

DRAFT

AGRIBUSINESS DEVELOPMENT CORPORATION
Minutes of the Board of Directors meeting of December 9, 2015
Department of Agriculture Animal Industry Conference Room
99-941 Halawa Valley Street, Aiea, Hawaii 96701

Members:

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|------------------------------------|--------------------|
| Letitia Uyehara | Lloyd Haraguchi |
| Sandra Kato-Klutke | Douglas Schenk |
| Yukio Kitagawa | Wayne Thom, DBEDT |
| Leilyn Koev | Scott Enright, DOA |
| Jeffrey Pearson, DLNR | |
| Denise Albano arrived at 10:00 | |
| Margarita Hopkins arrived at 10:00 | |

Guests:

| | |
|---|---------------------------|
| Joe Munechika, KAA | Leinaala Loy, KAA/Sunrise |
| Dawn Huff, KIUC/Joule | Jason Hines, KIUC/Joule |
| Linda Rosehill, Rosehill & Associates | |
| Jan TenBruggencate, Island Strategy LLC | |

Staff:

James Nakatani
Ivan Kawamoto
Ken Nakamoto
Lynn Owan
Cindy Doi

Counsel:

Myra Kaichi, Deputy Attorney General

A. Call to order.

Chairperson Uyehara called the meeting to order at 9:30 am.

B. Approval of minutes from the October 28, 2015 meeting.

Mr. Enright moved; Mr. Schenk seconded the motion.

Ms. Kaichi corrected page 4, item G, first paragraph. It should read: "Ms. Kaichi said it does not pose a conflict with the Ethics Commission. Mr. Kitagawa abstained from voting."

Motion carried unanimously.

C. Approved to issue a license to Kapaa Banana Co., for land located at Kalepa, Kauai, identified as HSPA #1, a portion of Tax Map Key (4) 3-9-02-20.

Mr. Nakamoto made the presentation to issue a license to Kapaa Banana (KBC) at Kalepa, Kauai for HSPA #1. The 2-acre parcel remained on a month-to-month tenancy which was transferred to ADC from DLNR and expired in October 2015. The ADC received a request from KBC for a license to utilize HSPA #1 for commercial and educational purposes. KBC intends to sell its produce at the fruit stand on the 2-acre parcel located on a well-traveled stretch of Maalo Road. Besides a commercial fruit stand, KBC plans to develop a production/demonstration plot and establish a warehouse/ripening facility on site. The company's goal is to continue growing diversified crops. Staff recommends (1) term of the license shall be for 35 years; base rent shall be an annual fee of \$2,400 based on \$1,200 per acre; rental rate shall re-open on the 10th, 20th, and 30th year and shall be determined based on the appraised fair market value.

Mr. Enright moved to approve the staff recommendation; Ms. Klutke seconded the motion.

Ms. Klutke stated that there is no mentioned that ADC could check on KBC on the third year. Mr. Nakamoto replied there is a condition in the license that states if there is more than four consecutive months without activity, the licensor has the right to take back the land. Ms. Klutke stated that Mr. Esaki called her and said he could not attend today because his sister recently passed away. He had no questions about the condition regarding the three year check. Mr. Nakamoto stated that the license is in draft form and if Mr. Esaki feels that he wants to change his mind then the terms could be renegotiated.

Mr. Haraguchi asked that since it is commercial would he be subject to permits. Mr. Nakamoto replied yes he would need to go through County of Kauai for building permits.

Mr. Enright stated that KBC has been on the property for a while therefore has he provided a timeline of when these improvements would be completed. Mr. Nakamoto replied KBC has graded the land and is preparing the land for planting. The starting timeline would be 2016 and the fruit stand should be operational in mid-2016. Mr. Nakatani stated that KBC has been on the property for a long time and will put the timeline in the license regarding performance and progress as far as KBC's plans for the property.

Mr. Nakatani stated that a letter could be sent to Mr. Esaki asking him the questions that were brought up at the board meeting and will ask for a timeline.

Chair stated that on the rent re-opening, it was mentioned that it would be determined based on the appraised fair market value. Do we determine that? Mr. Nakamoto replied if KBC does not agree then they can get their own appraisal.

Mr. Haraguchi was concern that since Mr. Esaki has been on the property for some time and has not been using the property then should he be given another 35 years or may be a shorter term might be an option. Mr. Nakamoto replied it was discussed to offer him a short term license but Mr. Esaki did ask for a long term license. A condition will be added to stress the non-performance on the property. Mr. Nakatani stated that there was discussion of taking away this lease however the land committee wanted to give him another chance. A ten year license is short if improvements are put in for this kind of investment. Therefore a long term license was decided for KBC and if there is non-performance on the property then it could be revoked. But if a short term license is given and KBC comes back and says

that they could not conform because the term was too short which is what we do not want to happen and that is why a long term license is being given.

