



# NATURAL ENERGY LABORATORY OF HAWAII AUTHORITY

*An Authority of the State of Hawaii attached to the Department of Business, Economic Development & Tourism*



**BOARD OF DIRECTORS**  
**(Approved September 18, 2018)**  
**Natural Energy Laboratory of Hawaii Authority (NELHA)**  
**Tuesday, July 17, 2018**  
**10:00 a.m.**

**OceanView Conference Room**  
**Hale Iako**  
**73-970 Makako Bay Drive**  
**Kailua-Kona, HI 96740**  
**And**  
**William F. Mielcke Residence**  
**77-6485 Kali Iki Street**  
**Kailua-Kona HI 96740**

**Kailua-Kona Location**  
**NELHA Executive Conference Room**  
**73-987 Makako Bay Drive**  
**Kailua-Kona, Hawaii 96740**  
**BOARD OF DIRECTORS**  
**MEMBERS/DESIGNEES PRESENT**

Linda Rosehill (Chairman)  
Ron Whitmore (Representing Mayor)  
Dr. Jim Wyban (RAC Secretary)  
Neil Sims (Tenant Representative)  
Dr. Gerry Cysewski (Tenant Representative)  
John Morton (Representing HTDC)  
Alan Hilton (RAC Chairman)  
Mary Alice Evans (Representing DBEDT)  
Russell Tsuji (Representing DLNR)

**NON-MEMBERS PRESENT**

Greg Barbour (NELHA)  
Karen Appleby (NELHA)  
Daniel Jacob (Deputy Attorney General)  
Jan War (NELHA)  
Laurence Sombardier (NELHA)

**William F. Mielcke Location**  
**Residence**  
**77-6485 Kali Iki Street**  
**Kailua-Kona HI 96740**

**MEMBERS/DESIGNEES PRESENT**

William F. Mielcke (Vice Chairman)

**NON-MEMBERS PRESENT**

None

Keith Olson (NELHA)  
Dr. Alex Leonard (NELHA)  
Hiroshi Arai (BIAC)  
Alexander Martoro (COH R&D)  
Rod Hinman  
Tom Daniel (FON)  
John Riley (University of Washington)

**MEMBERS/DESIGNEES NOT PRESENT and  
EXCUSED**

Michael O'Malley (HSDC)  
Dr. Vassilis Syrmos (Representing UH)

**1. Call to Order.**

The meeting was called to order at 9:58 am.

**2. Approval of May 15, 2018 NELHA Board of Directors' Meeting Minutes.**

*Director Morton made a motion to approve the May 15, 2018 NELHA Board of Director's meeting minutes, and Director Evans seconded the motion. A vote was taken, and the motion passed unanimously, 10-0.*

**3. Financial Report. Approval and Decision Making.**

The NELHA Executive Director (ED) Gregory Barbour gave the financial report stating that the report is for last fiscal year which ended June 30, 2018.

- Revenue: The chart and the numbers in the report show that income was flat for the year, about 1% below the previous year. The changes were the seawater system revenue was lower, most likely less flow. Electrical costs and freshwater has gone up slightly from the previous year. Lease rent is lower; the issues are the leaving of Hawaii Deep Marine, and other delinquencies, not enough to offset the increases in rent from the research campus. The Hale Iako building capacity is at 100% and there is a waiting list for the smaller offices. Regarding percent rent, last year there was a one-time payment of \$50,000 pursuant to a settlement agreement with respect to the definition of percent rent. Based on NELHA's review of the percent rent statements received, sales for some of the businesses have gone down. One business did miss the deadline but has now submitted its report to NELHA. Special projects are higher by \$65,000 as NELHA received additional funds from Hawaii Natural Energy Institute (HNEI); NELHA agreed to assist them with planning of their delivery facility.

