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4 **Minutes of the Board of Agriculture**
5

6 CALL TO ORDER – The meeting of the Board of Agriculture was called to order on
7 June 24, 2014 at 9:20 a.m. by Board of Agriculture Chairperson Scott Enright, at the
8 Mealani Research Station – 64-289 Mamalahoa Highway, Kamuela Hawaii, 96743.
9

10 **Members Present:**

11 Scott Enright, Chairperson, Board of Agriculture
12 Glenn Hong, Member-At-Large
13 Clark Hashimoto, Member-At-Large (arrived 9:50 a.m.)
14 Jerry Ornellas, Kauai Member (arrived 9:50 a.m.)
15 Michelle Galimba, Member-At-Large
16 Dr. Maria Gallo, Dean of the College of Tropical Agriculture & Human Resources
17 University of Hawaii (CTAHR-UH), Ex Officio Member
18 Mary Alice Evans, Deputy Director, Department of Business, Economic
19 Development and Tourism
20 Richard Ha, Hawaii Member
21

22 **Members Absent:**

23 Lynn DeCoite, Maui Member
24 William Aila, Chairperson, Board of Land and Natural Resources
25

26 **Others Present:**

27 Margaret Ahn, Deputy Attorney General
28 Randy Teruya, HDOA/Agricultural Resource Management (ARM)
29 Daryl Arai, HDOA/State Agricultural Loan Division (SALD)
30 Brian Kau, HDOA/ARM
31 Edward Boteilho, Cloverleaf Dairy
32 Grant Tomita, HDOA/Quality Assurance Division (QAD)
33 Curtis Wheeler, So Ono Food Products
34 Uzor Nwoko, So Ono Food Products
35 Nathan Okinaka, So Ono Food Products
36 Russell Nagata, CTAHR-UH
37 Glenn Okamoto, HDOA/ARM
38 Kevin Yokohama, HDOA/SALD
39 Brad Duff, Big Island Dairy
40 David Ruf, Rivertop Solutions
41 Kees Kea, Mauna Kea Moo LLC
42 Cornel Kea, Mauna Kea Moo LLC
43 T.J. Menn, HDOA/Chairperson's Office
44 Jeri Kahana, HDOA/QAD
45 Dean Matsukawa, HDOA/SALD
46 Ken Kakesako, HDOA/Chairperson's Office

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II. APPROVAL OF MINUTES FROM 5/27/14 MEETING:

Chairperson Enright requested a motion to approve the May 27, 2014 meeting minutes.

Motion for approval: Evans/Ha

Vote: Approved, 6/0 by Board Members Enright, Hong, Galimba, Gallo, Evans, and Ha.

III. COMMENTS FROM THE GENERAL PUBLIC ON AGENDA ITEMS (ORAL OR WRITTEN)

Chairperson Enright said that the Board will be taking public comments on agenda items as they come up during the meeting.

IV. INTRODUCTION AND COMMENTS

There were no introductions or comments.

V. COMMUNICATIONS FROM DIVISIONS AND ADMINISTRATION

A. AGRICULTURAL RESOURCE MANAGEMENT DIVISION

Chairperson Enright switched the order of the two agenda items for the Agricultural Resource Management Division.

2. Certification of Acreage Assessments for the Honokaa-Paauilo, Kahuku, Molokai, Waimanalo, and Waimea Irrigation Systems, 2015 Fiscal Year

Presentation by Mr. Brian Kau, Division Administrator, Agricultural Resource Management Division (ARM) as submitted. Staff recommends approval.

Motion to accept: Evans/Galimba

Board Member Galimba asked if the acreage assessment is the amount ARM needs to run the irrigation system, and whether the amount is divided equally.

Mr. Kau said that the acreage assessment is approximately 30% of the funds needed to run the system. All irrigation systems have similar expenses for operation and maintenance. The biggest expense is electricity and personnel. The Kahuku irrigation system does not have any assigned personnel. ARM sends personnel to the Kahuku irrigation system as needed.

Vote: approved, 6/0 by Board Members Enright, Hong, Galimba, Gallo, Evans, and Ha.

- 1
2 1. Request for Approval to Install Gate and Fence, General Lease No. S-
3 4741, Pioneer Hi-Bred International, Inc., TMK: (4) 1-2-002:042
4 Kekaha, Waimea, Kauai, Hawaii.
5

6 Presentation by Mr. Randy Teruya, Agricultural Asset Manager, ARM, as submitted.
7 Staff recommends approval.
8

9 Motion to accept: Evans/Hong.
10

11 Board Member Evans asked if the general lease requires Board of Agricultural approval
12 for improvements.
13

14 Mr. Teruya said that general improvements must be approved by the Board. Any
15 permanent structures on leased land from ARM needs approval by the Board.
16