Motion carried unanimously.

- D. Approval to amend Utilization and Development Plan for Unit E under License LI-KA1411 with Leslie Milnes in Kalepa, Kauai; Tax Map Key (4) 3-9-02-001 (por).

Ms. Owan made the presentation to amend the utilization and development plan for Unit E with Leslie Milnes. ADC received a letter from the licensee that he was asked by Green Energy Team to enter into a Cooperative Farm Agreement to plant and maintain a forestry biomass crop for harvest. Licensee is willing and interested and has therefore requested to amend the utilization and development plan which was submitted under LI-KA1411 to change the use of 86 acres from pasture to biomass crop production. Staff has confirmed with Licensee that Licensee will maintain the biomass crop production. Staff recommends to approve the amendment of the utilization and development plan under License LI-KA1411 to change the use of 86 acres within Fields 3, 4, and 5 from pastoral to biomass. A letter and an amended map was sent yesterday from Leslie Milnes which copies was made for the board members.

Short recess called at 9:55.

Mr. Enright moved to approve the recommendation; Ms. Klutke seconded the motion.

Mr. Kitagawa asked what the relationship would be between Leslie Milnes and Green Energy Team. Ms. Owan replied Mr. Milnes will plant eucalyptus trees for GET which is a four year rotation. Mr. Milnes would grow the trees and get paid a use fee that does not exceed the fee that he pays to ADC so there is no profit gain by him receiving a fee from GET. He does get paid however upon harvest which is \$4.80 per bone dry ton of trees from GET. So he does earn a profit at harvest. But he will maintain the trees and hires the personnel needed to maintain the trees for GET.

Ms. Klutke asked how many years would this license be for. Ms. Owan replied this would amend Mr. Milnes current license which he just completed his first year therefore it would be for another 34 years. The contract farming agreement is 20 years with an option to extend for 10 years. Ms. Klutke asked is if there is a clause that says that if GET decides not to be on Kauai any longer, ADC would take this back and go back to pasture land. Mr. Nakatani replied it could be put in the license however if GET decides to close then Kalepa would fall because they do have over 1,000 acres.

Motion carried unanimously.

- E. Approval to amend Pioneer Hi-Bred International, Inc.'s Land License No. LI-KA0803 to withdraw 796.85 more or less acres in Kekaha, Kauai, Tax Map Key No. (4) 1-2-02-001 (por)

Mr. Nakamoto made the presentation to amend Pioneer Hi-Bred International, Inc.'s (PHI) land license to withdraw 796.85 more or less acres. Currently Pioneer-Hi Bred is licensing 1,734.57 acres in Kekaha. PHI has determined that the land currently being licensed exceeds PHI's needs. ADC received a request to withdraw 796.85 more or less acres from License No. LI-K0803 but will continue their operations in Kekaha on the remaining fields. Staff recommends (1) approval of amendment to PHI to

withdraw 796.85 more or less acres effective January 1, 2016; (2) all other terms and conditions remain the same.

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

Mr. Haraguchi asked if there was a penalty for early withdrawal and is there any future interest in these lands. Mr. Nakamoto replied there is no penalty and there is future interest of the property.

Ms. Hopkins asked what was their decision to withdraw. Mr. Nakamoto replied PHI consolidated a lot and wanted to move away from Kekaha town. Mr. Nakatani stated that all the seed companies are cutting back which is understandable. The more logical area was to stay in Kekaha not Waimea but they decided that they wanted to keep plantings in Waimea.

Mr. Kitagawa commented that PHI broke up the property into these portions which are not contiguous when it is looked from a bigger picture. Are the releasing areas considered to be junk. Mr. Nakatani stated the PHI did not have any junk lands. The mauka lands which they are giving up are hard to farm but they are not junk because it is hard to get to. How they gave up the lands are puzzling and would like it to be contiguous because of contamination purposes but we do not know. All the lands being given up are good lands and have inquiries from other seed corn, private and diversified agriculture companies who want to move in. As soon as this is done, we will be coming in January with proposals on how to utilize these properties.

Mr. Pearson asked if there are any requirements for how they would return the lands. Also how about soil contamination. Mr. Nakatani replied it was not written but PHI has been doing their due diligence by taking out their rubbish and taking care of ground covers. PHI want to return the lands in decent shape. As far as soil, there is not much contamination because PHI's use of chemicals on the property is very diligent on the use and are very careful.