- **Expenditures:** This also includes some last-minute postings. It is about \$300,000 higher and includes some of the encumbrances that were made to some of the projects and consultants. Also includes a payment that we made to OHA right at the end of the year. The difference here is significantly lower than the previous year, over \$1M. The majority of this is due to the one-time expenditure of the funds NELHA received from HNEI for constructing the hydrogen project. NELHA also received funds from Hawaii Strategic Development Corporation (HSDC) and this accounts for just over half of the reduction in expenditures. Seawater system is about \$500,000 lower than the previous year (23%). NELHA used some of the CIP funds and did the once every five-year deep-sea survey last year. items. Grounds maintenance and security is lower due to quarterly payments for the security contract versus an annual contract. OHA payments were down approximately \$75,000 due to decreases in land rental revenues.
- **Special fund balance:** The special fund balance ended at \$375,000 for fiscal year 2018 and ended the year flat in terms of the special fund balance. It is important to note that this balance includes an upfront payment of \$120,000 from HNEI for additional work on the hydrogen project. It is also important to note that NELHA is using its best efforts to collect approximately \$300,000 of arrears. As you recall, we gave Cellana 90 days to cure their arrears, which is mid-August. NELHA will come back to the Board with a recommendation on how to resolve the situation in the September Board meeting.
- **Customer Revenue:** Total revenue for this time is essentially flat. Looking at the mix of businesses by sector, the table shows the rise in the significance of aquaculture and research campus sectors with a corresponding decline in water bottling and energy sectors over the past seven years.
- **Arrears report:** As of June 30, NELHA has noted the receipt of some late payments but there are only two accounts with noteworthy amounts of arrears: Cellana and Destiny Deep Seawater (who has just made a payment). Destiny continues to make payments but is not current. They are looking at alternative business plans which could include sale of their business. The NELHA spoke with Cellana this morning and they are looking at the sale of the business as well as increase the sale of some of their products. We will report back at the next meeting.
- **Budget vs. Actual:** Revenue was below track approximately 13% for the year. Special projects revenue was below target by \$225,000 and is due to a change in accounting codes, this accounts for about 30% of the total variance. The seawater system is lower by 5%. Expenses: Total expenses are about 11% below

budget. Five categories account for almost all the variance: seawater systems, special projects, OHA payment, and grounds maintenance and security.

Director Morton asked regarding the Cellana arrears: presumably they owe other companies' money too and what is NELHA's position on this list? NELHA ED stated that they have not shared this information with us and accordingly we do not know our position on the list.

Director Sims stated that there would be a concern if their lab equipment sits idle for a long period of time, generators, pumps, blowers, etc. would all freeze up and become unusable. Is there any reason why we wouldn't start to think about moving on with the termination to help them feel some pressure? NELHA ED: I believe we gave them a very strong sense of pressure at the last meeting.

***Director Evans made a motion to approve the financial report, and Director Wyban seconded the motion. A vote was taken, and the motion passed unanimously, 10-0.***

#### **4. Old Business.**

- a. Create a Special Investigative Committee for the purpose of preparing and delivering to the Board the annual performance evaluation of the NELHA Executive Director \*\*.

Chair Rosehill stated that at the last meeting the Board created a Special Investigative Committee for the purpose of preparing and delivering to the Board the annual performance evaluation of the NELHA ED. When Vice-Chair Mielcke and I discussed after the meeting, it seemed to make more sense to have Vice-Chair Mielcke be part of that committee because I was not Chair throughout the last year of this evaluation period. Therefore, we would like to move me out of that committee and bring Vice-Chair Mielcke back to the committee.

***Director Cysewski made a motion that Vice-Chair Mielcke replace Chair Rosehill on the Special Investigative Committee, and Director Evans seconded the motion. A vote was taken, and the motion passed unanimously. 10-0. The committee is composed of Director Cysewski, Evans, and Vice-Chair Mielcke.***

#### **5. New Business.**

- a. Discussion and Decision-Making regarding Approval in Concept for Lease of the Hawaii Gateway Energy Center to the University of Washington (UW).

