

AGRIBUSINESS DEVELOPMENT COPORATION

Minutes of the Board of Directors Meeting of November 28, 2018
Leiopapa A Kamehameha, 235 S. Beretania Street, Room 405
Honolulu, Hawaii 96813

Members:

Letitia Uyehara	Lloyd Haraguchi
Douglas Schenk	Sandra Klutke
Leilyn Koev	Denise Albano
Scott Enright, DOA	Yukio Kitagawa
Robbie Melton, DBEDT	

Absent:

Margarita Hopkins	Jeffrey Pearson DLNR
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Guests:

David Bissell, KIUC	Jan TenBruggencate, KIUC
Marcello Benatt, Mrcosoft	Matt Maloney, Microsoft
Jason Hines, KIUC/ Joule Group	Andrew Hogerson, EY
Craig Wagnild, Sunrise Capital	Pierre Sleiman, Go Green Ag
Carolyn Ringor, Rooted	Tehani Ayau, Rooted
Joshua Uyehara, KAA	Dave Murray, Andrew & Williamson
Teresa Dawson, Environment Hawaii	David Cho, Sen Dela Cruz's office
Gary Slovin, San HI Govt Strategies	Mary Alice Evans, DBEDT

Staff:

James Nakatani
Myra Kaichi
Lynn Owan
Ken Nakamoto
Todd Low
Cindy Doi

Counsel:

Andrew Goff, Deputy Attorney General

A. Call to Order.

Chairperson Uyehara called the meeting to order at 9:10 am

B. Approval of minutes from the October 3, 2018 meeting

Mr. Schenk approved the minutes; Ms. Klutke seconded the motion; motion carried unanimously.

C. Costco Hawaiian Produce Complex Update.

Mr. Jonathan Luz gave an update of the Costco Hawaii Produce Complex. Costco need to take a different approach given the challenges of the island like weather, heat and bug problems. In order to combat that they determined that instead of taking two years for small scale test they could scale it back to one year if they went in with the right data and building being constructed correctly. Ernest Young and Microsoft have a number of different farm based applications that they have introduced to Costco. They are partnered with them to take a data driven approach to determine how the building will be built and whether it's suitable or feasible at all. He feels there is a potential resource for Hawaii. There is no obligation. Dave Murray with Andrew and Williamson who is a strawberry grower and is an organic strawberry grower mainly in Mexico and Costco is their largest customer and largest strawberry grower. He said he has been trying to identify areas in Hawaii that would be suitable for strawberry production given the logistics and climatic constrains. They are looking at a 55 degree low and 75 degrees high temperature. Half of the cost is found to produce strawberries would be climate control to create the environment they need. A concept called a crop in a box which would be an insulated environment under LED lights which has been done with leafy greens. They would team up with Sherry Kubota from the Ohio State University and is widely known as a world expert in controlled environment strawberry farming in North America. They will start a series of projects with her to find out if this could be done. Then run the economic modelling that would tell them if a greenhouse or crop in a box would be a better approach for an area like Hawaii. Marcello Benah from Microsoft leads the innovation strategies. They have formed a program called FarmBeats is a use of sensors for ground temperature, humidity, bug pressure, altitude with the ability to use drones and maps with inferred and ultra violet technology to map the sensibility of the specific geographic areas. He explained the FarmBeats project of which they have 10 around the world. Mr. Luz stated on a project status prospective they identified what the censored are and where they would be located specifically, the power needs and where to get the power to the site, identified what the structure around it for a protective environment. The next step that they are working on is seeking access permits and other permits necessary for the censoring on the property. Once the censoring is on the property they can start with the data collection and then they can understand what is going to happen on the property.

Mr. Schenk asked on what elevation will their test be done. Mr. Luz replied they were looking at 1100 feet in Wahiawa which was not hospitable. There was very little data collected in that area so they are looking at 300 feet right now.

They invited the board to visit the plant at any time.