17 Vote: approved, 6/0 by Board Members Enright, Hong, Galimba, Gallo, Evans, and Ha.
18

19 B. AGRICULTURAL LOAN DIVISION
20

- 21 1. Request for Approval of One (1) Food Manufacturer Facility Loan and
22 One (1) Food Manufacturer Operating Loan to So Ono Food Products,
23 LLC.
24

25 Presentation by Mr. Kevin Yokohama, Loan Officer, State Agricultural Loan Division
26 (SALD) and Dean Matsukawa, Division Administrator, SALD, as submitted. Staff
27 recommends approval.
28

29 Motion for approval: Evans/Hong.
30

31 Board Member Hong asked that under the terms of the loan document, if repayment
32 would be even amortization over the principal for 7 and 13 years for the \$300,000 and
33 \$500,000 loans respectively.
34

35 Mr. Yokohama said “yes.” After the 9 months of interest only payments.
36

37 Board Member Hong asked if there are any other restrictions on So Ono’s other debts.
38

39 Mr. Yokohama said So Ono has loans to the principals, and those are subordinate.
40

41 Mr. Matsukawa said that the other loans can be paid off before the State loan, as long
42 as the State loan is current. Once the State loan is in default, So Ono cannot pay off
43 any other debts.
44

1 Board Member Hong asked if there is any consideration to place some restrictions on
2 the notes payable before the State loan is amortized off. Board Member Hong said he
3 is looking for ways to provide added protection on the State loan.

4
5 Mr. Matsukawa said they do not see the benefit on placing additional restrictions. As
6 long as the payments are kept current, we are not trying to accelerate the debt.

7
8 Board Member Hong said that from an investor standpoint, the State is providing loans
9 at a pretty advantageous rate, and would want more assurances that the loan can be
10 paid off.

11
12 Chairperson Enright called up Mr. Curtis Wheeler and Mr. Uzor Nwoko of So Ono Food
13 Products.

14
15 Board Member Hong said that the \$300,000 and \$500,000 loans are a substantial
16 amount of the loan program, and the Board would want some consideration to
17 restricting the amount So Ono can pay toward their existing debts.

18
19 Mr. Nwoko asked if Board Member Hong wants restrictions on So Ono paying off the
20 notes from the principals until the State loan is paid off.

21
22 Board member Hong said he doesn't necessarily want a restriction on the principals'
23 notes until the State loan is fully paid off, but he is suggesting a restriction until a certain
24 amount of amortization is paid off for the State loan.

25
26 Mr. Nwoko said that So Ono would consider some sort of restriction.

27
28 Board Member Hong asked what would be an appropriate time frame for the restriction.

29
30 Mr. Nwoko said he would recommend a year's timeframe. At this time, So Ono cannot
31 foresee paying off the other loans of the company. So Ono would try to pay off the
32 State first anyways.

33
34 Mr. Wheeler said So Ono's practice has always been that outside loans are paid off
35 first.

36
37 Board Member Hong asked if So Ono has audited financials.

38
39 Mr. Wheeler said no, but So Ono's taxes are prepared by certified CPAs outside of the
40 company.

41
42 Chairperson Enright called for a recess at 9:40 a.m.

43
44 Chairperson Enright called the board meeting back in session at 9:51 a.m.

45

1 Board Members Hashimoto and Ornellas arrived at 9:51 a.m.

2
3 Board Member Hong proposed a covenant on the loan to state that for a 2 year period
4 starting after the nine months when interest is only paid, So Ono must pay an equivalent
5 of 2 years of the amortization back on the loan, before So Ono can pay back any
6 interest or principal on their personal loans.

7
8 Board Member Hong said he wants to make sure So Ono has sufficient capital during
9 this ramp up period.

10
11 Mr. Nwoko asked if it is possible to continue paying interest on the current loans, but
12 push the principal back. So Ono would not be taking additional money from the
13 company, as So Ono is already paying interest on the personal loans.

14
15 Board Member Hong said that he doesn't know what the terms of the personal loans
16 are, and he isn't sure if So Ono can disclose the terms without going into executive
17 session, as the loan terms may be confidential.

18
19 Mr. Wheeler said he would agree to the additional terms.

20
21 Chairperson Enright made a motion for approval with the agreed upon modification for
22 the terms of the loan agreement.

23
24 Board Member Gallo seconded.

25
26 Vote: approved, 8/0.

27
28 VI. NEW BUSINESS

29
30 1. Presentation by the Quality Assurance Division on the Milk Control Act

31
32 Presentation by Mr. Grant Tomita, Milk Control Program Specialist, Quality Assurance
33 Division (QAD), as submitted.

34
35 Board Member Evans asked whether Meadow Gold was required to pay Hawaii's
36 minimum pricing when they began to purchase milk in the mainland for sale in Hawaii.

37
38 Mr. Tomita said "no."

39
40 Board Member Evans asked if that was part of the drastic reduction of dairies in Hawaii.