Director Morton recused himself from this agenda item stating that he is on the NELHA Board by his HTDC position, and that he is on the HTDC Board because of his position at UH. UH has not taken the position about the University of Washington project, but the professional schools have raised concerns, and it's better that he not join in discussions on this item.

The NELHA ED stated that this is a proposal for the Gateway Center that is located at the highway. NELHA was approached by the University of Washington (UW). They are listening in on this meeting and will participate via video conference.

This would be a lease to the UW for a Physician Assistant Program and would require NELHA to relocate the current Friends of NELHA (FON) operations, which is currently at the Gateway Center down into the research campus into Hale Iako Building. It really is a relocation change for them; disruption does lead to change and change leads to increased standards and that leads to sustainability. This does have some upside. This is a financial issue for NELHA. FON is certainly a great service for NELHA and we are very fortunate to have FON.

Terry Scott, Program Director with the UW MEDEX Program gave a brief explanation of the proposed use of the NELHA Gateway Center Facility by explaining the rationale at NELHA, the facilities utilization description, the project principals and team, the MEDEX background and purpose, the MEDEX program and summary, the project timeline implementation and duration, the budget and summary of funding sources, and the MEDEX website demonstration. Also present are team members Betty Stewart, John Riley, and Misbah Keen.

Director Tsuji asked if Hawaii had a physician assistant licensing program already in place? UW answered that it does have a licensing program in place. Hawaii has had a physician assistant practice act for two to three decades. Ms. Stewart stated that Hawaii currently has over 300 physician assistants according to the Academy of Hawaii Physician Assistants.

Director Evans asked if the UW had conversations with the UH's John A. Burns Medical School about an affiliation or a cooperative arrangement for a Physician Assistants Program? Mr. Scott answered yes, they met with the folks at the UH a couple of times. We wanted to be open and them to let them know we were considering coming to the State. When we were invited to the State Legislature in 2017 we also made a trip to the John A. Burns School of Medicine and met with Dean Hedges as well as the Family Medicine department head. It wasn't so much to have a partnership, it was to let them know we were there and

considering a program in the State.

Director Sims stated he'd be interested in some of the other rural outreach programs, training programs that you have. Is there an estimate on the economic value of these programs to the community, either on a per institution basis or a per student basis, and what would we expect this would be bringing to Kona? Mr. Keen answered that they don't have the figures readily available, but the other estimates have shown that it is about two-thirds of what physician would bring to the community.

Director Sims stated that his question is more about the value of the program itself rather than the value of the physicians in the community. Mr. Scott stated that when they bring 23 students to Kona from all over the State, those students are going to be looking for housing, many are married and will bring their family to the community. They're professional students and professional individuals.

The program itself will bring 3.5 to 4.0 full-time equivalent faculty members. The faculty practice's clinically, they're clinician educated and will be delivering health care to the population. I have no hard dollars and cents in terms of what does it equate to economically, but certainly it has an economic impact when you bring a professional program to a community; the students will graduate and serve those communities. We could probably find some numbers and give you a sense of that, but certainly it's an impact on the community.

Mr. Keen stated that giving back is what the graduates will bring to the community after they graduate. Right now, sometimes students from Hawaii who are trained on the mainland stay on the mainland, so they don't benefit the State at all. The biggest benefit would be when they start to practice and stay here in Hawaii.

Ms. Stewart added that another benefit to the community also impacts a situation where for example one has poor access to health-care services and residents health status is impacted by that; they have less preventative care, or prenatal care that add costs to the community who don't have good access to health care, it gets distributed throughout the health-care system as emergency room visits that are much more expensive care being delivered through urgent care instead of good access to primary care and preventative care. That's a cost to employers, more sick employees; it's distributed throughout the whole community.

