toma, Lot 61, Puu Ka Pele Park Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-002:061;

ITEM E-4

SP0118, Kocher Trust, Lot 7, Puu Ka Pele Park Lots, Waimea (Kona),
Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-003:005;

SP0120, Kōke'e Mountain House, Lot 89, Kōke'e Camp Site Lots,
Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:054;

SP0121, Lealani Corporation, Lots 8 and 37, Kōke'e Camp Site Lots,
Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:014;

SP0126, William and Jean Moragne, Lots 1, Puu Ka Pele Park Lots,
Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-002:031;

SP0127, Stanley and Coleen Morinaka, Lot 89, Puu Ka Pele Park Lots,
Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-002:085;

SP0128, Julia Nakaya, Lot 51, Puu Ka Pele Park Lots, Waimea (Kona),
Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-002:051;

SP0130, Corwin Acoba and Joanne Acoba, Lot 86, Kōke'e Camp Site
Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:059;

SP0132, Warren Onishi, Lot 70, Puu Ka Pele Park Lots, Waimea (Kona),
Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-002:067;

SP0133, Rita Peeters, Lot 92, Kōke'e Camp Site Lots, Waimea (Kona),
Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:049;

SP0135, David Pratt, Dudley Pratt, Jean Wolff, Joan Pratt and Norman
Wolff, Lot 7, Puu Ka Pele Park Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax
Map Key: (4) 1-4-002:029;

SP0137, Kevin Huff, Lot 65, Kōke'e Camp Site Lots, Waimea (Kona),
Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:036;

SP0139, Karl Ramirez and Linda Alimboyoguen-Ramirez, Lot 50, Kōke'e
Camp Site Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-
003:011;

SP0142, Sheehan Family Ltd., Lot 13, Puu Ka Pele Park Lots, Waimea
(Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-003:008;

SP0143, Donald and Rosemary Smythe and Richard and Beverly Lavens,
Lot 84, Kōke'e Camp Site Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map
Key: (4) 1-4-004:055;

SP0146, Robert Sweney, Lot 71, Puu Ka Pele Park Lots, Waimea (Kona),
Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-002:068;

SP0148, Edward and Vicky Taylor, Lot 85, Kōke'e Camp Site Lots,
Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:058;

SP0150, Brent M. Olson and Karen E. Olson, Lot 20, Puu Ka Pele Park
Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-002:027;

SP0151, Ruth Thomas, Lot 24, Puu Ka Pele Park Lots, Waimea (Kona),
Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-002:013;

SP0153, Phyllis Tokita and Francis P. Mission, Lot 72, Puu Ka Pele Park
Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-002:069;

SP0154, Hale Poha LLC, Cecelia Williams, and Peter Baldwin, Lot 52,
Kōke'e Camp Site Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key:
(4) 1-4-003:003;

SP0155, Waimea Garage, Lot 58, Kōke'e Camp Site Lots, Waimea
(Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:024;

SP0158, Gaylord and Carol Wilcox, Lot 54, Puu Ka Pele Park Lots,
Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:012;

SP0160, James and Cynthia Wilson, Lot 43, Kōke'e Camp Site Lots,
Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:008;

SP0165, Wayne and Deborah Jacintho, Lot 6, Kōke'e Camp Site Lots,
Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-003:004;

SP0169, Kikiaola Land Co., Ltd., Lot 14, Kōke'e Camp Site Lots, Waimea
(Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-003:012;

SP0170, Paulette Burtner, Lot 52, Puu Ka Pele Park Lots, Waimea
(Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-002:052;

SP0171, Malcolm Smith, Lot 93, Kōke'e Camp Site Lots, Waimea (Kona),
Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:050;

SP0172, Myrna Ing, Lot 78, Puu Ka Pele Park Lots, Waimea (Kona),
Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-002:075;

SP0174, Kapua O Ka Maile Janai, Lot 62, Puu Ka Pele Park Lots,
Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-002:062;

SP0176, Rodney and Debbie Hoeme, Lots 20 and 21, Kōke'e Camp Site Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:035;

SP0177, Roy and Aileen Nitta, Carol Sakai and Wayne and Edith Sakai, Lot 25, Puu Ka Pele Park Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-002:14;

SP0179, Kenneth Wood, Lot 19, Puu Ka Pele Park Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-002:026;

SP0180, Wilcox Memorial Hospital, Lot 54, Puu Ka Pele Park Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-002:054;

SP0182, Kumuwela Inc., Lot 30, Kōke'e Camp Site Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:020;

SP0183, David and Linda Sproat, Lots 60 and 63, Kōke'e Camp Site Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:001;

SP0184, Bert S. Agor and Vicki E. Agor, Lot 30, Kōke'e Camp Site Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-004:020;

SP0185, Sabra Kauka, Lot 50, Puu Ka Pele Park Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-002:035;

SP0187, Eleanor Snyder, Lot 16, Puu Ka Pele Park Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-002:021;

and

SP0188, Susan Stayton, Kay Doty and Craig Millet, Lot 30, Puu Ka Pele Park Lots, Waimea (Kona), Kaua'i, Hawai'i, Tax Map Key: (4) 1-4-002:022.

LEGAL REFERENCE:

Section 171-36 and other applicable sections of Chapter 171, Hawai'i Revised Statutes ("HRS"), as amended.

ZONING:

State Land Use District: Conservation (Resource Subzone)
County of Kaua'i: Open (OP)

TRUST LAND STATUS:

Section 5(b) lands of the Hawai'i Admission Act
DHHL 30% entitlement lands pursuant to the Hawai'i State Constitution: NO

CHARACTER OF USE:

Recreation-residence.

REMARKS:

At its meeting of July 25, 2008, (Item E-5), the Board of Land and Natural Resources ("Board") approved the disposition of new twenty (20)-year recreation residence leases for Puu Ka Pele, Halemanu, and Kōke'e Camp Lots via direct negotiation with existing lessees pursuant to Act 223, Session Laws of Hawaii 2008. This action continued a century-old tradition of recreational use in these areas, transitioning from pre-1965 permits to negotiated 20-year leases (1965-1985), subsequent 20-year auction leases (1985-2005), and temporary extensions through late 2008.

Under the terms of the negotiated agreements, the renewed leases were authorized for a strict 20-year duration. As these leases formally commenced on January 1, 2009, they are mathematically required to terminate exactly two decades later on December 31, 2028. This aligns with the historical leasing cycles and the legislative intent behind the 2008 Board action.

However, the current lease documentation erroneously records the termination date as December 31, 2029, effectively creating an unintended 21-year term. Upon consultation with the Department of the Attorney General, it is recommended that a simple amendment be executed to the affected lease documents. Correcting the end date to December 31, 2028, will ensure the documentation accurately reflects the authorized 20-year term and meets all compliance standards.

No comments have been received from any other agency or the community regarding this request.

Based on the foregoing, DSP recommends that the Board approve the amendment of the affected leases to correct the termination date to December 31, 2028.

RECOMMENDATION:

That the Board of Land and Natural Resources approve the amendment of the affected leases, in the manner specified by law and further subject to the following conditions:

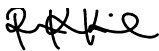
1. The affected leases shall be amended to correct the termination date to read December 31, 2028;
2. The standard terms and conditions of the most current amendment to lease forms, as may be amended from time to time;
3. Review and approval by the Department of the Attorney General; and,
4. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interest of the State.

Respectfully submitted,



ALAN B. CARPENTER,
Acting Administrator
Division of State Parks

APPROVED FOR SUBMITTAL:



RYAN K. P. KANAKAOLE
Acting Chairperson
Board of Land and Natural Resources

Attachments:

- Exhibit A – July 25, 2008, Board Action
- Exhibit B – Original Lease Document

State of Hawai'i
DEPARTMENT OF LAND AND NATURAL RESOURCES
Division of State Parks
Honolulu, Hawai'i 96813

July 25, 2008

as amended
Approved by the Board of
Land and Natural Resources
at its meeting held on

JUL 25 2008

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

Subject: Request for Approval for Disposition of New Twenty Year Recreation
Residence Leases at Pu`u Ka Pele, Halemanu and Koke`e Camp Lots through
Direct Negotiation, Koke`e and Waimea Canyon State Parks, Waimea, Kaua`i

Background

The history of recreation residence use in these areas dates back over a hundred years. Until 1965, this use was authorized by permits. In 1965, the board issued 20 year leases by direct negotiation to former permittees as authorized by Haw. Rev. Stat. § 171-44.

There was considerable controversy and litigation when these leases expired in 1985. Lessees claimed that they, not the State, owned improvements on the lots. They claimed they were entitled to have new leases issued to them by direct negotiation.

The board decided to issue new 20 year leases by auction. Many, but not all, of the former lessees were successful bidders at this auction.

When these leases expired, the controversy flared up again. Lessees again claimed that they, not the State, owned the cabins on the lots. One group of lessees filed suit on that basis in Kauai circuit court. The case went to trial. Judge Kathleen Watanabe rejected lessees' claims. She held that the State owns the improvements. Lessees appealed. Another suit raising similar claims remains pending in the First Circuit court on Oahu.

The leases were extended for one year by holdover pursuant to Haw. Rev. Stat. § 171-40. After the end of the holdover period, the board authorized issuance of revocable permits covering the lots pursuant to Haw. Rev. Stat. § 171-55. Those permits are still in effect.

Meanwhile, the board has considered the issuance of new leases on several occasions. At one point, the board directed that certain leases be issued by direct negotiation, and others by auction, with former lessees who did not get new leases being compensated for the cabins (despite the fact that lessees do not own the cabins). More recently the board directed that all the new leases be issued by auction.

