

AGRIBUSINESS DEVELOPMENT CORPORATION

Minutes of the Board of Directors Meeting held Virtually on May 20, 2020
Via Teleconference/MS Teams meeting

Considering the evolving COVID-19 situation, protecting the health and welfare of the community is of utmost concern. As such, the meeting was held remotely, with Board members, Staff and Applicants participating via MS Teams meeting venue.

Members Present, virtually:

Sandra Kato-Klutke, Kauai Member (Chairperson)
Lloyd Haraguchi, Member-At-Large
Kevin Hopkins, Hawaii Island Member
Douglas Schenk, Maui Member
Warren Watanabe, Member-At-Large
Phyllis Shimabukuro-Geiser, Chairperson, Board of Agriculture (*joined at 10:00 am*)
Kaleo Manuel, Designated Representative, DLNR, Ex-Officio Member
Mary Alice Evans, Designated Representative, DBEDT, Ex-Officio Member

Counsel Present, virtually:

Andrew Goff, Deputy Attorney General

Staff Present, virtually:

James Nakatani, Executive Director
Myra Kaichi, Sr. Executive Assistant
Lynn Owan, Administrative Services Officer
Ken Nakamoto, Project Manager
Todd Low, Special Projects, Aquaculture Development, HDOA
Lyle Roe, Property Manager

A. Call to Order

Chairperson Kato-Klutke called the virtual meeting to order at 9:00 a.m.

B. Roll Call

Ms. Kaichi conducted a roll call of the Board which also served as an initial roll call vote. The Chair will rest on the written submissions. For each subsequent vote, the Chair will ask if there are any objections. If there are none, motion will be carried on the same basis as the initial roll call vote.

C. Approval of minutes from the February 26, 2020 meeting

Motion to approve: M.A. Evans / Second: D. Schenk

Hearing no questions/objections; motion to approve carried.

Vote: Approved, 7-0

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- D. Request for Approval to Negotiate and Enter Into a Water User Agreement for the Delivery of Irrigation Water from the Bott Well Pump Station, Waialua, Oahu (Staff: K. Nakamoto)

Motion to approve: L. Haraguchi / Second: W. Watanabe

Discussion centered around a few main topics:

Costs to operate

Mr. Manuel asked staff to confirm the average water use per acre: Mr. Nakamoto stated it is over 1,000.

Mr. Manuel asked what is the actual cost for operations/maintenance. Mr. Nakamoto stated that it is unknown as the operation is currently being handled by one farmer. ADC handles the maintenance, water meters, maintenance to the well, etc. Mr. Hopkins raised concerns about ADC subsidizing the cost of this until we get more users; how much is this going to cost ADC to keep this running. He would like to see a more detailed plan on how much is this going to cost, the investment into Whitmore.

Mr. Haraguchi asked about the \$200,000 cost to operate. Mr. Nakamoto explained that it is an estimate. Kelena operates our well for our farmers at their own cost – ADC does not pay them. ADC contracts with ITC for maintenance at about \$100,000 and that added to the costs for past repairs, etc. is what makes up the \$200,000. This agreement will allow us to charge the farmers for water; they currently pay nothing for water.

Rate setting

Mr. Manuel recommended that ADC look into a cost of service study to justify the amount to the tenants so they know exactly what they are paying for. Mr. Watanabe agreed with Mr. Manuel that justifying water rates is important. Mr. Nakatani agreed that the cost study is a good idea but because we don't have all of our farmers, we don't know their patterns; we are still building out our system. He also explained that is just the first step and is asking the board to be patient; in order to move us forward, staff proposed the \$0.89 rate. We took our best guess to keep the costs down as we want the farmers to succeed.

Mr. Schenk asked about the overall purpose of the fee. Mr. Nakamoto clarified that it is to break-even -- we want to cover our costs but also be prepared for any unforeseen major overhauls, catastrophic failures, etc. Mr. Roe added that part of the goal is to have funds available to get the well back up and running as soon as possible should there be an emergency.

Revisit rates

Mr. Schenk pointed out that under item 4, ADC reserves the right to make adjustments so at some point in the future, when appropriate, we can revisit this. Mr. Hopkins asked how frequently the adjustments will be made – farmers need to know this. Chair also asked how if/when we are reviewing for adjustments. Mr. Roe stated that he will add-in a clause that this will be revisited in 2 years.

Other questions

Mr. Manuel asked if ADC reports water usage. Mr. Nakamoto stated, yes.

Mr. Manuel suggested that ADC include in the addendum to the water use agreement, the facility charge fee or meter fee installation. Mr. Nakamoto stated it is in the license agreement but ADC can add it to be consistent.

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Motion to amend submittal: K. Hopkins / Second: W. Watanabe

Mr. Hopkins recommended to amend the submittal to stipulate that the agreement will be reviewed in 2 years.