Director Whitmore stated that his question is a follow-up to Director Evans' question. I'm not a health-care expert and very unfamiliar with the medical

school's plans in Hawaii, but were there other plans to develop a PA program in Hawaii, either through the UH system or any other academic program? What do we know, if anything, about plans for other PA programs in Hawaii? Ms. Stewart answered that when they first reached out to Dean Hedges and the head of their residency program, the UH, about 10 years ago, had considered developing an PA program. Those efforts have not come to fruition. As educators, and doing this for a very long time, we know that it's difficult to find PA faculty to staff PA programs, that might have been part of the issue. Another resident on the Big Island attempted to start a PA program in the early 90's as well. That required some help from the Legislature in terms of funds. The funding didn't come through and the program did not move forward. There are a few programs on the West Coast that do actively recruit students, residents from Hawaii and guarantee that they will return them to clinical sites; they are doing their clinical training in Hawaii right now. There are programs that recruit but there are no known significant PA programs that has been established in the State. And as a State, the state of Hawaii ranks 46<sup>th</sup> in the country for the ratio of PA's to population.

The NELHA ED stated that the Kona Kohala Chamber of Commerce has a community health subcommittee. They had a meeting last week, and UW made a presentation to that committee in which Kaiser and others from the health community attended. There was no opposition to what they're proposing, and it sounded like they were being welcomed into the community.

Director Wyban asked with respect to finances and costs of the program. First, what would the tuition be, would there be a discount for local students applying, will you have financial aid; and what percentage of your operating budget comes from tuition and what comes from the parent school?

Mr. Scott answered that MEDEX is a UW program and is a self-sustaining program. What that means is that we operate off the tuition that our students and all that money comes to this program for its operations, none of it goes into the state or the university's general fund. We do pay fees to UW for the facilities we use and operate. In Hawaii, we would be using the tuition to sustain the program locally. Tuition is the investors level program, it's a 27-month program, tuition is approximately \$35,000 an academic year. Students are eligible for financial aid, student loans, the usual things that anyone would be seeking to support themselves through a professional program like ours. Upon graduation these individuals would set for the national board, our tuition is the same no matter if you're at the main campus in Seattle or Anchorage, Alaska or Tacoma, Washington, or in Kailua Kona, Hawaii. As a master-level program the tuition is the same, and that tuition sustains the program. Mr. Keen added MEDEX tries its

best to keep the tuition affordable and nationally we're at the 50<sup>th</sup> percentile and that if you look at many of the privately funded PA programs they're more like \$50,000 to \$60,000 a year.

NELHA Staff Ms. Sombardier gave a summary of the request and stated that the staff recognizes that this is neither energy or ocean science, however this site is in the "Economic Driver" area were these criteria are relaxed. With that said, NELHA does feel that is a good fit for the economic driver area.

The building is currently utilized by the Friends of NELHA (FON). The current lease is month-to-month. The lease covers 100 sq. ft. of office space and it is for \$1 per year. It does have the ability for FON to utilize the conference space subject to approval from NELHA. Everyone agrees at the staff level that FON provides extremely valuable services and NELHA is very pleased with this service.

The building is not being utilized at its maximum capacity. The number visitors have gone from 2,000 to 7,000 annually since 2008. The financial health of FON has been somewhat unstable over the years. They almost closed their doors in 2016. Currently, the use of this buildings is somewhat exclusive as no one is sharing that space. It does come at a significant cost to NELHA.

NELHA covers FON's utilities (electricity, internet, seawater for SWAC, freshwater) and maintenance/janitorial labor and supplies. This amounts to approximately \$44,000 per year. Unfortunately, NELHA has not been able to afford the larger maintenance items unless absolutely necessary such as the septic tank upgrade in 2017 which cost NELHA approximately \$25,000. However, the buildings are at a point where larger maintenance items such as parking lot repaving will become necessary. With the larger maintenance items, the annual direct costs to NELHA is closer to \$64,000. The foregone rent on the Gateway office and conference buildings is approximately \$141,750. This means that NELHA subsidy for each visitor is somewhere between \$29 to \$51 per person assuming the number of visitors is between 4,000 and 7,200. Even without performing any needed large maintenance that number is still between \$26 and \$47 per visitor. This is not a sustainable long-term proposition for NELHA.