Since that time the legislature passed House Bill 2872 SD 2 CD 2 which became law without the governor's signature as Act 223 (2008). A copy of the Act is attached (Exhibit "A"). The Act directs the board to negotiate new leases directly with existing permittees. (The Act also refers to "existing lessees" but because the leases have expired, there are no such persons.) The Act requires the board to present permittees with proposed new lease terms and proposed lease rates and then negotiate with permittees. There are 91 such permittees at present. A list is attached (Exhibit "B"). Several of these permittees are allegedly in default. If the board cancels any permits, then new leases will not be negotiated as to those lots.

Staff has drafted a lease for consideration by the board. A copy is attached (Exhibit "C"). Staff particularly invites the board's attention to the following points.

First, the lease makes clear that the State owns any and all improvements on the lots.

Second, the areas have been designated as a historic district and are subject to review under Haw. Rev. Stat. § 6E-8(a). As part of the process, the area is subject to implementation of design guidelines that will govern any new improvements and some repair and maintenance. A copy of the Design Guidelines in their present form is attached (Exhibit "D"). The guidelines are not finalized. The lease acknowledges this and provides that lessees will have the option to terminate the lease once they review final Design Guidelines.

Third, part of the lawsuit in the First Circuit lawsuit challenges the State's ability to lease the properties using existing cesspools. The Department of Attorney General does not believe this claim has merit. But the lease is drafted to provide that if cesspools are in fact not allowed, then it will be the lessees' obligation to remove them and replace them with an approved wastewater treatment system.

In addition, certain lots have been designated as being in the Well Head Protection Zone. A list of those lots is attached (Exhibit "E"). Lessees of those lots will be required to close existing cesspools and replace them with an approved wastewater system.

Fourth, the water delivery system in the areas is not robust. In the past, there have been water quality problems. The Department of Health has been monitoring the situation. Notice has been sent to lessees. There have been discussions that costs to improve the water system might be as much as \$25 million. This amount is far beyond anything that could be accommodated by Parks' budget. The lease makes clear that the State does not guarantee water service to the leases and does not guarantee potable water. The lease would permit tenants to build catchment systems at their own expense. Again, if the water service is discontinued, lessees are given the option to cancel the lease.

A similar provision is included as to the electrical system.

The Act also provides that lease rent be based on fair market rent for land and buildings. A list of the proposed rents for each lot based on appraisal is attached (Exhibit "F"). New lessees will be required to reimburse the department for the costs of the appraisal. The amount to be reimbursed is \$404.25 per lot. Permittees may make a counteroffer based on their own certified appraisal and any difference will be negotiated in good faith.

RECOMMENDATION:

That the Board:

1. Approve issuance of recreational leases to current permittees pursuant to Act 223.
2. That the new lease terms presented to current permittees be those stated in the attached draft lease.
3. That lease rates presented to current permittees will be those stated in the forth coming appraisal report.
4. That the Chairperson be authorized and directed to negotiate final terms of the lease, including lease rent, and to enter into new leases.
5. To qualify for the new lease, existing permittee must be current with all permit terms and conditions.
6. Any remaining habitable recreation residence shall be auctioned to the general public at the earliest possible date.
7. Terms and issuance of the recreational leases subject to approval by the Attorney General.

Respectfully submitted,



DANIEL S. QUINN
State Parks Administrator

APPROVED FOR SUBMITTAL:



LAURA H. THIELEN, Chairperson

TABLE OF CONTENTS

	<u>Page</u>
TERM OF LEASE	1
ANNUAL RENTAL	1
REOPENING OF ANNUAL RENTAL	2
INTEREST RATE/SERVICE CHARGE	3
RESERVATIONS:	
1. Minerals and waters	3
2. Ownership of improvements	3
3. Timber stands	3
AGREEMENTS AND COVENANTS BETWEEN PARTIES:	
1. Payment of rent	4
2. Taxes, assessments, etc.....	4
3. Utility services	4
4. Covenant against discrimination	4
5. Sanitation	5
6. Waste and unlawful, improper or offensive use of premises	5
7. Compliance with laws	5
8. Inspection of premises	5
9. Improvements	5
10. Repairs to improvements	6
11. Liens	6
12. Character of use	6
13. Assignments, etc.....	6
14. Subletting	7
15. Indemnity	7
16. Costs of litigation	7
17. Liability insurance	8
18. Bond, performance	9
19. Lessor's lien	9
20. Mortgage	9
21. Breach	9
22. Right of holder of record of a security interest	10
23. Condemnation	11
24. Right to enter	11
25. Inspection by prospective bidders	11

TABLE OF CONTENTS (cont'd)

	<u>Page</u>
26. Acceptance of rent not a waiver	12
27. Extension of time	12
28. Justification of sureties	12
29. Waiver, modification, reimposition of bond and liability insurance provisions	13
30. Quiet enjoyment	13
31. Surrender	13
32. Non-warranty	13
33. Hazardous materials.....	13
34. Hawaii law	14
35. Exhibits - Incorporation in lease	14
36. Headings	14
37. Partial invalidity	14
38. Time is of the essence	15
39. Historic preservation	15
40. Construction and installation of utilities.....	15
41. Maintenance of water pipelines	15
42. Recreation-residence purposes defined	16
43. Character of premises; limited services	16
44. Proof of principal place of residence	17
45. Fire prevention	17
46. Dangerous animals	18
47. Prevention and control of noxious and exotic plants	18
48. Hunting and fishing ..	18
49. Abandoned vehicles	18
50. Environmental regulations.....	18
51. Fire and extended coverage insurance	18
52. Removal of trash	19
53. Phase I environmental site assessment	19
54. Survey and boundary stakeout	20
55. Easements	20
56. Notice	20
57. Approvals	20
58. Withdrawal	20
59. Reservation of rights.....	21
 DEFINITIONS	 21
 SIGNATURE PAGE	 22
 ACKNOWLEDGMENT PAGE	 23

STATE OF HAWAII

DEPARTMENT OF LAND AND NATURAL RESOURCES

GENERAL LEASE NO. SP-0100

THIS LEASE, made this 6th day of January 2009, by and between the STATE OF HAWAII, hereinafter referred to as the "Lessor," by its Board of Land and Natural Resources, called the "Board," and Gary Baldwin, whose address is Gary Baldwin, c/o Gregg Gardner, 2425 Akoki Street, Lihue, Hawaii, 96766, hereinafter referred to as the "Lessee."

WITNESSETH:

The Lessor for and in consideration of the rent to be paid and of the terms, covenants and conditions herein contained, all on the part of the Lessee to be kept, observed and performed, does lease unto the Lessee, and the Lessee does lease from the Lessor the premises identified as "Lots 17 & 18, Waimea (Kona), Kauai, Hawai'i, Tax Map Key No. (4)1-4-004:038," containing an area of 1.66 acres, more or less, more particularly described in Exhibit "A" and as shown on the map marked Exhibit "B," attached hereto and made parts hereof.

TO HAVE AND TO HOLD the leased premises unto the Lessee for the term of twenty (20) years, commencing on the first day of January, 2009, up to and including the 31st day of December, 2029, unless sooner terminated as hereinafter provided.

Provided that the Lessee shall pay rent through December 31, 2009, upon execution of this lease and shall thereafter yield and faithfully pay to Lessor at the Office of the Department of Land and Natural Resources, State Parks Division, 1151 Punchbowl Street, Room 310, Honolulu, Hawai'i 96813, a annual rental as provided hereinbelow, payable in advance, without notice or demand, in equal annual installments beginning on January 1, 2010, and on or before January 1 of each year during the term as follows:

A. For the first ten (10) years, the sum of FIVE THOUSAND AND NO/100 DOLLARS (\$5,000) per annum.

B. As of the end of December 2019, the annual rental reserved for the remaining ten (10) years of said term shall be reopened and redetermined.

C. Determination of rental upon reopening of the

annual rental. The rental for the remaining ten (10) year period shall be the fair market rental at the time of reopening or the rent for the previous period, whichever is greater. It is the intent and agreement of the parties that the rent shall never decrease during the term hereof, except as provided in paragraph 43 below. Except as provided herein, the provisions in Hawaii Revised Statutes chapter 658A (as this chapter or its successor is in effect at the time of determination), shall be followed. At least six (6) months prior to the time of reopening, the fair market rental shall be determined by a staff appraiser or independent appraiser, as allowed by law, whose services shall be contracted for by the Lessor, and the Lessee shall be promptly notified by certified mail, return receipt requested, of the fair market rental as determined by Lessor's appraiser; provided, that should the Lessee fail to notify Lessor in writing within thirty (30) days after receipt thereof that Lessee disagrees with the fair market rental as determined by Lessor's appraiser and that Lessee has appointed its own appraiser to prepare an independent appraisal report, then the fair market rental as determined by Lessor's appraiser shall be deemed to have been accepted by Lessee and shall be the fair market rental as of the date of reopening. If Lessee has notified Lessor and appointed his appraiser as stated hereinabove, Lessee's appraiser shall complete his appraisal and the two appraisers shall then exchange their reports within forty-five (45) days from the date of Lessee's appointment of the appraiser.

The two appraisers shall review each other's reports and make every effort to resolve whatever differences they may have. However, should differences still exist fourteen (14) days after the exchange, the two appraisers shall within seven (7) days thereafter appoint a third appraiser who shall also prepare an independent appraisal report based on the review of the two appraisal reports prepared and any other data. Copies thereof shall be furnished to the first two appraisers within forty-five (45) days of the appointment. Within twenty (20) days after receiving the third appraisal report, all three shall meet and determine the fair market rental in issue. The fair market rental as determined by a majority of the appraisers shall be final and binding upon both Lessor and Lessee, subject to vacation, modification or correction in accordance with the provisions of chapter 658A, Hawaii Revised Statutes. Each party shall pay for its own appraiser and the cost of the services of the third appraiser shall be borne equally by the Lessor and the Lessee. All appraisal reports shall become part of the public record of the Lessor.