Ms. Koev stated that this is great, exciting, and innovative and what the state needs but she asked how would the small farmers be able to bridge the technological aspect. A lot of small farmers are non technical so how would the small farmer utilize all the expertise has to offer. The concept is to replace whatever products that are coming in from the mainland. During the winter time that is when we need it but there is no products so technology will help that situation. But during spring and summer keeps a lot of farmers alive and when small farmers thrive. During those times the farmer is sitting heavy on products and the Costco floor is filled with a lot of mainland produce, how can the farmers help each other by not dumping during that time? Mr. Luz replied his recommendation is to develop a relationship with their buyers. They work with producers all over and most effective situation is communicating with your buyer that you have more products. Mr. Murray replied there will be a lot of lessons but there are other things and good knowledge available. They like working with Costco because they are loyal to

their producer base. They would be happy to talk with other companies on how to approach that situation and what their experience has been. Mr. Luz stated that they will work with the state to figure out from a communication prospective how to effectively help people understand what they are doing. As they get closer to a solution, they will then see how they would disseminate the information.

Mr. Enright commented that this is a wonderful opportunity for agriculture in Hawaii. The DOA is on board as a partner and highly recommend that ADC partner as best as we can with Costco going forward on this amazing opportunity moving forward on agricultural technology.

Mr. Haraguchi stated that he was concerned with the small farmers and it was mentioned that they would need to work with their buyers to get their products on the floor. But a lot of the small farmers would be casualties and can't be helped. He felt uncomfortable in that phase. The small farmers have been here a long time and to see them get stuck with products where they would need to dump at a time when everyone has the same products is not good. He needs a little more reassurance from Costco that the small farmers can survive. Mr. Luz replied he understands but like it was mentioned that small farmers should get to know your buyer and communicate with them and given the buyer that information in advance so there are no surprises. He knows a lot of buyers at Costco and doesn't know a single one of them that won't say lets figure it out to make it work. They should be given advance information that the farmer has excess products. That would not change if Costco brought products from the continental US because all they are doing is replacing the product that is currently being produced in California. Ms. Koev replied that she has great relationship with her buyer and communicate twice a week. There was a decrease during summer and they did tell the buyer they had surplus but the resolution was to get an instant rebate at the check out say \$1.00 to up their yields. But for them to carry that amount it did not make sense for them to do the \$1.00 off at their end. For the record, they do have great relations with their buyer.

Mr. Schenk suggested that Costco take all the technology and great ideas and put a component on the supply and product ID side to try to mitigate some of this. Have a component that focuses on the replacement aspect. Focusing on the 90 percent versus the 10 percent local. Mr. Luz stated that their intention is to conclude traceability where food safety is becoming a bigger issue to having that data and tracing that through from end to end is something that their vendors and themselves up at night. Mr. Enright stated that DOA has been working on doubling the local food production. Also the he commented regarding food safety which is a big issue with small farmers' inability to meet food safety regulations. Costco will not buy from any farmer who cannot meet with food safety criteria currently.

Chair stated that the important thing as importers and wholesalers as distributors of fruits and vegetables is that they are always asked why don't they buy more local products. The problem is that it does not exist in any quantities to be able to service chains like supermarkets and hotels. To utilize technology for food safe products and also have the volume as the economy of scale that they can sell as a local product is something they look forward to because they cannot find product which is why they need to import.

Chair thanked everyone representing the Costco project and look forward to hearing from them in the future.

Short recess at 10:05.

- D. Request for approval to: 1) re-characterize 233.16 acres under Sunrise Capital LLC's LI-K1001, from tillable to non-tillable and 2) increase rent to \$150/acre/year for 190.17 tillable acres; Kekaha, Kauai, Tax Map Key (4) 1-2-02-001 (por.)