FON has expressed a very strong preference to remain in the Gateway facilities as it offers many advantages to their program and mission. However, the valuable service they provide could be performed at the NELHA research campus and might even benefit with considerable upside from that location. Some of the advantages of relocating to the research campus include closer and more frequent interactions with NELHA staff and many of NELHA's new startups



including the new aquaculture incubator, closer access to those tours located at the campus (OTEC, ESPEC, Kampachi Farms, new facilities such as Coral Legacy and Sliver Spiral Sea/octopus and hydrogen production, fueling and storage facility), access to Hale Iako facilities including office space, perhaps an office dedicated to displays, collaboration space for larger tour presentations and training/conference rooms that could allow for multiple smaller tours. Some of the disadvantages include being further away from the main highway and therefore less visible for drop ins, possibly needing to reorganize the tours somewhat, and being further away from WHEA which is one of the main tour destinations. FON has also expressed that the Gateway building itself is a big part of their tour. NELHA staff believes it should be possible to work with any new tenant at Gateway to allow for short tours without causing disturbance to the occupant. FON and NELHA staff plan to continue open discussions in order to see how best to meet FON's needs.

There will still be a cost to NELHA for FON's location at the campus, but that cost is estimated to be in the range of \$2 to \$7 per visitor depending on how much space is utilized and how many visitors are expected. This is more sustainable in the long term. Meanwhile, the additional rent to NELHA will be approximately \$141,750 annually. Any improvements to the Gateway building will be covered by the new occupant. The business case for NELHA is compelling.

The principals for the UW MEDEX project have expressed that the program will need to be evaluated after 5 years at which point it may make sense to terminate, relocate the project or continue at NELHA. Therefore, this project should be considered temporary and short-term. NELHA's lease structure would reserve the right to terminate the project after 5 years. For UW, locating at NELHA's Gateway Center allows them to start a program with minimal renovation costs for a facility that has all the attributes needed such as size and quality, proximity to the planned airport trauma facility, housing, Palamanui campus, equidistance to Kona and Waimea hospitals and in a technical park, that has proven commitment to sustainability and the environment.

Staff recommends that the NELHA Board approve "in concept" the UW MEDEX PA project for a 5-year short term lease.

Director Cysewski asked where FON would be relocated in the research campus, it was answered that they would utilize the office space in the Hale Iako building. The NELHA ED added that there's so much meeting space in the Hale Iako building, including the collaboration area, the tents outside, there are so many opportunities for FON, even more than at the Gateway Center. The proximity to other people is really a benefit for them.

NELHA met with the FON chair and Executive Director very early on and tried to be as transparent as possible by including them from the beginning, we told them this will be one to two years before it's final, so they've been given adequate time to start considering different alternatives and that's the way we've left it with them. We've told them what we're considering, and we've asked them to tell us what their requirements are. NELHA supports FON. NELHA will do everything it can to find a way to accommodate them in the research campus. NELHA's biggest concern is FON informed NELHA a couple of years ago that FON was going to close their doors in a couple years; NELHA wondered what it was going to do with the building if it's empty. NELHA has been looking for alternatives. As stated earlier the UW is not a perfect fit for the aquaculture and energy aspects of NELHA, but it is a perfect fit for the economic driver aspect of NELHA. The intention of the economic driver is to generate the revenue for the rest of the park, so we can sustain our technology park and build out the rest of the infrastructure. One thing NELHA has approached UW with is they have a very well renowned school of fisheries and marine science and we have been in contact with the school. To some extent we also feel that in the long term we could have a closer relationship with their school of fisheries and marine science.

The Board has received many emails, FON feels very strongly that they would like to retain the Gateway Center. NELHA believes it is committed to making FON whole at the research campus, raising the standards and making the whole program better for everyone.