In the event that the appraisers are unable to determine the fair market rental before the reopening date, or by the foregoing prescribed time, whichever is later, the Lessee

shall pay the fair market rental as determined by Lessor's new appraised value until the new rent is determined and the rental paid by Lessee shall then be subject to retroactive adjustments as appropriate to reflect the fair market rental determined as set forth hereinabove. However, Lessee or Lessee's appraiser's failure to comply with the procedures set forth above shall constitute a waiver of Lessee's right to contest the new rent, and the Lessee shall pay the rent as determined by Lessor's appraiser without any retroactive adjustments. Alternatively, Lessor may treat this failure as a breach of this lease and terminate the lease.

D. The interest rate on any and all unpaid or delinquent rentals shall be at one percent (1%) per month, plus a service charge of FIFTY AND NO/100 DOLLARS (\$50.00) a month for each delinquent payment.

RESERVING UNTO THE LESSOR THE FOLLOWING:

1. Minerals and waters. (a) All minerals as hereinafter defined, in, on or under the premises. "Minerals," as used herein, shall mean any or all oil, gas, coal, phosphate, sodium, sulphur, iron, titanium, gold, silver, bauxite, bauxitic clay, diaspore, boehmite, laterite, gibbsite, alumina, all ores of aluminum and, without limitation thereon, all other mineral substances and ore deposits, whether solid, gaseous or liquid, including all geothermal resources, in, on, or under the land, fast or submerged; provided, that "minerals" shall not include sand, gravel, rock or other material suitable for use and used in general construction in furtherance of the Lessee's permitted activities on the premises and not for sale to others. (b) All surface and ground waters appurtenant to the premises and the right on its own behalf or through persons authorized by it, to capture, divert or impound the same and to occupy and use so much of the premises required in the exercise of this right reserved.

2. Ownership of improvements. The ownership of all improvements of whatever kind or nature, including but not limited to cabins, residences, cesspools, water system(s) and piping, and fences located on the land prior to or on the commencement date of this lease or constructed during the term of this lease.

3. Timber stands. The right (with consultation with and notice to lessee) to designate areas of timber stand on the premises, which shall include all trees standing within said designated areas; and the right to enter upon said areas, or to authorize others to do so, for the purpose of performing woodland management activities.

SUBJECT TO the rights of native tenants and to regulatory rights and ownership rights (if any) of the State of Hawaii established pursuant to state law including chapter 6E and section 171-36.1, Hawaii Revised Statutes, over historic properties and prehistoric or historic remains found in, on, or under the land.

THE LESSEE COVENANTS AND AGREES WITH THE LESSOR AS FOLLOWS:

1. Payment of rent. The Lessee shall pay the rent to the Lessor at the times, in the manner and form provided in this lease and at the place specified above, or at any other place the Lessor may from time to time designate, in legal tender of the United States of America.

2. Taxes, assessments, etc. The Lessee shall pay or cause to be paid, when due, the amount of all taxes, rates, and assessments of every description as to which the premises or any part, or any improvements, or the Lessor or Lessee, are now or may be assessed or become liable by authority of law during the term of this lease; provided, however, that with respect to any assessment made under any betterment or improvement law which may be payable in installments, Lessee shall be required to pay only those installments, together with interest, which becomes due and payable during the term of this lease.

3. Utility services. The Lessee shall be responsible for obtaining any utility services and shall pay when due all charges, duties and rates of every description, including water, sewer, gas, refuse collection or any other charges, as to which the premises or any part, or any improvements thereon, or the Lessor or Lessee may become liable for during the term, whether assessed to or payable by the Lessor or Lessee. This provision shall not be deemed to be a requirement for Lessor to provide utility services to Lessee, and Lessees are notified that the remote rural nature of premises and improvements means such utilities may not necessarily continue to be available.

4. Covenant against discrimination. The use and enjoyment of the premises shall not be in support of any policy which discriminates against anyone based upon race, creed, sex, color, national origin, religion, marital status, familial status, ancestry, physical handicap, disability, age or HIV (human immunodeficiency virus) infection.

5. Sanitation. The Lessee shall keep the premises and improvements in a strictly clean, sanitary and orderly

condition.

6. Waste and unlawful, improper or offensive use of premises. The Lessee shall not commit, suffer or permit to be committed any waste, nuisance, strip, or unlawful, improper or offensive use of the premises or any part, nor, without the prior written consent of the Lessor, cut down, remove or destroy, or suffer to be cut down, removed or destroyed, any trees now growing on the premises.

7. Compliance with laws. The Lessee shall comply with all of the requirements of all municipal, state, and federal authorities and observe all municipal, state and federal laws applicable to the premises, now in force or which may be in force, including but not limited to resource protection laws and regulations as applicable in state parks. Lessee shall not use or allow the property to be used for or in the course of any illegal activity. Specifically, but without limitation, growing or storing of marijuana on or from the premises (except as may be allowed by Haw. Rev. Stat. § § 329-121 through 329-128) and any and all other manufacturing or growing of prohibited substances is strictly prohibited.

Lessee understands and acknowledges that the premises are located in the conservation district. Lessee shall obtain a conservation district use permit for any activity relating to the premises to the extent required by law.

8. Inspection of premises. The Lessee shall permit the Lessor and its agents, at all reasonable times during the lease term, to enter the premises, including any improvements located on the premises and examine the state of its repair and condition.

9. Improvements. The Lessee shall not at any time during the term construct, place, or install on the premises any additional building, structure or improvement of any kind and description except with the prior written approval of the Chairperson and upon those conditions the Chairperson may impose in the Chairperson's sole discretion, provided that such condition shall not include any increase in rent.

The Lessee shall not at any time during the term demolish, remove, modify, or relocate any existing building, structure or improvement of any kind and description except with the prior written approval of the Chairperson and upon those conditions the Chairperson may impose in the Chairperson's sole discretion, including any adjustment of rent, unless otherwise provided in this lease.

Any new construction, improvement, rehabilitation, relocation, demolition, or major site work that affects the historic integrity of a historic recreation-residence or the historic district shall be strictly in compliance with residence design standards and guidelines ("Design Guidelines"). Lessee understands and acknowledges that the Design Guidelines have not yet been put into final form. Lessee acknowledges that it has been provided with a copy of or internet access to the present draft of the Design Guidelines. Lessor will advise Lessee in writing when the Design Guidelines are finalized. Lessee will have sixty (60) days from the date such notice is mailed within which to cancel this lease. If Lessee cancels the lease pursuant to this section, then this lease shall be terminated as of the date of Lessor's receipt of the notice and the parties shall have no further liabilities or duties hereunder except as otherwise provided herein as to the parties' duties upon termination, and Lessee shall have no right, title, or interest in and to the premises or any improvements thereon. Lessor shall return to Lessee the prorated portion of any lease rent paid in advance.

Lessee does not have the right to enforce, invoke, or attempt to enforce the Design Guidelines with respect to other leased properties.

10. Repairs to improvements. The Lessee shall, at its own expense, keep, repair, and maintain all buildings, structures, improvements, and landscaping now existing or hereafter constructed or installed on the premises in substantially the same order, condition, and repair as upon the commencement of the lease.

11. Liens. The Lessee shall not commit or suffer any act or neglect which results in the premises, any improvement, or the leasehold estate of the Lessee becoming subject to any attachment, lien, charge, or encumbrance, except as provided in this lease, and shall indemnify, defend, and hold the Lessor harmless from and against all attachments, liens, charges, and encumbrances and all resulting expenses.

12. Character of use. The Lessee shall use or allow the premises to be used solely for recreation-residence purposes as defined in paragraph 42 hereof and not as a principal place of residence. Lessee shall have and maintain a separate principal place of residence.

13. Assignments, etc. The Lessee shall not transfer or assign the premises, or any portion, or transfer or assign this lease or any interest, either voluntarily or by operation of law, except by way of devise, bequest, or intestate succession, and any transfer or assignment made shall be null and void;

provided that with the prior written approval of the Board the assignment and transfer of this lease, or any portion, may be made in accordance with current industry standards, as determined by the Board; provided, further, that prior to the approval of any assignment of lease, the Board shall have the right to review and approve the consideration paid by the Assignee and shall condition its consent to the assignment of the lease on payment by the Lessee of a premium determined as specified in the Assignment of Lease Evaluation Policy adopted by the Board on December 15, 1989, as the same has been or may be amended from time to time, a copy of which is attached hereto as Exhibit "C."

The premium on any subsequent assignments shall also be determined as specified in the above-mentioned Evaluation Policy.

If the Lessee or any assignee of the lease is a partnership, joint venture or corporation, the sale or transfer of 20% or more of ownership interest or stocks by dissolution, merger or any other means shall be deemed an assignment for purposes of this paragraph and subject to the right of the Lessor to impose the foregoing premium as set forth in Exhibit "C."

14. Subletting. The Lessee shall not rent or sublet the whole or any portion of the premises. No person other than Lessee shall use the premises or any portion thereof in return for any consideration or payment whatsoever.

15. Indemnity. The Lessee shall indemnify, defend, and hold the Lessor harmless from and against any claim or demand for loss, liability, or damage, including claims for bodily injury, wrongful death, or property damage, arising out of or resulting from: 1) any act or omission on the part of Lessee relating to Lessee's use, occupancy, maintenance, or enjoyment of the premises; 2) any failure on the part of the Lessee to maintain the premises and including any accident, fire or nuisance, growing out of or caused by any failure on the part of the Lessee to maintain the premises in a safe condition; and 3) from and against all actions, suits, damages, and claims by whomsoever brought or made by reason of the Lessee's non-observance or non-performance of any of the terms, covenants, and conditions of this lease or the rules, regulations, ordinances, and laws of the federal, state, municipal or county governments.