41
42 Ms. Jeri Kahana, Division Administrator, (QAD), said the processor then was using the
43 milk from Hawaii for other components such as yogurt and ice cream. Milk broken
44 down into components is considered "class 2" milk, which is cheaper. What the
45 processor was doing was just saying that they were going to use the milk for a class 2

1 product. QAD couldn't force Meadow Gold to pay class 1 prices. In response, a law
2 was passed limiting utilization of milk for class 2 products.

3

4 Board Member Ornellas asked if the Milk Control Act is achieving its objective.

5

6 Ms. Kahana said the Act needs to be revised because it is outdated.

7

8 Board Member Ornellas said he is not sure the Milk Control Act achieved its objective at
9 all, because so many dairies in Hawaii went bankrupt.

10

11 Ms. Kahana said that there were other factors contributing to the dairies' demise in
12 Hawaii, including increased feed costs, increased utility costs, and transportation
13 charges.

14

15 Board Member Ornellas said that the quality of the milk from the mainland isn't that
16 good. It is pasteurized twice. He is concerned that the mainland milk companies
17 advertise the milk as "fresh."

18

19 Ms. Kahana said that they have been doing advertisements to promote local milk.

20

21 Board Member Hashimoto asked what the average price of milk on the mainland is.

22

23 Mr. Tomita said in California, the June price was 25.10/100 weight, not including
24 shipping.

25

26 Board Member Galimba said the Milk Control Act should be revamped.

27

28 Ms. Kahana said that with the potential dairy in Kauai, we're not sure what the
29 production should be, and to stabilize, we should have one state milk shed to regulate
30 production for all the dairies. Otherwise, dairies could play one producer over the other,
31 and each one would have their own pricing structure. For example, if one producer on
32 Kauai lowers its price, it would stifle Big Island producers.

33

34 Board Member Hong asked whether a State wide milk shed would force the processor
35 to just stay on California milk.

36

37 Ms. Kahana said that California milk prices are currently very high plus there are added
38 shipping costs.

39

40 Chairperson Enright called Brad Duff, Edward Boteilho, Kees Kea, and Cornell Kea to
41 answer questions.

42

43 Mr. Boteilho, Cloverleaf Dairy, said that the purpose of the Milk Control Act was to
44 address the inequality of bargaining power between the processor and producer. When
45 dairies are producing local milk at the high costs incurred to produce local milk, and no

1 regulations to the processor, the processor was able to take local milk as class 2 milk at
2 half the price. This was the major factor why the dairies went bankrupt, and the timeline
3 between doing something by the State was too long.

4
5 The Big Island dairies were still fairly strong, but the fact is that the producers had to
6 fight for the price increases. Everyone knew the producers' prices/costs, but we didn't
7 know anything of the processor's. The producers must present the price increase
8 request to the board. The last price increase in the Big Island was in 2008. The last
9 quota increase was a long time ago. There was no good chance to grow in quota. One
10 way to buy quota is to purchase dairies, which we did. Any excess milk we must ship to
11 Oahu and pay the cost of transportation. So for excess milk, we get what the California
12 price is, minus shipping costs.

13
14 Mr. Boteilho said he likes the current system. He wants to keep the law, as it protects
15 the dairies from the processor. We are down to one processor in the State, and they
16 are essentially a monopoly.

17
18 Mr. Boteilho said that the processor takes Hawaii's high quality milk and blends it with
19 the heavily processed mainland milk to provide additional flavor and fat percentage.
20 Dairies need to have some protection because there is only one processor. If you take
21 the Milk Control Act out, Cloverleaf Dairy will be out of business soon.

22
23 Mr. Kees Kea, Mauna Kea Moo, said that to start a new dairy, you would like to get
24 quota. His company could not get quota for the Big Island, but could only get quota for
25 Honolulu. Additionally, his company couldn't get a contract with Meadow Gold to
26 produce milk. However, another new dairy is getting a contract with Meadow Gold, and
27 he is confused why Meadow Gold can be selective on giving out contracts. Mauna Kea
28 Moo decided to process its own milk by making cheese and yogurt.

29
30 Board Member Evans said that she heard that Kauai doesn't have a processing plant,
31 and asked if there is a processing plant owned by Meadow Gold on Hawaii Island.

32
33 Mr. Boteilho said "yes" there is a processing plant in Hilo.

34
35 Board Member Evans asked what the ratio is for local milk to shipped milk for Hawaii
36 Island.

37
38 Ms. Kahana said that for a while, there has been no need of importation of milk from the
39 mainland to meet demand. Big Island is self-sufficient.

40
41 Board Member Hong asked Mr. Boteilho what changes he would like to recommend to
42 revise the Milk Control Act.