Director Evans asked when you met with the Chair of FON did they offer to pay rent at the level that the UW is proposing? The NELHA ED answered that they discussed this and did bring out the issue if they paid rent. The published rate was disclosed at that time and it seemed it was too much for FON to pay.

Director Evans stated that she imagined that FON does charge for their services of tours to self-fund their staff and other activities and whatever costs they might have. Giving them a dollar-a-year space is quite a subsidy for the program, and the is a long-range plan area for commercial development, it's not proposed to be entirely ocean and energy, it's commercial activity, that's why we've approved the commercial development near Kaiminani Drive intersection in order to serve the community and generate commercial rents and revenue for the NELHA program.

NELHA is also self-funded by its revenue and the Legislature, while they're very kind to help NELHA with CIP, would not like to see NELHA come in to them and say they need help with its operations, that would be a difficult thing. I do

believe that the NELHA Board has an obligation to look at, in the long-term, continuing to generate revenue to support NELHA's operations. That is a significant asset. The fact that it can generate the kind of revenue that NELHA needs is a proposal the Board really should consider positively.

Director Whitmore asked if there was a representative from FON present? Several members of FON including some Board members stood up.

Director Whitmore stated he was not familiar with specific details of the master plan that includes the economic development portion, if that could be made available to me I would like to read and understand better the long-term plan for that and the role it plays in revenue generation for NELHA.

Director Tsuji asked what is the rent structure at the Gateway, is it gross rent? The NELHA ED answered that we charge a flat rate of \$2.25 per square foot for office space and that includes everything. The Gateway will have the same rate. There are outside spaces as well around the Gateway building. Director Tsuji continued, the discussions with the UW, have you come up with a term sheet, it was noticed in the write-up that there are potential maintenance problems; are they agreeable? The NELHA ED answered we were proposing a flat rate to them, we would take care of maintenance for the building as we do with all our other facilities. From a property managed standpoint, that building was built in 2002-2003 at a cost of approximately \$5M with federal funding. From a property standpoint, property managers put approximately 2% away for property maintenance and property management annually, NELHA has not been doing that for 15 years. You're starting to see that the maintenance requirements will start to increase. For example, the metal superstructure will need to be repainted soon and the driveway needs repair. The increased rental revenue is a sustainability issue and allow us to keep the building in pristine condition.

With regard to the platinum LEED characteristics of the building; there's no reason that if the UW was using the building that there couldn't be an exhibit outside the building people explaining the special features and construction. Those benefits are still in place without having to walk inside the building.

Director Hilton asked based on Director Morton's recusal on this agenda item, this seems to suggest that the UH might have some feelings about this proposal that you may not be aware of, is there any information that any of the Board members or the staff can tell us what those are. Chair Rosehill answered that it is exactly what Director Morton stated when he recused himself, I talked with him on the way over. The UH has not taken a position. There are some among the professional schools that may see it as competition, but at the same time

they have no program that they offer that can provide the services that UW has.

Director Hilton stated that it seems there's a making of a solution for FON, but will the Board see what those details are? The NELHA ED answered that's why we have the process we do, it's a two-step process, approval in concept, the Board generally agrees without seeing the specific details, which gives NELHA time to work with the potential proposals to work out the specific details. The idea is that if the Board thinks it's not even in the ballpark then we don't waste the potential client's time, but if the Board says today approval in concept they're saying for NELHA to come up with the final deal points and term sheet and bring it back to the Board and that final deal and term sheet will include how NELHA will accommodate FON at the research campus. Director Hilton asked what is the timetable for this process? The NELHA ED answered three to six months, perhaps longer. Director Hilton asked if the U of W would alter the Gateway building in any way? The NELHA ED answered that NELHA does not have any details to answer that question; NELHA would not allow any degradation of the building.