Ms. Owan made the presentation to re-characterize 233.16 acres under Sunrise Capital, from tillable to non-tillable and increase rent to \$150/acre/year for 190.17 tillable acres; in Kekaha, Kauai. She gave a brief background that Sunrise currently licenses 423.85 acres originally approved in 2009. Lease rents were crafted to ensure the success of the company beginning with discounted rent values and subsequent deferments of rent increases. Of the total 423.85 acres, 382 acres currently accrues rent at \$150/acre/year and the remaining 41.83 acres accrues rent at a discounted rate of \$50/acre/year. Sunrise has since merged with corporate organization with Hendrix Genetics USA LLC. A services agreement executed by Sunrise and Syngenta (now Hartung) on November 1, 2012, provides Hartung access to a total of 364 acres – 182 acres combined in Fields 311, 312, and 313 and 182 acres in Fields 310, 315, 316, and a portion of 309. The agreement expired on October 31, 2018 although Sunrise continues to allow Hartung to occupy the respective fields. Applicant request that acreage in Fields 309, 310, 315 and 316, for a total of 233.16 acres, be re-characterized from tillable to non-tillable. The current rate for non-tillable land is \$1/acre/year. Applicant acknowledged that the rate should be discounted and the diversified ag rate of \$150/acre/year for the tillable fields is appropriate. The recommendation is to approve the re-characterization of 233.18 acres from tillable to non-tillable, at the non-tillable rate of \$1/acre/year; and approve discontinuation of the discounted rate of \$50/acre/year and increase to the diversified ag rate of \$150/acre/year; to be assessed on the remaining 190.07 acres; and required applicant to submit a request for ADC Board approval to issue a sub-license to Hartung Brothers, Inc. for the respective fields that were covered by the former service agreement dated November 1, 2012.

Mr. Enright moved to approve the recommendations; Ms. Melton seconded the motion.

Ms. Klutke asked why it took Sunrise so long to ask for land to be classified non-tillable. How could Field 315 be non-tillable when we just had a request for five acres on 315. Also land on Field 316 that was tillable. If we are going to move these lands from tillable to non-tillable, why don't they just give us back the lands instead of the charging \$1 for non tillable. What will they be doing with all these lands that are non-tillable and why do they want it? Ms. Owan replied that Sunrise has been saying that they would like to develop some of those lands but she does not know how. Mr. Uyehara from Hartung said transitioning from larger to a smaller company they had to take a harder look at their expenses and these are fields that they had access to but could not use. They could not use the fields so they asked Sunrise. Craig Wagnild the attorney for Sunrise Capital stated that their overall plans for the usage for the property which was an interim period that successful merged with Hendrix and that process before that to utilize as much land as possible. So they entered into what is essentially a sub-license and that agreement called for a utilization for 182 acres of it which was characterized as tillable and not useable.

Mr. Kitagawa asked why it took so long to say that it is not good for production. Mr. Enright replied the two companies mentioned have recently changed hands. There are more frugal ownership. Mr. Nakatani stated that ADC is changing over an old system of land licensing

Mr. Schenk stated that he did not agree that the timing took so long for them to come back to ADC because companies land bank for all kinds of reason like they had grand plans but it never was executed.

He asked why Sunrise didn't request to return it back to the state. Why would they want it for a \$1 and what would happen in the future for ADC. Why would we agree to tie up that land for \$1 until 2029. Mr. Wagnild replied as he understands is that since the merger with Hendrix, plans have been in the works for some time in the production and facilities. They have now a major investor to help build this out. This has been part of the plan in the merger to increase the utilization of the land. It may involve using a portion of the property that are identified as non-tillable. If there was a build out of utilization of that property in connection with Sunrise's business which is not diversified ag if they are able to utilize it in that way then re-characterize back to tillable of \$150/acre/year.

Mr. Enright asked for this to be deferred and have Sunrise come in to give us more details. Mr. Nakatani said if Sunrise keeps it for \$1 then they would take care of it not ADC.

Mr. Haraguchi asked if we could look at it in two parcels. One would have a license and the other maybe a RP. That would respond to both sides and still have control and take care of it and if we need it in the future then we can get it back before 2029.

Item deferred to another meeting.

E. Request for approval to renew Revocable Permit No. 7004 for Gary Smith in Kekaha, Kauai, Tax Map Key (4) 1-2-02-01 (por.)