Hearing no questions/objections, motion to amend submittal carried.

Vote: Approved, 7-0 (*Note: Mr. Manuel voted with reservations*)

Hearing no further questions/objections, motion to approve as amended carried.

Vote: Approved, 7-0 (*Note: Mr. Manuel voted with reservations*)

E. Request for Approval to issue a Land License to Galbraith farmers for Agricultural Purposes in Waialua, Oahu, Tax Map Key (1) 7-1-01-02 (por) (Staff: K. Nakamoto)

1. Glory Herb Farm LLC

Motion to approve: D. Schenk / Second: L. Haraguchi

Mr. Manuel asked to clarify meter information on page 3: Mr. Nakamoto clarified it is one, 2” meter. He also asked if there is a way to include in our agreements, a reporting/tracking method for metrics such as local production vs. export, etc. Mr. Nakatani stated that ADC began tracking last year what is locally produced, where it is growing and the value of that but has not done it formally. As farmers settle-in, it is a good idea to start doing this on a formal basis.

Hearing no further discussion/objections; motion to approve carried.

Vote: Approved, 7-0

2. Bounpheng Farms LLC

Motion to approve: L. Haraguchi / Second: W. Watanabe

Hearing no objections; motion to approve carried.

Vote: Approved, 7-0

3. Island Green Produce, Inc.

Motion to approve: K. Hopkins / Second: L. Haraguchi

Hearing no objections; motion to approve carried.

Vote: Approved, 7-0

4. Zhao Produce

Motion to approve: W. Watanabe / Second: K. Hopkins.

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Mr. Manuel asked whether residency on property is permissible. Mr. Nakamoto stated that it is not. Mr. Zhao has been informed that he cannot build a house on our land.

Hearing no further discussion/objections; motion to approve carried.

Vote: Approved, 7-0

- F. Request for Approval to Issue a License Agreement to SJ Farms, Inc. for Land in Waialua, Oahu; Tax Map Key (1) 7-1-01-03 and (1) 6-5-02-10 (por) (Staff: K. Nakamoto)

Motion to approve: D. Schenk / Second: L. Haraguchi

Mr. Manuel asked about a water installation fee or meter – Mr. Nakamoto stated that they will be subject to the water user agreement which will include the installation fee. Mr. Nakamoto explained that ADC will be offering them the opportunity to submit a request for rent credit as this land has no infrastructure. ADC will subsidize a portion of their installation costs (storage pond, water meter, etc.). Conservation plans are required and limitations are set which are below dam safety standards.

Mr. Hopkins asked for clarification as this property does not have any security or portable toilets. Mr. Nakamoto clarified that the tenant will be providing their own.

Chair asked for a separate submittal at a future time, for the rent credit request.

Hearing no further questions/objections, motion to approve as amended carried.

Vote: Approved, 7-0

- G. Request for Approval to Issue a Land License Agreement to Helemano Farms LLC for Land in Whitmore, Oahu; Tax Map Key (1) 7-1-02-34 (por) (Staff: K. Nakamoto)

Motion to approve: L. Haraguchi / Second: K. Manuel

Mr. Manuel asked whether we do metes and bounds. Mr. Nakamoto stated that we don't require metes and bounds – we leave it to the two tenants to survey it themselves.

Hearing no further questions/objections, motion to approve as amended carried.

Vote: Approved, 7-0

- H. Request for Approval to Issue a Revocable Permit to Ho Farms LLC for Agricultural Purposes, Waialua, Oahu; Tax Map Key (1) 6-5-02-25 (por) (Staff: K. Nakamoto)

Motion to approve: W. Watanabe / Second: D. Schenk

Mr. Manuel asked if they will be subject to the water use agreement. Mr. Nakamoto answered that they would, and that any farmer using Bott Well will be subject to the agreement. Since this is a revocable permit, there are no other charges. It will eventually be opened up for lease. Mr. Nakatani explained that they are taking water (which is metered) from land immediately adjacent to this farming location so will be paying for water.

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Ms. Shimabukuro-Geiser asked how they are doing. Mr. Nakamoto said they are doing well; they are trying to consolidate their operations to Galbraith. Chair asked how Ho Farms is doing during the pandemic. Mr. Nakamoto stated that they are getting direct sales and are doing okay. Mr. Roe stated that ADC's farmers in the area are managing given the situation, with the exception of Kelena Farms.

Hearing no further questions/objections, motion to approve as amended carried.