Director Sims asked apart from all we've heard the visibility of the building and dropping in from the highway and during the tours they can point to the building that they're in, is there any other reason that you know of either economical or conceptual how FON would be negatively impacted by this move to the research campus. The NELHA ED answered FON has been developing a closer relationship with WHEA, the charter school. They take the larger groups there to tour, it may be more logistically difficult from that perspective. With the 900-acre campus we have I don't think all the facilities need to be next to each other. The proximity to WHEA may be a downside. NELHA staff Ms. Sombardier added that FON has expressed that they've made the Gateway building a central part of their business plan going forward; NELHA has not seen the details of that business plan.

Tom Daniel, a FON Board member stated that the building itself is unique. It was built to showcase what is going on at NELHA. Senator Inouye picked the design so that it would be a good public focal point for the businesses at NELHA. It seems a misapplication of that resource that was designed and won many awards to change to a project that is not directly related to the purpose of NELHA. I feel there's a misapplication of the resources when you take a building that has served very well in its current role and turn it over to something that isn't as appropriate.

Having run the tours at NELHA and overseeing it and writing grants for many years to hire a person to guide tours at NELHA, when we founded FON the

purpose was to have this non-profit take over the public relations function for the energy lab. It was not to bring in more tenants necessarily, there is a public interface need, the Gateway Center is ideally suited for that.

In terms of the maintenance, we all recognize that it needs a lot of maintenance and our agreement with NELHA, which we are very grateful for, we feel we're providing something that NELHA needs to do and that you keep talking about the cost of having FON there, we are providing a public interface which is important to the community. There's a lot of people in the community who feel that this is their interface with what is happening at NELHA, we want to continue that. We need to point out that the building itself does need work. We did get the grant from the legislature this year for a specific project, I apologize and regret that we did not seek funding to get maintenance for the building. That is the kind of thing, as a non-profit we're in a perfect position to get, that's one of the reasons why the NELHA administration back in 2000 pushed very hard to form this non-profit so that we could get money from the community to support the public interface functions, which is what FON has been doing.

We haven't been very successful in terms of increasing the numbers, it's not as good as we hoped it would be. We had similar numbers of people earlier, but it has not gone up much. Having tours at the research campus and having all the traffic that comes for tours, having that traffic coming up and down the road is a major issue, it's an issue for the tenants, the parking can become crowded, tour buses have difficulty turning around. We were excited to have the opportunity to move the visitor function up to the highway.

Overall, it's a concern being able to continue providing our core function, which is the educational tours. We appreciate the support we've received over the years.

Chair Rosehill added that she would like to thank the staff for working hard on this project, this is not an easy issue. NELHA supports FON and they've done an excellent job through the years. At the same time, I believe very strongly that we have a fiduciary duty to make sure that the finances of this organization are stable and can move forward. And at this time, given what the finances in the state are and what we know at the legislature where we will not, in the future, continue to get the kind of funding.

Our move to become more independent becomes critical. So, to the extent that we can bring in a tenant that is revenue producing, and I find this particular tenant very attractive, we may look at it as it does not have the specific functions of those that were created when this organization was put together. But on a

larger scale it is something that will put us into the community even more. This is an area that has been an area of concern on this island and this community for years. I think it's a way of contributing to addressing a problem in the community.

I also like the fact that if to the extent that the UW PA program is able to partner with airports, that's something we're looking at in other areas so it conforms natural alliances that we can use in the future to the extent that the UW has a good marine science program and that provides an opportunity for us to go there in the future, I think this is something we will want to look at.

I would urge FON to try to work collaboratively with the staff to find a solution, because I believe they've come up with some very creative ways to address the concerns should a move occur. It sounds very exciting to be able to have them here and have the multiple uses of the various facilities that we have here as opposed to being up at the highway. I urge you, in the coming months should we approve this today, to work closely with staff to see if we can't come to a mutually agreeable solution that makes it work. With that I would entertain a motion to approve in concept

***Director Evans made a motion to approve "in concept" the UW MEDEX Physician Assistant Project, and Director Tsuji seconded the motion. A vote was taken, and Director Whitmore abstained from voting, Director Morton recused himself from the agenda item and voting, and the remaining directors approved the motion. 8-0.***

A short break was taken at 11:45 am and the meeting reconvened at 12:00 noon.

b. Discussion and Decision Making regarding the NELHA FY2019 Budget.