43
44 Mr. Boteilho said that he would like to see local fresh milk addressed as a valuable
45 commodity. Consumers want local milk. His dairy also never had a contract with Meadow

1 Gold for over 50 years. There have been situations where Meadow Gold has given other
2 dairies contracts, and this is unfair.

3

4 Board Member Galimba said that the rules and amendments to the Milk Control Act that
5 were considered by the Board are coming up for hearing. Board Member Galimba asked
6 Mr. Boteilho if he could comment on those rules and whether or not they would affect him
7 positively or negatively.

8

9 Mr. Boteilho said he would need to know how the new rules will affect his operations. He
10 was not sure who requested the new rules, and he likes the existing rules.

11

12 Board Member Ha asked Mr. Boteilho if he is OK with the proposed rules, and if not would
13 he be able to get proposed changes to the Board.

14

15 Mr. Boteilho said he needs to know how this rule change would affect the producers,
16 specifically, how excess milk is purchased by the processor.

17

18 Ms. Kahana said that would be an independent agreement between the processor and
19 producers. Dairies can either apply for Honolulu milk shed quota for their excess milk
20 and you would be bound by the Honolulu price, or you can opt to leave it as excess and
21 get what you are getting, which would be an agreement with Meadow Gold.

22

23 Board Member Galimba asked why the Honolulu milk price is lower than the Big Island
24 price.

25

26 Ms. Kahana said that there are no Honolulu dairies at the moment. At the time the price
27 was fixed, that was the price the existing Honolulu dairies requested.

28

29 Board Member Galimba asked whether we could adjust the Honolulu price.

30

31 Ms. Kahana said that would be possible.

32

33 Board Member Galimba said we could do a better job of marketing Hawaii produced milk.

34

35 Ms. Kahana said she agrees with that; however, the distribution is Meadow Gold. The
36 Board doesn't control the sale and distribution of milk once it is received by the processor.
37 It would be up to the processor and distributors.

38

39 Board Member Galimba asked if the Board has any authority over labeling within the Milk
40 Control Act.

41

42 Ms. Kahana said she is not sure labeling is a part of the Act, but that can be changed.

43

44 Deputy Attorney General Margaret Ahn said the authority to require a label designating
45 milk has been double pasteurized would be under the Department of Health (DOH). She

1 believed DOH's current position is that if it is safe, it does not need to be labeled as
2 double pasteurized.

3
4 Board Member Ornellas asked if new farmers would have to pay for quota. It doesn't
5 make sense that dairies need to buy more quota, when there is a shortage of milk.

6
7 Ms. Kahana said the board may increase the quota, but it is not guaranteed that Meadow
8 Gold will buy the milk. If the producer is not producing up to his allotted quota, the Board
9 can look at reducing the producer's quota and reallocate to another producer.

10
11 Chairperson Enright said that the Milk Control Act does not and cannot require a
12 processor to purchase local milk. Whether or not to purchase milk from a producer or
13 whether or not to enter into a contract are business decisions. Meadow Gold is now
14 competing with milk from California. If the State could command the processor to buy
15 local milk, we would do that, but we can't. Chairperson Enright said that he agrees with
16 Mr. Boteilho that local milk should get a premium price.

17
18 Mr. Boteilho said that the producers don't get the retail mark up for fresh milk.

19
20 VII. RECESS OF REGULAR MEETING

21
22 Chairperson Enright recessed the meeting at 11:05 a.m. and announced the meeting will
23 resume at the Puukapu Reservoir site.

24
25 Field trip to the Puukapu Reservoir site, located at the north end of White Road.

26
27 Chairperson Enright called the Board meeting back in session at 11:22 a.m.

28
29 Mr. Glenn Okamoto, Agricultural Infrastructure Manager, ARM, gave a tour of the
30 reservoir and discussed the history of the reservoir and planned infrastructure repairs to
31 the reservoir.

32
33 Chairperson Enright recessed the meeting at 11:34 a.m. and announced the meeting will
34 resume at the Kamuela Vacuum Cooling Plant.

35
36 Field trip to the Kamuela Vacuum Cooling Plant, 66-1350 Mamalahoa Highway.

37
38 Chairperson Enright called the Board meeting back in session at 11:50 a.m.

39
40 Mr. Okamoto gave a tour of the cooling plant and discussed the history of the plant and
41 the current operations of the plant.

42
43 Chairperson Enright recessed the meeting at 12:05 p.m. and announced the meeting will
44 resume after lunch at approximately 1:30 p.m. at WOW Farms.

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46 Field trip to WOW Farms, 64-793 Ainahua Alanui, Kamuela, HI 96743.

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Chairperson Enright called the Board meeting back in session at 1:40 p.m.

Mike Hodson, WOW Farms owner, gave a tour of the farm and discussed the history of the farms and current operations of his farm, and his farming model.

Meeting adjourned at 2:50 p.m.

Respectfully submitted,


Noa K. Ching
Board Secretary