Vote: Approved, 8-0 (*P. Shimabukuro-Geiser joined the meeting; added to vote count going forward*)

- I. Request for Approval to Issue a Revocable Permit to Kelena Farms, Inc. for Land in Waialua, Oahu; Tax Map Keys (1) 6-5-02-11; (1) 6-5-02-06; (1) 6-5-02-08; and (1) 6-5-01-46 (Staff: K. Nakamoto)

Motion to approve: L. Haraguchi / Second: D. Schenk

Mr. Haraguchi asked why we are not doing a long-term lease. Mr. Nakamoto explained that these are 4 parcels recently acquired and that the Applicant is currently on a Dole license (holdover); ADC would like to put ADC terms into effect for the time being. The farmer is working on a request for a long-term license; ADC will likely give them first right of refusal.

Chair asked how long the RP is in effect for. Mr. Nakamoto stated that it is not meant to be long term – hopefully no longer than a year.

Hearing no further questions/objections, motion to approve as amended carried.

Vote: Approved, 8-0

- J. Request for Approval to Terminate RP 1803, Issued to Taiwan Gu and Hawaii Golden Farm LLC for 200 Acres and Issue 10-year License for the Same Parcel, to Hawaii Xing Long Farm and Hawaii Golden Farm Inc., TMK (4)3-9-002:020 (por) (Staff: L. Owan)

Motion to approve: D. Schenk / Second: K. Manuel

Mr. Manuel asked where the water comes from. Ms. Owan stated it comes from the Hanamaulu ditch.

Hearing no further questions/objections, motion to approve carried.

Vote: Approved, 8-0

- K. Request for Approval to Issue a Land License to Aurora Bunao & Arnold Bunao for Agricultural Purposes, in Kalepa, Kauai, Tax Map Key (4)3-9-002:020 (por) (Staff: L. Owan)

Chair stated that a letter from the Bunaos was received and the Chair asked that both the submittal and the letter be considered. Ms. Kaichi explained that the Bunaos are requesting a 10-year license but based upon their history, staff's recommendation is a 2-year lease with an option for an additional 3 years. The Bunaos have been unable to secure conventional financing with a short-term license so they are asking for a 10-year license and are putting together a plan for an 80-acre crop rotation agreement with Mr. Taiwan Gu.

Motion to amend submittal: D. Schenk / Second: L. Haraguchi

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Amendment is to provide a 10-year license to include crop rotation with Taiwan Gu.

Mr. Hopkins expressed concern with their poor payment history and does not agree with granting a 10-year license. Mr. Haraguchi is also not comfortable with the proposed amendment of 10 years. Mr. Manuel asked if we have more information on the delinquent account history. Ms. Owan said we do not know the reasons.

Mr. Nakatani pointed out that the [cost] increase is a 100% increase (not 50% as stated in the Bunaos' letter). ADC's position is that they are good people and we want to help them but are not comfortable with the 10-year term and would like more details on the crop rotation agreement. Mr. Manuel suggested including a statement that the formal crop rotation agreement be made available and be subject to Executive Director's approval with delegation from the Board.

Ms. Kaichi shared that there are two concerns: 1) Financial concern and, 2) Crop rotation arrangement concern. Under the Bunaos' proposal, they will have to make a loan payment in addition to their rent payment even if they do the crop rotation with Taiwan Gu. There are concerns that they will not be able to pay their rent.

Mr. Hopkins was fine with a 2-year license but not 10 years. They have a good portion of land that other farmers could be doing diversified farming on and he doesn't want to see that land tied-up.

Mr. Schenk felt that partnering with Taiwan Gu is a good thing for both parties as Taiwan Gu is a successful farmer. Mr. Nakatani explained that Taiwan Gu is seeking more land to expand their operation – especially in Kalepa because soil conditions are good for crops.

Mr. Manuel recommended a deferral and to have Staff ask the following questions of the Bunaos: how much are they borrowing, and for a copy of the crop rotation agreement. Mr. Hopkins made a motion to defer.

Item deferred to the next meeting.

- L. Request for Approval to Withdraw 200 acres for Diversified Agriculture from Unit A (por), Under Revocable Permit (RP) 1802, Issued to William Sanchez, in Kalepa, Kauai, Tax Map Key (4)3-9-002:020 (por) (Staff: L. Owan)

Motion to approve: D. Schenk / Second: W. Watanabe

Chair stated that this land is being given to Taiwan Gu.

Hearing no questions/objections, motion to approve carried.

Vote: Approved, 8-0

- M. Request for Approval to Amend License Agreement No. LI-GA1611 Issued to Ho Farms LLC for Agriculture Purposes, Waialua, Oahu; Tax Map Key (1) 6-5-02-25 (por) (Staff: K. Nakamoto)

Motion to approve: P. Shimabukuro-Geiser / Second: W. Watanabe

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Mr. Nakamoto clarified that this is for their existing 35-year license. They are planning a shade house (see Newsletter) and are in need of power. Because ADC was planning to bring in power, we will pay for a portion of that installation.