Ms. Owan made the presentation to renew RP No. 7004 for Gary Smith who is one of two RPs that were not converted to long term licenses and the land and location do not qualify for a long-term license. The parcel is behind the Permittee's house and is used as a vegetable garden. The Permittee is in good standing with ADC and is current in his rent payments. The staff recommendations is that the Board approve the following: 1) renewal of a month-to-month revocable permit to Gary Smith, effective January 1, 2019 for 2,780 sq. ft. in Kekaha, Kauai; 2) rent remain unchanged at \$156/year (\$13/month for 2,780 sq ft); 3) applicant shall not sublicense or sublease the whole or an portion of their premises without the prior written approval of the ADC Board; and 4) all remaining terms and conditions of RP 7004 remain in full force and effect.

Ms. Klutke moved to approve the recommendations; Mr. Schenk seconded the motion.

Mr. Haraguchi stated that the character of use is diversified agriculture. Is it diversified agriculture or a garden? He would like for future reference that a clarification should be made. Mr. Goff stated that when it was EO's to ADC it does mention that the use should be diversified agriculture so it should be kept the same.

Motion carried unanimously.

F. Request for approval to renew Revocable Permit No. 7299 for Senter Petroleum, in Kekaha, Kauai, Tax Map Key (4) 1-2-02-01 (por.)

Mr. Owan made the presentation to renew RP No. 7299 for Senter Petroleum is one of two RPs that have not converted to long term licenses. The rent space is for land upon which above ground storage tanks stand, used for petroleum storage, sales and distribution, plus access to the site from Kekaha Road.

The Permittee expressed interest in possibly negotiating a long term lease in the future as they are exploring the possibility of improving the site. In July 2017, Permittee submitted their Spill Prevention Control and Countermeasure Plan. The RP conditions include a clause that requires the Permittee to conduct a Level One Hazardous Waste Evaluation and conduct a complete abatement and disposal, if necessary, prior to termination of the RP. Termination of the RP is subject to approval by the ADC Board. Permittee is in good standing and is current in their rent payments.

The staff recommends to approve: 1) renewal of a month-to-month revocable permit to Senter Petroleum, Inc., effective January 1, 2019, for approximately 0.5 acres in Kekaha, Kauai; 2) rent remain unchanged at \$13,500/year (\$1,125/month for 0.5 acre); 3) applicant shall not sublicense or sublease the whole or any portion of their premises without the prior written approval of the ADC Board and; 4) all remaining terms and conditions of RP 7229 remain in full force and effect.

Ms. Klutke moved to approve the recommendations; Mr. Schenk seconded the motion.

Mr. Kitagawa questioned how does this relate to agriculture. Mr. Nakatani said it's a carry over and the only way of getting fuel to Kekaha. It does serve a purpose for agriculture. If we get a long term lease then they would comply with petroleum regulations. They do provide a good service to the community. Mr. Kitagawa said if we didn't get the land it would have remained with DLNR. Ms. Kaichi said DLNR would not have carved out that portion of Senter Petroleum's land and they would not have EO'd it to ADC without that portion. Mr. Enright said he has worked with DLNR and they would not have carved it out. The ADC board does not have to accept the EO.

Ms. Klutke said they provide a great service to the community. If not there they would have to go the Waimea and the community would have to pay more.

Motion carried unanimously.

G. Request to approve the transfer of agricultural lands located in Kekaha, Island of Kauai, Hawaii from the State Department of Agriculture and the State Department of Land and Natural Resources to Agribusiness Development Corporation and to authorize the Kekaha Agriculture Association to pursue a declaratory order from Land Use Commission to designate the transferred lands as Important Agricultural lands ("IAL") in accordance with Chapter 305, Hawaii Revised Statutes and certify ADC's authorization as landowner.

Ms. Kaichi made the presentation and gave a brief background on this item. She mentioned that the former Kekaha Sugar Company lands under the management and control of the ADC should hopefully eliminate any potential public utility issue of the ADC providing energy to tenants on both its current lands, and the lands currently managed by HDOA and DLNR. Once under the ADC's management allowing the KAA to petition the LUC for designation of important agricultural land status would ensure that the lands remain in agriculture in perpetuity, and would also provide tax incentives to ADC tenants who can more readily improve these lands than the ADC.