16. Costs of litigation. In case the Lessor shall, without any fault on Lessor's part, be made a party to any litigation commenced by or against the Lessee (other than condemnation proceedings), the Lessee shall pay all costs, including reasonable attorney's fees, and expenses incurred by or imposed on the Lessor; furthermore, the Lessee shall pay all costs, including reasonable attorney's fees, and expenses which

may be incurred by or paid by the Lessor in enforcing the covenants and agreements of this lease, in recovering possession of the premises, or in the collection of delinquent rental, taxes, and any and all other charges.

17. Liability insurance. The Lessee shall procure and maintain, at its cost and expense and acceptable to the Lessor, in full force and effect throughout the term of this lease, comprehensive general liability insurance, or its equivalent, in an amount of at least \$500,000.00 for each occurrence and \$1,000,000.00 aggregate, with an insurance company or companies licensed to do business in the State of Hawaii. The policy or policies of insurance shall name the State of Hawaii as an additional insured. The insurance shall cover the entire premises, including all buildings, improvements, and grounds on the premises.

The Lessee, prior to entry and use of the premises or within fifteen (15) days from the effective date of this lease, whichever is sooner, shall furnish the Lessor with a certificate(s) showing the policy(s) to be initially in force, keep the certificate(s) on deposit during the entire lease term, and furnish a like certificate(s) upon each renewal of the policy(s). This insurance shall not be cancelled, limited in scope of coverage, or nonrenewed until after thirty (30) days written notice has been given to the Lessor.

The Lessor shall retain the right at any time to review the coverage, form, and amount of the insurance required by this lease. If, in the opinion of the Lessor, the insurance provisions in this lease do not provide adequate protection for the Lessor, the Lessor may require Lessee to obtain insurance sufficient in coverage, form, and amount to provide adequate protection. The Lessor's requirements shall be reasonable but shall be designed to assure protection for and against the kind and extent of the risks which exist at the time a change in insurance is required. The Lessor shall notify Lessee in writing of changes in the insurance requirements and Lessee shall deposit copies of acceptable insurance policy(s) or certificate(s) thereof, with the Lessor incorporating the changes within thirty (30) days of receipt of the notice.

The procuring of the required policy(s) of insurance shall not be construed to limit Lessee's liability under this lease nor to release or relieve the Lessee of the indemnification provisions and requirements of this lease. Notwithstanding the policy(s) of insurance, Lessee shall be obligated for the full and total amount of any damage, injury, or loss caused by Lessee's negligence or neglect connected with this lease.

It is agreed that any insurance maintained by the Lessor will apply in excess of, and not contribute with, insurance provided by Lessee's policy.

18. Bond, performance. The Lessee shall, at its own cost and expense, within fifteen (15) days from the effective date of this lease, procure and deposit with the Lessor and thereafter keep in full force and effect during the term of this lease a good and sufficient surety bond, conditioned upon the full and faithful observance and performance by Lessee of all the terms, conditions, and covenants of this lease, in an amount equal to the annual rental then payable. This bond shall provide that in case of a breach or default of any of the lease terms, covenants, conditions, and agreements, the full amount of the bond shall be paid to the Lessor as liquidated and ascertained damages and not as a penalty. In the alternative, Lessee may place with Lessor cash or equivalent in this amount.

19. Lessor's lien. The Lessor shall have a lien on all property kept or used on the premises, whether the same is exempt from execution or not for all Lessor's costs, attorney's fees, rent reserved, for all taxes and assessments paid by the Lessor on behalf of the Lessee, and for the payment of all money provided in this lease to be paid by the Lessee, and this lien shall continue until the amounts due are paid.

20. Mortgage. Lessee shall not mortgage, hypothecate, or pledge the premises, any portion, or any interest in this lease and any mortgage, hypothecation, or pledge shall be null and void.

21. Breach. Time is of the essence in this agreement. If the Lessee shall fail to pay the rent, or any part thereof, at the times and in the manner provided in this lease and this failure shall continue for a period of more than thirty (30) days after delivery by the Lessor of a written notice of breach or default and demand for cure, by personal service, registered mail or certified mail to the Lessee at the address stated herein or at such other address as the Lessee shall state, in writing, and to each holder of record having a security interest in the premises, or if the Lessee shall become bankrupt, or shall abandon the premises, or if this lease and premises shall be attached or taken by operation of law, or if any assignment is made of the Lessee's property for the benefit of creditors, or if Lessee shall fail to observe and perform any of the covenants, terms, and conditions contained in this lease and on its part to be observed and performed, and this failure shall continue for a period of more than sixty (60) days after delivery by the Lessor of a written notice of breach or default and demand for cure, by personal service, registered mail or certified mail to the Lessee

at the address stated herein or at such other address as the Lessee shall state, in writing and to each holder of record having a security interest in the premises, the Lessor may, subject to the provisions of Section 171-21, Hawaii Revised Statutes, at once re-enter the premises, or any part, and upon or without the entry, at its option, terminate this lease without prejudice to any other remedy or right of action for arrears of rent or for any preceding or other breach of contract; and Lessee shall have no right, title, or interest in and to the premises or any improvements thereon.

22. Right of holder of record of a security interest.

In the event the Lessor seeks to forfeit the privilege, interest, or estate created by this lease, each recorded holder of a security interest may, at its option, cure or remedy the default or breach of rent payment within thirty (30) days or any other default or breach within sixty (60) days, from the date of receipt of the Lessor's notice, or within an additional period allowed by Lessor for good cause, and add the cost to the mortgage debt and the lien of the mortgage. Upon failure of the holder to exercise its option, the Lessor may: (a) pay to the holder from any moneys at its disposal, including the special land and development fund, the amount of the mortgage debt, together with interest and penalties, and secure an assignment of the debt and mortgage from the holder or if ownership of the privilege, interest, or estate shall have vested in the holder by way of foreclosure, or action in lieu thereof, the Lessor shall be entitled to the conveyance of the privilege, interest, or estate upon payment to the holder of the amount of the mortgage debt, including interest and penalties, and all reasonable expenses incurred by the holder in connection with the foreclosure and preservation of its security interest, less appropriate credits, including income received from the privilege, interest, or estate subsequent to the foreclosure; or (b) if the property cannot be reasonably reassigned without loss to the State, then terminate the outstanding privilege, interest, or estate without prejudice to any other right or remedy for arrears of rent or for any preceding or other breach or default and use its best efforts to redispense of the affected land to a qualified and responsible person free and clear of the mortgage and the debt secured; provided that a reasonable delay by the Lessor in instituting or prosecuting its rights or remedies shall not operate as a waiver of these rights or to deprive it of a remedy when it may still otherwise hope to resolve the problems created by the breach or default. The proceeds of any disposition shall be applied, first, to reimburse the Lessor for costs and expenses in connection with the disposition; second, to discharge in full any unpaid purchase price or other indebtedness owing the Lessor in connection with the privilege, interest, or estate terminated; third, to the mortgagee to the

extent of the value received by the State upon redispotion which exceeds the fair market lease value of the land as previously determined by the State's appraiser; and fourth, to the owner of the privilege, interest, or estate.

The rights stated in this paragraph are as stated in Haw. Rev. Stat. § 171-21 (1993) and in no way modify or limit the prohibition on mortgaging the premises or this lease.

23. Condemnation. If at any time, during the term of this lease, any portion of the premises should be condemned, or required for public purposes by any federal government agency, county or city and county, the rent shall be reduced in proportion to the value of the portion of the premises condemned. All such condemnation proceeds shall be paid only to Lessor and shall be and remain the sole property of the Lessor. The Lessee shall not by reason of the condemnation be entitled to any claim against the Lessor. Lessee may, at Lessee's own expense and in compliance with all applicable laws including obtaining any necessary conservation district use permit, relocate improvements to the remainder of the premises occupied by the Lessee. In the event of any such condemnation, the Lessee shall have the option to terminate this lease. If Lessee elects to do so and provides Lessor with notice of this election in writing, then this lease shall be terminated as of the date of Lessor's receipt of the notice and the parties shall have no further liabilities or duties hereunder except as otherwise provided herein as to the parties' duties upon termination, and Lessee shall have no right, title, or interest in and to the premises or any improvements thereon. Lessor shall return to Lessee the prorated portion of any lease rent paid in advance.

24. Right to enter. The Lessor or the County and their agents or representatives shall have the right to enter and cross any portion of the premises for the purpose of performing any public or official duties; provided, however, in the exercise of these rights, the Lessor or the County shall not interfere unreasonably with the Lessee or Lessee's use and enjoyment of the premises.

25. Inspection by appraisers and prospective bidders. The Lessor shall have the right to authorize any person or persons to enter upon and inspect the premises at all reasonable times for purposes of rent re-determination and at all reasonable times during the last two years of the term of the lease or during any holdover of the lease for purposes of appraising the demised premises or improvements or for purposes of informing and appraising that person or persons of the condition of the lands and improvements thereon; provided, however, that any entry into any improvements on the premises shall be conducted during

reasonable hours after notice to enter is first given to the Lessee. Lessee or designated agents of Lessee may accompany Lessor during any entry into improvements.

26. Acceptance of rent not a waiver. The acceptance of rent by the Lessor shall not be deemed a waiver of any breach by the Lessee of any term, covenant, or condition of this lease, nor of the Lessor's right of re-entry for breach of covenant, nor of the Lessor's right to declare and enforce a forfeiture for any breach, and the failure of the Lessor to insist upon strict performance of any term, covenant, or condition, or to exercise any option conferred, in any one or more instances, shall not be construed as a waiver or relinquishment of any term, covenant, condition, or option.