Ms. Shimabukuro-Geiser stated that USD announced their CFAP program and urges those who need assistance to apply; they may contact Jason at the FSA office. Federal government has translators available and can assist with applying. Mr. Roe will be sure to relay the info to the farmers.

Hearing no questions/objections, motion to approve carried.

Vote: Approved, 8-0

- N. Request to Approve Thirty-Five Year Lease to University of Hawaii of 68,475 square feet, more or less, designated as Tax Map Key (1)7-4-012-016, located at 1001 California Avenue, Wahiawa, Oahu (Staff: M. Kaichi)

Chair stated that we received seven letters of support from the following organizations:

1. DOE - Leilehua, Miliani and Waialua Complex Areas
2. Wahiawa Community Based Development Organization
3. Hawaii Agricultural Foundation
4. Leilehua Alumni and Community Association
5. Hawaiian Vinegar Company
6. Hawaii Food and Festivals LLC
7. UH Community Colleges

Motion to approve: K. Hopkins / Second: W. Watanabe

Mr. Hopkins asked if he needed to recuse himself as he works for UH but he has no affiliation with this project. Mr. Goff stated that if he has no direct implication to the project, does not need to recuse himself.

Staff will consider all of the Board's concerns/recommendations and will work to include them into the conditions of the agreement with UH if possible. Recommendations from the Board:

1. Mr. Manuel asked whether UH is completing an environmental assessment (EA) to meet the requirements of Statute 343. Mr. Nakatani stated that it is UH's obligation to meet all requirements. Mr. Manuel recommends that we make it explicit in this approval that UH meets compliance with 343 and it is not ADC's responsibility. Mr. Nakatani then received confirmation that an EA was completed for this project last year; UH received a FONSI.
2. Mr. Hopkins would like to set a time limit on the agreement; if no progress has been made in X number of years, we can cancel the lease. Ms. Kaichi explained that UH is trying to encumber funds for this project so they are actually moving quickly. Mr. Hopkins would like to specify that UH must start construction within 10 years but defers to staff and Mr. Nakatani on this item.
3. Chair asked that Ms. Kaichi give an update on this project at the next meeting.

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Other discussion items:

1. Mr. Haraguchi asked about transferring the land to UH. Ms. Kaichi explained that it is an option and is being discussed with UH. UH's immediate need is a lease to start design work so ADC is working to finalize the agreement and will consider the Board's recommendations. ADC will also continue discussions with UH if they want to take title to the property.
2. Mr. Hopkins asked about the rental income. Ms. Kaichi explained that ADC currently receives about \$51,000 annually from three tenants: Colortyme (lease expires next year), Guardian Transport that has an RP which we may terminate at any time, and the third is Verizon which we fought hard to keep. Their rent is \$17,400 annually which we will keep with this lease. But if we quitclaim the property over to UH, we give up everything.
3. Mr. Haraguchi asked whether, instead of giving UH the building, we can we do a land exchange. Mr. Nakatani said no, this is a sensitive situation and our focus is for ADC to get this project moving to benefit the community. A Value-Added Product Center is one of ADC's goals and this is the first time ADC has an opportunity to pursue that.

Hearing no further questions/objections, motion to approve carried.

Vote: Approved, 8-0

O. Executive Director's Report and Updates

1. ADC Newsletter
Mr. Nakatani shared the latest ADC newsletter, Ag Notes, created by Becker; will likely issue them quarterly. ADC is looking for agriculture-related stories for future issues. This issue features Ho Farms farming on Galbraith land.
2. Legislative
Nothing to report as ADC had no bills, then COVID19 cut the session short.
3. Board member nominations
The nominations went well -- came out of committee and headed for the Floor with recommendations to approve. Nominees are:
 - a. Lloyd Haraguchi
 - b. Karen Seddon
 - c. Fred Lau
 - d. Warren Watanabe
 - e. Kevin Hopkins

Mr. Nakatani stated that there is another vacancy as Mr. Yuki Kitagawa has resigned his position.

4. Audit
Mr. Hopkins asked about the status of the audit. Ms. Kaichi stated that the management side of the audit is complete and they are preparing their report. On the financial side, Ms. Owan stated ADC

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is almost complete with the trial balance. During the first weeks of August, the auditors will spend time in both offices (ADC and WWS) to look through records. The legislative auditor's accountant, Acuity, is going to begin their portion of the audit.

5. Kauai

Chair gave an update on Kauai's storm damage. With the March 28 heavy rains, the Kalepa roads and stream crossings were severely damaged; the Kalepa Coalition will manage that. In Kekaha, the storm caused the ditches to overflow; being handled by the Kekaha Ag Association.

P. Adjourn

Motion to adjourn: P. Shimabukuro-Geiser / Second: K. Hopkins

Meeting was adjourned at 11:14 a.m.

Respectfully submitted,

Lori Nakamura

Lori Nakamura
ADC Executive Secretary