The staff recommends that: 1) approve the transfer of agricultural lands located in Kekaha, Kauai, from the State Department of Agriculture and the State Department of land and Natural Resources to the Agribusiness Development Corporation; and 2) Authorize the Kekaha Agriculture Association to pursue

a declaratory order from the land Use Commission to designate the transferred lands as Important Agricultural Lands in accordance with Chapter 205, Hawaii Revised Statutes and certify ADC's authorization as landowner.

Mr. Enright moved to approve the recommendations; Mr. Haraguchi seconded the motion.

Mr. Kitagawa asked what is being grown on the parcel. Mr. Uyehara replied soy beans, sun flowers and corn from time to time.

Motion carried unanimously.

H. Request to approve: (1) a land agreement between Agribusiness Development Corporation (ADC) and Kauai Island Utility Cooperative (KIUC) for solar panels, and (2) the materials terms of power purchase agreement between Kekaha Agriculture Association (KAA) and the KIUC.

Ms. Klutke moved to go into executive session; Mr. Schenk seconded. Motion carried unanimously.

Ms. Klutke moved to get out of executive session; Mr. Schenk seconded the motion; motion carried.

Ms. Kaichi made the recommendations that the board approve the land license to the KIUC from Fields 218, 219, 220, and 321 and a portion of 322 subject to agreement with Pohaku O Kauai. Include the condition that these land licenses must be converted if at all into 25 year lease, which lease shall also have an option to extend an additional 25 years. The option to convert must be exercised no later than August 31, 2022 to parallel the conversion date of the Kokee ditch and Mana reservoir licenses; and approve the current, material terms of the Power Purchase Agreement between the KAA and KIUC.

Ms. Klutke moved to approve the recommendations; Mr. Schenk seconded the motion.

Ms. Klutke asked what will happen to the photovoltaic equipment once it dies. Mr. Bissell replied that the industry said it will be recycled. Ms. Kaichi stated that the leases say that the tenant put the land back in the condition it was.

Motion carried unanimously.

I. Request for approval to renew Revocable Permit No. 1802 to William J. Sanchez for 419 acres in Unit A, located in Kalepa, Kauai; Tax Map Key (4) 3-9-02-20 (por.).

Ms. Owan made the presentation to renew RP No. 1802 to William J. Sanchez for 419 acres in Unit A, in Kalepa. She reported that the applicant was issued a RP for 419 gross acres of pasture land in Kalepa. His permit areas was rated as good and open and free of noxious weed growth due to proper and regular maintenance. He makes good effort in working together with adjacent crop farmers regarding fencing and use of infield roads. Payment of rent is made in a timely manner. The recommendations are: renewal of a month-to-month revocable permit to William J. Sanchez, effective November 1, 2018 for 419 gross acres in Kalepa; rent is \$5,970/year (\$15/acre/year for 398 net acres); applicant shall not

sublicense or sublease the whole or any portion of their premises without the prior written approval of the ADC Board; and all remaining terms and conditions of RP 1802 remain in full force and effect.

Mr. Enright moved to approve the recommendations; Mr. Haraguchi seconded the motion; motion carried unanimously.

J. Request for consent to an indenture of Mortgage, Security Agreement Financing Statement by the Kauai Island Utility Cooperative (KIUC) to the United States of American, Rural Utilities Service (RUS) and the national Rural Utilities Cooperative Finance Corporation (CFC).

Chair deferred this item.

K. Update on the findings from the land investigative committee.

Mr. Schenk reported that the Committee met on October 29th to try to improve our performance with better results to get good farmers on our lands. We are not able to get qualified farmers on the premises. They met to try to flush some of these issues out. He asked the board to get familiar with what was attached to the findings then we can come back and talk about it and made a decision. We need better experienced farmers that are well financed that have a good plan. It is hard to find but if we fail to find farmers we will be where we are today which is fully of resources and not too many performers. A lot of farmers are unable to perform all that is being ask of us so maybe that is not the kind of farmers that we are being attracted to. Lets try this and get familiar then talk about it at one of our future meetings. All inputs are welcome.