27. Extension of time. Notwithstanding any provision contained in this lease, when applicable, Lessor may for good cause shown, allow additional time beyond the time or times specified in this lease for the Lessee to comply, observe, and perform any of the lease terms, conditions, and covenants.

28. Justification of sureties. Any bonds required by this lease shall be supported by the obligation of a corporate surety organized for the purpose of being a surety and qualified to do business in the State of Hawaii, or by not less than two personal sureties, corporate or individual, for which justifications shall be filed as provided in Section 78-20, Hawaii Revised Statutes; provided, however, the Lessee may furnish a bond in like amount, conditioned as aforesaid, executed by it alone as obligor, if, in lieu of any surety or sureties, it shall also furnish and at all times thereafter keep and maintain on deposit with the Lessor security in certified checks, certificates of deposit (payable on demand or after a period the Lessor may stipulate), bonds, stocks or other negotiable securities properly endorsed, or execute and deliver to the Lessor a deed or deeds of trust of real property, all of a character which is satisfactory to Lessor and valued in the aggregate at not less than the principal amount of the bond. It is agreed that the value of any securities which may be accepted and at any time thereafter held by the Lessor shall be determined by the Lessor, and that the Lessee may, with the approval of the Lessor, exchange other securities or money for any of the deposited securities if in the judgment of the Lessor the substitute securities or money shall be at least equal in value to those withdrawn. It is further agreed that substitution of sureties or the substitution of a deposit of security for the obligation of a surety or sureties may be made by the Lessee, but only upon the written consent of the Lessor and that until this consent is granted, which shall be discretionary with the Lessor, no surety shall be released or relieved from any obligation.

29. Waiver, modification, reimposition of bond and liability insurance provisions. Upon substantial compliance by the Lessee with the terms, covenants, and conditions contained in this lease on its part to be observed or performed, the Lessor at its discretion may in writing, waive or suspend the performance bond or improvement bond requirements or both or may, in writing, modify the particular bond(s) or liability insurance requirements by reducing its amount; provided, however, that the Lessor reserves the right to reactivate the bonds or reimpose the bond(s) or liability insurance in and to their original tenor and form at any time throughout the term of this lease.

30. Quiet enjoyment. The Lessor covenants and agrees with the Lessee that upon payment of the rent at the times and in the manner provided and the observance and performance of these covenants, terms, and conditions on the part of the Lessee to be observed and performed, the Lessee shall and may use and enjoy the premises for the term of the lease, without hindrance or interruption by the Lessor or any other person or persons lawfully claiming by, through, or under it.

31. Surrender. The Lessee shall, at the end of the term or other sooner termination of this lease, peaceably deliver unto the Lessor possession of the premises in a clean and orderly condition, together with all improvements existing or constructed thereon; or Lessee shall remove such improvements, at the option of the Lessor, said option to be exercised by the Lessor on or about the end of the term or sooner termination. Lessee understands and specifically agrees that Lessee does not own the improvements, has no rights in or to the improvements after the end of the lease, and under no circumstances is entitled to compensation for or relating to the improvements. Any personal property abandoned on the premises will be dealt with pursuant to Haw. Rev. Stat. § 171-31.5 as from time to time amended.

32. Non-warranty. The Lessor does not warrant the condition of the premises or of any improvements or structures thereon, as the same are being leased in strictly as is condition. Lessor does not warrant the exact boundaries or size of the premises. Lessee specifically agrees that the boundaries and size of the premises are not material and any variation in the same shall not affect the rent to be paid or otherwise excuse Lessee from performance of any of the covenants of this lease.

33. Hazardous materials. Lessee shall not cause or permit the escape, disposal or release of any hazardous materials except as permitted by law. Lessee shall not allow the storage or use of such materials in any manner not sanctioned by law or by the highest standards prevailing in the industry for the

storage and use of such materials, nor allow to be brought onto the premises any such materials except with Lessor's written consent which consent may be withheld at Lessor's sole and absolute discretion. If any lender or governmental agency shall ever require testing to ascertain whether or not there has been any release of hazardous materials by Lessee, then the Lessee shall be responsible for the reasonable costs thereof. In addition, Lessee shall execute affidavits, representations and the like from time to time at Lessor's request concerning Lessee's best knowledge and belief regarding the presence of hazardous materials on the premises placed or released by Lessee.

Lessee agrees to indemnify, defend, and hold Lessor harmless, from any damages and claims resulting from the release of hazardous materials on the premises occurring while Lessee is in possession, or elsewhere if caused by Lessee or persons acting under Lessee. These covenants shall survive the expiration or earlier termination of the lease.

For the purpose of this lease "hazardous material" shall mean any pollutant, toxic substance, hazardous waste, hazardous material, hazardous substance, or oil as defined in or pursuant to the Resource Conservation and Recovery Act, as amended, the Comprehensive Environmental Response, Compensation, and Liability Act, as amended, the Federal Clean Water Act, or any other federal, state, or local environmental law, regulation, ordinance, rule, or by-law, whether existing as of the date hereof, previously enforced, or subsequently enacted.

34. Hawaii law. This lease shall be construed, interpreted, and governed by the laws of the State of Hawaii.

35. Exhibits - Incorporation in lease. All exhibits referred to are attached to this lease and hereby are deemed incorporated by reference.

36. Headings. The article and paragraph headings herein are inserted only for convenience and reference and shall in no way define, describe or limit the scope or intent of any provision of this lease.

37. Partial invalidity. If any term, provision, covenant or condition of this lease should be held to be invalid, void or unenforceable, the remainder of this lease shall continue in full force and effect and shall in no way be affected, impaired or invalidated thereby.

38. Time is of the essence. Time is of the essence in all provisions of this lease.

39. Historic preservation. In the event any previously unidentified historic properties, burial sites, or human remains are discovered during land alteration or utilization activities on the premises, the Lessee or the Lessee's agents, employees, and representatives shall immediately stop all work or activities or both and contact the Historic Preservation Division. In the event that burial sites or human remains are discovered, the Lessee or the Lessee's agents, employees, and representatives shall comply with section 6E-43.6 (Inadvertent discovery of burial sites), Hawaii Revised Statutes, and any implementing regulations. Under section 6E-11(a) and (b), Hawaii Revised Statutes, it is unlawful to damage or alter historic properties or burial sites unless permitted by the State of Hawaii, Department of Land and Natural Resources.

40. Construction and installation of utilities. Lessee shall be solely responsible, at Lessee's own cost and expense, for the construction and installation of all necessary on-site utilities and improvements, including water and sewage, which shall be in conformance with prevailing State of Hawaii and County of Kauai building and health requirements applicable thereon.

In the event that use of the existing cesspool is prohibited or found to be contrary to existing law for any reason or if Lessor is subjected to any monetary fine or penalty of any kind based on or by reason of the existing cesspool, then Lessor may require Lessee at Lessee's sole expense and within one year from the date of written notice from Lessor, to close the existing cesspool on the premises and install an individual approved wastewater treatment system. Closure of the cesspool and installation of the treatment system shall be in conformance with all applicable laws and codes and accepted by the Department of Health of the State of Hawaii. Lessee shall apply for and obtain a conservation district use permit and any other required permits before beginning any such closure or installation.

Lessor may require closure of any cesspool and installation of an individual approved wastewater treatment system in order to protect the well head area or to comply with best management practices in connection with protecting the well head area. If Lessor does so require, then Lessor shall be responsible for closure and installation and shall bear all costs of doing so.

41. Maintenance of water pipelines. Lessee shall be responsible for maintenance of water supply laterals from the premises (including all pipes and fixtures on the premises) to the point at which connection is made to the main water lines, three (3) inches in diameter or larger, or to such other point as may be directed by the Chairperson. Lessee's responsibility

shall include the installation, maintenance and repair of all such laterals at no cost to the Lessor and, further, shall be in accordance with plans and specifications first submitted to and approved by the Lessor. Lessor makes no representation that water service will be available throughout the term of the lease.

42. Recreation-residence purposes defined. For purposes of paragraph 12, entitled "Character of use" herein, recreation-residence purposes is defined as being the use of the leased premises for occasional use and for continuous occupancy not exceeding ninety (90) consecutive days by the Lessee, Lessee's family members, friends and guests.

Any other provision of this lease notwithstanding, the premises shall not be occupied by the Lessee, Lessee's family members, friends, guests, caretaker, or any other person for more than a total of one hundred eighty (180) days during a one (1) calendar year period. Year-round occupancy of the leased premises is strictly prohibited.

The premises may not be advertised in any way, including on the internet or World Wide Web, for availability or rental. There shall be no commercial activity of any kind on the premises or any portion thereof.

Renting of the leased premises, for any period of time or for any amount of money or other valuable consideration is strictly prohibited.

Lessee shall make available to Lessor upon request copies of any and all of Lessee's tax records and returns for purposes of verifying compliance with these provisions. Documents requested pursuant to this paragraph may be reviewed and notes made upon review but shall not be copied unless Lessor explains in writing to Lessee why review is not sufficient and copying is required under the circumstances. Nothing in this paragraph limits any other right Lessor may have to obtain copies pursuant to any other law, rule, procedure, or agreement.

43. Character of the premises; limited services. Lessee acknowledges that the premises are in an isolated, rural, mountaintop area in a state park and that the structures on the premises are rustic and historic, suitable and intended for part time use only. Lessee shall not expect the level of services that might be available in more developed and accessible areas. Lessee shall expect that use of the premises will entail certain hardships and limitations, including but not limited to: unreliable water system, electrical system, and other utilities; the need for Lessee to haul their own trash out of the park; lack of sewers; cabins which need significant repair work and that

require the work to be done in a manner that maintains the character of the community; substandard roads that may not be suitable for all vehicles, that may limit the ability of emergency vehicles to access the area, and that may be completely closed for unpredictable periods.