Mr. Enright recommended that the Land development committee and the board take a look at diversified agriculture before we lease more lands to biotech. He is a fan of the biotechnology companies and they do good work and have good cultural practices. But the political environment that exists on Kauai today look to this board and the decisions that was made in the past on land utilization in Kekaha may think that ADC is biases to biotechnology. At that time, PHI were the only entities that wanted to farm that lands and might still be the only entities. With that said we should go through great lengths to see if we can find diversified agriculturist that have an interest in that lands. He recommended that we take our time and look at others agriculturalist then work with the biotech companies.

Motion carried unanimously.

- F. Approval to Issue a Revocable Permit to University of Hawaii, College of Tropical Agriculture and Human Resources for Agriculture Purposes in Whitmore, Oahu, Tax Map Key (1) 7-1-02-09 (por).

Ms. Owan made the presentation to issue a revocable permit to UH/CTAHR for agricultural purposes in Whitmore, Oahu. In 1988 the UH began renting a greenhouse and four acres of land from Castle & Cooke for pineapple research. Later the lease agreement was transferred to Dole Food Company, Inc.

The last extension terminated on August 31, 2006 and the permittee continue to occupy the premises as a holdover tenant. The ADC proposes to continue to rent the greenhouse and add a boiler room and a shed but omit the four acres of land. In consideration of the exchange of the additional buildings for land, the rent will remain the same.

Staff recommends the approval to issue a revocable permit to UH for buildings M, N, and P in Whitmore, Oahu subject to the following terms and conditions: (1) term of this revocable permit shall be on a month-to-month basis; (2) base rent shall be \$2,088 per year; (3) permittee shall pay its share of utilities; and (4) as a state agency, permittee is self-insured for liability insurance and may apply to the City and County Real Property Tax Assessment office for exemption from payment of the real property taxes.

Ms. Klutke moved to approve the recommendations; Ms. Hopkins seconded the motion.

Mr. Haraguchi asked if UH is using the facilities. Mr. Nakatani replied UH is using one of the buildings and do have some experimental plantings. The other shed is a storage area and they have not used the boiler which was used to sterilize soil for a number of years. There is very little activity being done on this property.

Ms. Hopkins asked what is the UH's plan for the property. Mr. Kitagawa replied that the UH has been using the greenhouse for some experimental plantings. But for further plans for the future is unknown. Also the College's administration is aware of the concerns that ADC has. What is disappointing is that there is no reaction from the UH on what possible actions that they want to take. Mr. Nakatani stated that ADC did approach the administration and their reply was that they could not do anything because they do not have a contract with ADC but they are still on the property.

Motion carried unanimously.

G. Kauai Island Utility Cooperative Pumped Storage Project Update.

Jan TenBruggencate chairman of the Board of KIUC, Jason Hines and Dawn Huff from the Joule Group who are consultants for KIUC made a power point presentation to give an update on this project. Also present was Joe Munechika from Kekaha Agriculture Association who KIUC will be developing a MOU with them because their interests coincide with KIUC on this project. Within the next few months on Kauai, they will have more renewable energy on their grid than on demand for electricity. One of issues they need to look at is how to store intermittent renewable energy in the daytime so it can be used at night. Battery technology is possible but currently is ineffective in particularly with the tax credits going away it is going to be some years before it needs to be. Pump storage is old technology and is good technology and a non-consumptive use of water. This project has a potential to supply water to Hawaiian homesteaders to assign the members of the Kekaha Agriculture Association to get water to agricultural lands to improve their systems. The systems make enough sense to help fund some of the costs associated with those things. Long term of getting them off fossil fuels of achieving the state's goal of 100% renewal energy which is why they have put a lot of utilities resources toward doing the basic planning.

Mr. Kitagawa asked about the Hawaiian groups that had concerns with this project. Ms. Huff replied that they are in communications with some of the groups and continue to keep them updated. They do have support from these groups according to some of the feedbacks that they have been getting. It is still work in progress.

H. Executive Director's Reports and Updates:

1. Kekaha, Kauai

Mr. Nakatani reported that the emergency backup generation system is completed and the generator was moved to the westside so there is emergency backup power. Kekaha and Kokee ditch system is done. The inoculated deep litter system clean-up is nearing completion. Ms. Klutke did visit the site.

2. Kalepa, Kauai

Taiwan Gu is doing fine in Kalepa harvesting ginger root and sweet potato.

3. Waiahole Water System

Waiahole Water System rehabilitation of steel siphon project is moving along as planned.

Ms. Klutke moved to adjourn; Ms. Hopkins seconded the motion; motion carried.

Meeting adjourned at 11:10 am.

Respectfully submitted,



Cindy Doi
secretary