Mr. Nakamoto reported that this is a work in progress and not a set standard. A lot of problems we have today was due to poor betting. We did not focus on some of the important qualifications like financing, farming practices and farmer experience. Based on the discussions some changes were made to the application and the rating sheet. Some instructions were also added to give better guidance. This is for discussion and get feedback and then come back with a recommendation on adopting some of these changes either to the application or to the way farmers are rated.

Ms. Melton asked if a farmer training program could be done so that the farmer needs to go through the training before they receive the lands. Mr. Nakamoto replied the training was provided to the farmers. A lot farmers are immigrants and they did say they understood but don't know if they really understood. Mr. Nakamoto stated a mentor ship program was looked at and being worked on right now.

Mr. Kitagawa commented that for the Galbraith property part of the funding was provided by the City who wanted to provide lands for the small farmers. We could talk to the City to see if they would be more lenient on their requirement. But he wanted to make that point about the City requirement. Mr. Enright replied that we do have 200 acres set aside for small farmers. We need to define what small farms are. But we don't accept anybody that does not capitalize going forward. That should be okay with the City.

Ms. Melton commented that if you set a high standard requirement, it makes a big difference. If people don't make the requirement, if they are interested they would find a way to improve to get in. The

higher standards set within limits will be a benefit and must stick with it. Then the program can be successful.

This will come before another board meeting before it's finalized.

L. Executive Director's Report and Update.

1. Kekaha
2. Kalepa
3. Whitmore

Mr. Nakatani reported that it is 300 acres not 200 acres. He reported on Whitmore Kalepa and Kekaha. In Kekaha, he reported on Funing Farm. In Kalepa, Lin's Farm was reported on. In Whitmore, the encroachments issues were reported. Also reported was the recap of his trip to Arkansas and Portland. A couple of goals were that he met with MAST (Membrane Science, Engineering and Technology) Center staff for an update on a contract to develop a cost-effective model for removing e.coli from irrigation water for FSMA compliance. The other was the four of Food Innovation Centers at Bentonville at Fayetteville Arkansas and Portland to see real-world examples and to provide context for decision making on the Value-Added Incubator project at the Tamura Warehouse in Wahiawa. He also reported that the ADC is working on its website which can be found on the DOA website. The website will be kept up to date.

Chair asked for financial status for the next meeting where the funds are going. Other projects – Waialeale status and others for an update on these projects.

Ms. Haraguchi asked for a Waialeale update. Ms. Kaichi reported that it's the quiet title parcel. Most of the efforts are resolving quiet title with the other party without litigation. This afternoon there is a meeting to be scheduled. Because of quiet title it is very sensitive. Ms. Kaichi said that if UH would allow to carve out the transfer, we would have taken the parcels by now but we need to resolve the mauka quiet title issue before we can take anything. If the Board has any direction on that parcel we are just proceeding to get it. If there are any concerns or ideas, please call ADC. Mr. Haraguchi asked what is the direction. Was it that we go to UH, see what the demands are and if they say all or nothing then that's it. Ms. Kaichi stated the UH has stepped back because before it was all or nothing, take it in fee and given to ADC for free. We are now saying we would look at a lease to see how it goes and UH is asking for the terms of the lease. In these negotiations, quiet title always comes up. We need to resolve the quiet title to a point where we can live with it.

Ms. Albano asked on the R1 water from Lake Wilson. Ms. Kaichi replied we are waiting for the City. We would like it to be resolved because our inability to finalize this MOU with the City is holding up funding on other projects at Budget and Finance.

Next meeting will be on December 12th at Whitmore or Wahiawa. There will be an update on the community meeting that was held a couple of weeks ago to discuss with the Whitmore community on the issues. Hopefully a recommendation could be formulated based on their comments that was received. There will be no individual decision making for each person. We will try to come up with

permits for individuals who want to garden but there are issues. Also some residence are asking why they couldn't have gardens in their back yard like others.

Ms. Melton announced that she joined the Kauai office of economic development and will be starting January 1, 2019. The next board meeting will be her last. She said she enjoyed working with everyone on the ADC Board.

Meeting adjourned at 12:30 pm.

Respectfully submitted,



Cindy Dol
secretary