Specifically, but without limitation, Lessee acknowledges and agrees that Lessor does not guarantee or covenant to provide running water or potable water or electrical service. Lessee has been advised of problems with water quality. Lessor specifically reserves the right to shut down existing water service or electrical service rather than repair or update the service. In the event that Lessor decides to shut down existing water service or electrical service, Lessor will advise Lessee in writing. Lessee will have sixty (60) days from the date such notice is mailed within which to notify Lessor in writing of Lessee's election to cancel this lease. If Lessee does so, then this lease shall be terminated as of the date of Lessor's receipt of the notice and the parties shall have no further liabilities or duties hereunder except as otherwise provided herein as to the parties' duties upon termination, and Lessee shall have no right, title, or interest in and to the premises or any improvements thereon. Lessor shall return to Lessee the prorated portion of any lease rent paid in advance.

If existing water service is shut down and Lessee does not exercise its right to terminate the lease as provided in the preceding paragraph, then Lessee shall be responsible for obtaining water by catchment system. In such event Lessee's reasonable and properly documented costs of doing so shall be divided by the number of years remaining on the lease and the annual rent otherwise payable shall be reduced by this prorated amount, provided that the amount of the reduction shall in no event exceed the rent otherwise payable.

44. Proof of principal place of residence. The Lessee shall, upon request by the Lessor, furnish evidence that Lessee maintains a full-time residence at a location other than the premises. Such information may include, but is not limited to a street address, a mailing address, or a telephone number for the Lessee at said principal place of residence. The Lessor may, at its option, require other and additional confirmation of principal residency at a location other than the premises.

45. Fire Prevention. Lessee shall consult with the Division of Forestry and Wildlife, Department of Land and Natural Resources, for advice on fire prevention and fire suppression equipment.

46. Dangerous animals. Lessee shall not place, keep

and/or maintain on the premises, or the surrounding public lands, any animal that presents a threat or danger to life, property or to the environment, or whose presence constitutes a nuisance to others, as determined by the Chairperson. This provision shall include animals banned by the Department of Agriculture, State of Hawaii.

47. Prevention and control of noxious and exotic plants. The introduction of noxious and exotic plant species to the premises shall not be permitted, except with the prior written approval of Lessor. The Lessee shall be solely responsible for the removal, at no cost to the Lessor, of any and all noxious and exotic plant species introduced by Lessee on to the premises and which are found to have adverse impacts upon the environment, notwithstanding the fact that prior written approval may have been obtained from the Lessor.

48. Hunting and fishing. No hunting or fishing shall be allowed on the premises during the term of this lease.

49. Abandoned vehicles. Lessee shall take all steps necessary to prevent the placing or storing of abandoned vehicles within the premises. Any and all abandoned vehicles within the premises shall be removed by Lessee at Lessee's cost and expense.

50. Environmental regulations. Lessee shall comply with all applicable federal, state and county environmental impact regulations, including but not limited to chapter 343, Hawaii Revised Statutes, as amended, and regulations governing historic preservation.

51. Fire and extended coverage insurance. The Lessee, at its cost and expense, shall procure and maintain at all times during the term of this lease, fire and extended coverage insurance with an insurance company(s) licensed to do business in the State of Hawaii, insuring all buildings, structures, and improvements on the premises in the joint names of Lessor and Lessee in an amount equal to the replacement cost of the facilities, and shall pay the premiums at the time and place required under the policy. Provided that the Chairperson, in his or her sole discretion, may waive or modify this requirement in writing upon a satisfactory showing that such coverage cannot be obtained or can be obtained only at an excessive cost.

In the event of total or partial loss, any proceeds derived from the policy(s) shall be used by the Lessee for rebuilding, repairing, or otherwise reinstating the same buildings in a good and substantial manner according to plans and specifications approved in writing by Lessor; provided, however, that with the writing approval of the Lessor, the Lessee may

instead elect to terminate this lease. If Lessee elects to do so and provides Lessor with notice of this election in writing, then this lease shall be terminated as of the date of the notice and the parties shall have no further liabilities or duties hereunder except as otherwise provided herein as to the parties' duties upon termination, and Lessee shall have no right, title, or interest in and to the premises or any improvements thereon. Lessor shall return to Lessee the prorated portion of any lease rent paid in advance.

Any and all insurance proceeds not used to rebuild or repair the buildings or improvements shall be paid to and retained by the Lessor.

The Lessee shall furnish the Lessor on or before the commencement date of this lease, a certificate showing the policy(s) to be in full force and effect and shall furnish a like certificate upon each renewal of the policy(s). Each certificate(s) shall contain or be accompanied by an assurance of the insurer not to cancel the insurance, limit the scope of the coverage, or fail or refuse to renew the policy(s) until after thirty (30) days written notice has been given to the Lessor.

All rights or claims of subrogation against the State of Hawaii, its officers, employees, and agents are waived.

52. Removal of trash. The Lessee shall be responsible for the removal of all trash upon the premises, whether or not placed on the premises by Lessee or with or without Lessee's consent, and whether or not placed on the premises prior to the term of this lease. There shall be no outdoor fires for burning of trash or any other purpose, except with the written approval of the Chairperson.

53. Phase I environmental site assessment. Prior to termination or revocation of the subject lease or the assignment of the leasehold, Lessee shall conduct a Phase I environmental site assessment and conduct a complete abatement and disposal, if necessary, satisfactory to the standards required by the Federal Environmental Protection Agency, the Department of Health, and the Department of Land and Natural Resources. Failure to comply with the provisions of this paragraph shall not extend the term of this lease or automatically prevent termination or revocation of the lease. The Board, at its sole option, may refuse to approve termination, revocation, or assignment unless this evaluation and abatement provision has been performed. In addition or in the alternative, the Board may, at its sole option if Lessee does not do so, arrange for performance of the provisions of this paragraph, all costs and expenses of such performance to be charged to and paid by Lessee.

54. Survey and boundary stakeout. The Lessee shall be solely responsible for any survey and boundary stakeout of the leased premises.

55. Easements. The Lessee shall cooperate as reasonably necessary in the issuance and documentation of easements in favor of Lessor or other lessees of easements for installation, repair, and maintenance of utilities.

56. Notice. Any notice required or permitted to be given hereunder shall be in writing, given by personal delivery or by certified mail, postage prepaid, unless another form of delivery is required in a specific section of this lease. In all cases, notice to Lessee shall be delivered or addressed to the address stated above. Unless otherwise specified, mailed notices to Lessee shall be deemed given upon actual receipt, or two business days following deposit in the mail, postage prepaid, whichever occurs first. Notice to Lessor shall be delivered or addressed to the Chairperson of the Board at 1151 Punchbowl Street, Room 130, Honolulu, Hawai'i 96813. Unless otherwise specified, notices to Lessor shall be deemed given upon actual receipt. Either party may by notice to the other specify a different address for notice purposes, provided that Lessee's mailing address shall at all times be the same for both billing and notice. In the event there are multiple Lessees hereunder, notice to one Lessee at the address stated above (or any different address specified as permitted by this paragraph) shall be deemed notice to all Lessees.

57. Approvals. Any permission, approvals, or authorizations of any kind by the Lessor required by or relating to this lease shall be in writing signed by the chairperson with (where required) authorization of the Board.

58. Withdrawal. The Lessor shall have the right to withdraw the demised land, or any portion thereof, at any time during the term of this lease upon the giving of reasonable notice by the Board and without compensation, for public uses or purposes of any kind or nature, and Lessor shall have the right to remove soil, rock or gravel as may be necessary for the construction of roads and rights of way within or without the demised premises; provided, that upon such withdrawal, or upon such taking which causes any portion of the land originally demised to become unusable for the specific use or uses for which it was demised, the rent shall be reduced in proportion to the value of the land withdrawn or made unusable and provided further that Lessee may, at Lessee's own expense, remove and relocate its improvements to the remainder of the premises occupied by the Lessee. In the event of any such withdrawal, the Lessee shall

have the option to terminate this lease. If Lessee elects to do so and provides Lessor with notice of this election in writing, then this lease shall be terminated as of the date of Lessor's receipt of the notice and the parties shall have no further liabilities or duties hereunder except as otherwise provided herein as to the parties' duties upon termination, and Lessee shall have no right, title, or interest in and to the premises or any improvements thereon. Lessor shall return to Lessee the prorated portion of any lease rent paid in advance.

59. Reservation of rights. It is expressly agreed and understood by the parties hereto that this lease is not intended to and shall not affect, alter, amend, increase, or decrease the rights of any party as to the issues raised in pending lawsuits entitled Carswell et al v. DLNR, Civil No. 06-1-0049, on appeal as App. No. 28730 and Locricchio et al v. Young et al, Civil No. 08-1-0054, whether or not Lessee is a party to either of those lawsuits. It is the express intention and agreement of the parties that this lease is without prejudice or waiver of any of the rights, interests, and positions of any party hereto which existed or accrued under any previous lease and that the parties expressly reserve all of their rights, interests, and positions which accrued under the any previous lease.

Definitions.

1. The use of any gender shall include all genders, and if there is more than one lessee, then all words used in the singular shall extend to and include the plural.

2. As used in this lease, unless clearly repugnant to the context:

(a) "Chairperson" means the Chairperson of the Board of Land and Natural Resources of the State of Hawaii or his successor.

(b) "Lessee" means and includes the Lessee and each of them, if more than one.

(c) "Premises" means the land leased and all buildings and improvements now or hereinafter constructed and installed on the land leased.

(d) "Waste" includes, but is not limited to, (1) permitting the premises, or any portion, to become unduly eroded or failure to take proper precautions or make reasonable effort

to prevent or correct the erosion; (2) permitting a substantial increase in noxious weeds in uncultivated portions of the premises; and (3) failure to employ all of the usable portions of the premises.

(e) "Days" shall mean calendar days, unless otherwise specified.

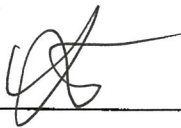
(f) "Noxious weed" means any plant species which is injurious, harmful, or deleterious or which may be likely to become so to the agricultural, horticultural, and livestock industries of the State, as determined by the Department of Agriculture of the State of Hawaii by administrative rules.

(g) "Timber" means any trees standing within designated areas of the leased land which are covered by a woodland management plan.

IN WITNESS WHEREOF, the STATE OF HAWAII, by its Board of Land and Natural Resources, has caused the seal of the Department of Land and Natural Resources to be hereunto affixed and the parties hereto have caused these presents to be executed the day, month and year first above written.

STATE OF HAWAII

Approved by the Board of Land and Natural Resources at its meeting held on July 25, 2008.

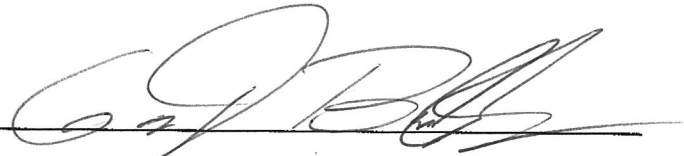
By  _____
Chairperson
Board of Land and
Natural Resources

APPROVED AS TO FORM:



Deputy Attorney General

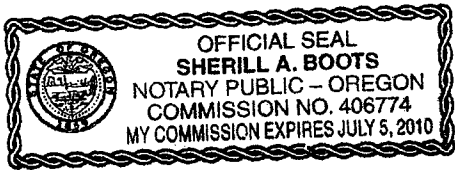
Dated: 1/20/09



LESSEE

STATE OF ~~HAWAII~~ OREGON)
) SS.
COUNTY OF Jackson)

On this 24 day of November, 2008, before me personally appeared Gary Baldwin, to me known to be the person(s) described in and who executed the foregoing instrument and acknowledged that He executed the same as His free act and deed.

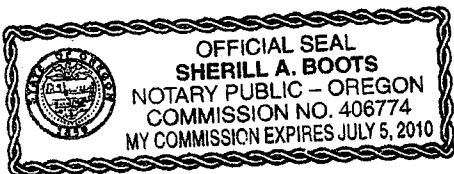


Sherill A Boots
Notary Public, State of ~~Hawaii~~ OREGON
Sherill A Boots

My commission expires: July 5 2010

STATE OF ~~HAWAII~~ OREGON)
) SS.
COUNTY OF Jackson)

On this 24 day of November, 2008, before me personally appeared Gary Baldwin, to me personally known, who, being by me duly sworn or affirmed, did say that such person(s) executed the foregoing instrument as the free act and deed of such person(s), and if applicable in the capacity shown, having been duly authorized to execute such instrument in such capacity.



Sherill A Boots
Notary Public, State of ~~Hawaii~~ OREGON
Sherill A Boots

My commission expires: July 5, 2010



STATE OF HAWAII
 SURVEY DIVISION
 DEPT. OF ACCOUNTING AND GENERAL SERVICES
 HONOLULU

~~XXXXXXXX~~ KAUAI FILE
 FOLDER 3.

November 2, 1966

KOKEE CAMP SITE LOTS

LOTS 17 AND 18

Waimea (Kona), Kauai, Hawaii

Being a portion of Kokee Park
 (Governor's Executive Order 1509)

Beginning at a pipe at the southwest corner of this lot, the southeast corner of Lot 19 of Kokee Camp Site Lots, the coordinates of said point of beginning referred to Government Survey Triangulation Station "KOKEE" being 973.95 feet South and 579.02 feet East, as shown on H.S.S. Plat 3096, thence running by azimuths measured clockwise from True South:-

- | | | |
|----|--------------|--|
| 1. | 205° 57' | 277.96 feet along Lot 19 of Kokee Camp Site Lots to a pipe; |
| 2. | 312° 15' | 137.67 feet along the remainder of Kokee Park (Governor's Executive Order 1509) to a pipe; |
| 3. | 296° 33' 30" | 127.16 feet along the remainder of Kokee Park (Governor's Executive Order 1509) to a pipe; |
| 4. | 315° 36' | 172.37 feet along Lot 16 of Kokee Camp Site Lots to a pipe; |
| 5. | 95° 25' | 219.03 feet along the remainder of Kokee Park (Governor's Executive Order 1509) to a pipe; |
| 6. | 9° 05' | 89.36 feet along the remainder of Kokee Park (Governor's Executive Order 1509) to a pipe; |
| 7. | 90° 52' 30" | 74.84 feet along the remainder of Kokee Park (Governor's Executive Order 1509) to a pipe; |

1872 (1957) Area Contd. J. Chantler
 D. C. L. B. D. C. W. H. S. S. Acc. Receiver

EXHIBIT "A"

KAUAI FILE
FOLDER 3

-2-

November 2, 1966

8. 120° 33' 175.27 feet along the remainder of Kokee Park (Governor's Executive Order 1509) to the point of beginning and containing an AREA OF 1.66 ACRES.

EXCEPTING AND RESERVING to the State of Hawaii, its successors and assigns, a roadway over and across the above-described Lots 17 and 18, as designated by the Board of Land and Natural Resources.

SURVEY DIVISION
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE OF HAWAII

By: *Akira Taga*
Akira Taga
Land Surveyor vt

Compiled from maps by
Henry Sumida and Associates, Inc. and Govt.
Survey Records.

ASSIGNMENT OF LEASE EVALUATION POLICY

1. Enabling Statute.

Act 104, effective May 24, 1989, amended Chapter 171-36(a) (5) to read in part:

"... provided further that prior to the approval of any assignment of lease, the board shall have the right to review and approve the consideration to be paid by the assignee and may condition its consent to the assignment of the lease on payment by the lessee of a premium based on the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee;" (revision underlined)

2. Qualifying Leases.

This policy shall be applicable to the subject lease.

3. Prior Approval.

Prior to giving its consent to an assignment, DLNR must receive (i) the name, legal composition and address of any proposed assignee, (ii) a complete copy of the purchase agreement and the proposed assignment agreement, including the total consideration to be paid by the assignee for the assignment whether by cash, credit or otherwise, and (iii) the best available financial statement or balance sheet no older than 1 year prior to date of purchase agreement of the proposed assignee or any other such statement, audited or certified as correct by a financial officer of the proposed assignee.

Assignments of lease shall not be entered into until the Attorney General has reviewed the proposed assignment and the Land Board have given their approval. Such assignments shall be entertained only if they meet the criteria set forth in Section 171-36(a) (5), HRS.

4. Qualifications of Assignee.

If qualification was required of a lessee as a pre-condition of the lease, the prospective assignee must also be qualified to assume the lease.

EXHIBIT "C"

5. Consideration to be Paid.

Prior to review by the Attorney General and approval by the Land Board, the lessee (assignor) must present with written evidence of the consideration to be paid by the assignee and any other cost data that the state may require.

6. Payment of Premium.

The act permits the state to receive from the lessee (assignor) a premium based on the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee. The value of the inventory of merchandise and any other tangible assets in the sale of a business shall be deducted from the consideration paid. The appropriate cost index is then applied to determine the adjusted depreciated cost.

All lessees shall be required to furnish the state with the actual costs of construction of all improvements and renovations within 30 calendar days after its completion as well as the purchase costs of all trade fixtures acquired for the lessee's operation on the premises within 30 calendar days after their purchase. Lessees shall be required to furnish evidence of the actual costs by copy of the construction contract, receipts or otherwise. Lessees shall also be required to furnish an inventory of all personal property placed on the premises. Records of all costs incurred by the lessee for construction of improvements or renovations as well as trade fixtures submitted by the lessee shall be maintained in the lease file and shall include the Construction Cost Index for Apartments, Hotels, Office Buildings (CCI) and the Honolulu Consumer Price Index for All Urban Consumers (CPI) as published by the U.S. Department of Labor, Bureau of Labor Statistics for the year construction is completed.

The replacement cost for improvements or renovations is calculated by using the CCI for the evaluation year divided by the CCI for the year in which the improvements or renovations were completed (base year). The result is then multiplied by the original cost of the improvements or renovations. For trade fixtures, the cost is similarly calculated by using the CPI for the purchase year (base year) and the evaluation year.

Depreciation of improvements and trade fixtures will be determined on a straight line basis. Depreciation of improvements or renovations will be determined in the same proportion that the expired term of the improvements or renovations bear to the whole term. The whole term will be

from the date the construction of the improvements or renovations are completed until the termination date of the lease. Depreciation of trade fixtures will be determined in the same manner, except that the whole term will be the anticipated life of the trade fixture.

The premium will be a maximum of 50% of the excess. The percentage will decrease by 5% after every 5 years of the term has elapsed in accordance with Schedule C. The sliding scale will encourage long term occupancy and prevent speculation as well as recognize the investment, effort, and risk of the lessee.

In cases where the lessee is unable to furnish the Department of Land and Natural Resources with evidence of the actual cost of construction of improvements because the lessee has performed the work itself, the State may determine the cost or the lessee shall have the option of paying for an appraiser, to be selected by the Department of Land and Natural Resources, to determine what the improvements would have cost if the labor had been performed by a third party rather than the lessee. The lessee shall exercise its option by giving written notice to the lessor within thirty (30) calendar days after completion of construction of the improvements. If the lessee fails to exercise its option within this period, the lessor shall have the right to determine the cost of the improvements.

Schedule D attached provides a typical example of the evaluation calculations using Schedule A to calculate the replacement cost for improvements or renovations and depreciation, Schedule B to calculate the cost and depreciation for trade fixtures, and Schedule C to obtain the premium percentage.

7. Non-qualifying Deductions.

The statute only recognizes tangible items. Intangibles such as "goodwill", business name recognition, etc., are not deductible.

8. Subsequent Assignments.

If the consideration for any subsequent assignment includes the purchase of existing tenant owned improvements, the evaluation will be conducted in a similar manner as the first assignment. An example is shown on Schedule E.

Using Schedule E, the consideration the assignor paid less included inventory and any premiums will be used to obtain the adjusted depreciated cost of improvements and trade fixtures. Also, the Base Year is redefined to be the date

the assignor received the Consent of the Board to occupy the premises. The holding period (redefined Base Year to assignment date), or actual occupancy of the assignor, is used in place of the "expired term" when calculating depreciation. Depreciation will be calculated by dividing the holding period by the whole term of the lease (The whole term will remain unchanged).

The change in the CCI will be reflected by comparing the CCI for the redefined base year to the most current CCI.

The holding period will be the basis for determining the appropriate premium percentage. Subtracting the included inventory and any premiums from the consideration the assignor paid will result in a reassessment of the market value of the improvements. If additional improvements were constructed by the assignor, they will be treated in the same manner as improvements constructed by an original lessee.

The excess of subtracting the adjusted depreciated consideration the assignor paid and the adjusted depreciated cost of additional improvements, if any, from the consideration the assignor received will be used against the appropriate premium percentage to determine the amount payable to the state.

9. Rights of Holders of Security Interest-Agricultural Leases only.

In the event of foreclosure or sale, the premium, if any, shall be assessed only after the encumbrances of record and any other advances made by the holder of a security interest are paid.

10. When state-owned improvements are included in the leased premises, improvement renovation requirements shall be recognized as being tenant-owned improvements for evaluation in the policy.

In other words, the total expenditure of the lessee to fulfill the requirement would be treated as though a new improvement was constructed.

SCHEDULE A. Adjusted Depreciated Cost of Improvements or Renovations

1. Adjusted Cost of Improvements or Renovations.

Multiply the actual cost of the improvements or renovations by the most recent U.S. Construction Cost Index for Apartments, Hotels, Office Buildings (CCI)* and divide the result by the CCI of the year construction was completed (base year) to get the adjusted cost of improvements or renovations.

2. Depreciation

Determine the depreciation percentage on a straight-line basis by dividing the expired term of the improvements or renovations by the whole term of the improvements or renovations, the whole term beginning on the date the improvements or renovations are completed to the expiration date of the lease. Multiply the adjusted cost of the improvements or renovations by the depreciation percentage to determine the depreciation.

3. Depreciated Cost of Improvements or Renovations

Subtract the depreciation from the adjusted cost of improvements or renovations. The balance is the depreciated cost of improvements or renovations.

*As published by the U.S. Department of Labor, Bureau of Labor Statistics

<u>Example</u>	Actual cost:	\$500,000
	CCI (most recent):	121.1
	CCI (base year):	102.3
1. Adjusted Cost of Improve- ments or Renovations	Expired term:	57 mos.
	Whole term:	408 mos.

$$\text{Actual Cost} \times \frac{\text{CCI (most recent)}}{\text{CCI (base year)}}$$

$$\$500,000 \times \frac{121.1}{102.3} = \$591,887$$

2. Depreciation

$$\$591,887 \times \frac{57 \text{ mos.}}{408 \text{ mos.}} = \$82,690$$

3. Adjusted Depreciated Cost of Improvements or Renovations

$$\$591,887 - \$82,690 = \underline{\$509,197}$$

SCHEDULE B. Adjusted Depreciated Cost of Trade Fixtures

1. Adjusted Cost of Trade Fixture.

Multiply the actual cost of the trade fixture by the most recent Honolulu Consumer Price Index for All Urban Consumers (CPI)* and divide the result by the CPI of the year in which the purchase was made (base year).

2. Depreciation.

Determine the depreciation percentage on a straight-line basis by dividing the expired term of the trade fixture by its anticipated life. Multiply the adjusted cost of the trade fixture by the depreciation percentage to determine the depreciation.

3. Depreciated Cost of Trade Fixtures.

Subtract the depreciation from the adjusted cost of the trade fixture. The balance is the depreciated cost of the trade fixture.

*As published by the U.S. Department of Labor, Bureau of Labor Statistics

		<u>Refrigerator</u>	
<u>Example</u>		Actual cost:	\$1,510
		CPI (most recent):	118.1
		CPI (base year):	104.6
1. Adjusted Cost of Trade Fixture		Expired term:	57 mos.
		Whole term:	96 mos.
		(Anticipated life)	
		$\text{Actual Cost} \times \frac{\text{CPI (most recent)}}{\text{CPI (base year)}}$	
			$\$1,510 \times \frac{118.1}{104.6} + \$1,705$
2. Depreciation			$\$1,705 \times \frac{57 \text{ mos.}}{96 \text{ mos.}} = \$1,012$
3. Adjusted Depreciated Cost of Trade Fixture			$\$1,705 - \$1,012 = \$ 693$

SCHEDULE C. Premium Percentages

1. For the first 5 years, the premium is 50% of the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee. The percentage will decrease by 5% after every 5 years of the total term has elapsed.

<u>Years</u>	<u>Percentage</u>
1 - 5	50%
6 - 10	45%
11 - 15	40%
16 - 20	35%
21 - 25	30%
26 - 30	25%
31 - 35	20%
36 - 40	15%
41 - 45	10%
46 - 50	5%
51 -	0%

As an example, if a 55 year lease was assigned after 57 months, the premium percentage would be 50%. If the assignment occurs after 130 months (10+ years), the percentage would be 40%.

2. The Board of Land and Natural Resources may impose a ten percent (10%) surcharge if the assignor has not performed lease covenants to improve or use the property.

SCHEDULE D. Assignment of Lease Calculations

1. Subtract from the consideration for the assignment that amount, if any, that is attributable to inventory.
2. Calculate the Adjusted Depreciated Cost of Improvements or Renovations (see Schedule A).
3. Calculate the Adjusted Depreciated Cost of Trade Fixtures (see Schedule B).
4. Calculate the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee by subtracting the amounts derived by no. 2 and 3 from the amount in no. 1 above.
5. Determine the appropriate premium percentage (see Schedule C). Multiply by the excess, if any, derived by no. 4.

Example

A lease is being assigned 57 months after completion of the improvements at a consideration of \$600,000.

The initial cost of the improvements was \$500,000 while the current year CCI and base year CCI were 121.1 and 102.3, respectively. The whole term for the improvements is 408 months.

For the trade fixtures, the initial cost was \$1,510 with the current year CPI and base year CPI being 118.1 and 104.6, respectively. The total life expectancy is 96 months.

1.	Net Consideration:		\$600,000
2.	Adj Cost Imp/Ren:	\$591,887	
	Depreciation:	<u>- 82,690</u>	
	Adj Dep Cost Imp/Ren:		-509,197
3.	Adj Cost Trade Fixtures:	1,705	
	Depreciation:	<u>- 1,012</u>	
	Adj Dep Cost Trade Fixtures:		<u>- 693</u>
4.	Excess:		\$ 90,110
5.	Premium:	Percentage: 50%	\$ 45,055

SCHEDULE E. Subsequent Assignment of Lease Calculations

1. Subtract from the consideration the assignor received for the assignment that amount, if any, that is attributable to inventory to derive the net consideration received.
2. Subtract from the consideration the assignor previously paid for the assignment that amount, if any, that was attributable to inventory. Also, subtract from the consideration the assignor previously paid for the assignment that amount, if any, that was attributable to premiums. The net consideration paid is now defined to be the value of improvements as of the date of the occupancy by the assignor.
3. Using the result from no. 2, calculate the Adjusted Depreciated Value of Improvements or Renovations (see Schedule A).
4. Subtract the amount derived by no. 3 from the amount in no. 1 to determine the amount by which the consideration received for the assignment, whether by cash, credit, or otherwise, exceeds the adjusted depreciated value of improvements being transferred to the assignee.
5. Determine the appropriate premium percentage (see Schedule C). Multiply by the excess, if any, derived by no. 4.

Example

An assignor is assigning a lease 107 months after receiving the consent of the Board. Occupancy or the holding period is defined to be 107 months. The consideration received is \$1,000,000.

The consideration paid by the assignor was \$600,000 while the current year CCI and redefined base year CCI were 156.4 and 121.1, respectively. The whole term was 408 months.

No inventory was included in either consideration. However, a premium of \$45,055 was paid to the state by the previous occupant from the \$600,000 consideration.

1.	Net Consideration <u>Received</u> :			\$1,000,000
2.	Consideration <u>Paid</u> :	\$600,000		
	Premium:	- 45,055		
	Net Consideration <u>Paid</u> :		\$554,945	
3.	Adj Value Consideration (improvements):			
	\$554,945 X $\frac{156.4}{121.1}$	=	\$716,708	
	Depreciation:			
	\$716,708 X $\frac{107 \text{ mos.}}{408 \text{ mos.}}$	=	<u>-187,960</u>	
	Adj Dep Value Consideration:		- <u>528,748</u>	
4.	Excess:		\$ 471,252	
5.	Premium:	Percentage:	45%	\$ <u>212,063</u>