The NELHA ED gave a summary of the proposed budget for fiscal year 2019 stating that as we go through the year, as the need arises, we continually bring back projects to amend the budget throughout the year. It includes a special fund budget, it includes a CIP budget, a general fund budget, and a Federal grant on this budget. Total expenditures are estimated at \$9M. Of note are the following:

- Special Fund Revenue is projected at approximately \$6.4M and proposed expenditures are approximately \$6.0 million. This would result in an increase of \$400,000 in our special fund bring it slightly under \$1 million.
- CIP expenditures are proposed at \$1.25M. This includes expenditure of \$750,000 for the two design studies for removal of the offshore pipelines and the regional seawater air conditioning project. In addition, we are

proposing an expenditure of \$500,000 in CIP funds for pipeline improvements from the \$4.9M in reimbursable GO bonds that were appropriated during the past Legislative session.

- General Fund appropriations of \$675,000 from this past Legislative session are for the Aquaculture Initiative and a Grant in Aid for the Friends of NELHA.
- Federal Grant Funds - Finally, we have been awarded approximately \$2M in US Department of Energy funds for a solar desalination project. This is a 30-month project.
- Total revenue was \$4.781M for the last fiscal year is projected to increase by approximately 35 percent in FY 2019.
- Virtually all of this increase assumes the sale of the HDMI building and a 50 percent deposit. The remainder of the sale price would be financed by NELHA paper to provide a stable revenue stream over a 20-year period.
- Other categories of note include an increase in lease rent by \$175,000 or 15 percent due to increase leasing in HOST Park.
- An increase of \$60,000 in percent rent due to increase in sales and clients bringing accounts current.
- Total expenses for the last fiscal year were \$4.38M and are proposed to increase by 37 percent or \$1.6 million in FY 2019.
- A significant portion of NELHA annual expenditures are recurring day-to-day expenditures and have been generally increased by an inflation factor of 3 percent.
- Non-recurring items and new expenditure items are highlighted in green on Schedule 2 and further detailed on Schedule 3.

***Director Hilton made a motion to approve the NELHA Fiscal Year 2019 proposed budget, and Director Evans seconded the motion. A vote was taken, and the motion passed unanimously, 10-0.***

#### **6. Hawaii Strategic Development Corp. (HSDC) Informational Status Report.**

Director Evans gave the HSDC informational report stating that the Board approved three additional investments to their investment partners GVS in Kona for additional projects in Kona, as well as additional funds for Blue Startups.

#### **7. Hawaii Technology Development Corp. (HTDC) Informational Status Report.**

Director Morton gave the HTDC informational report stating that at the last meeting there was discussion of the bill that the legislature adopted to incorporate HSDC into HTDC. It turns out that at the last minute in conference there were some things introduced into the bill that hadn't been adopted that would have negatively affected

HTDC's ability to carry out day-to-day operations. As such, the Governor vetoed the bill. The State budget reflected those changes, so now there is a need for a possible special appropriation to HTDC.

**8. Executive Director's Informational Status Report on ongoing projects including: new leases; seawater system maintenance; Legislative session, new potable water supply update; hydrogen production, storage, and fueling initiative; SCADA system capabilities demonstration, and, renewable distributed energy resources initiative including US DOE grant applications and energy storage projects. \***

The NELHA ED stated that the regional SWAC planning/design will go out as an RFP; as well as the planning and design for removal of the offshore pipelines and securing of the offshore pipelines. Installation of the PV ion the rooftops of two buildings in the research campus undergoing further design to eliminate glare panels. The OTEC RFP is currently on hold. NELHA wrote to the companies that submitted proposals and informed them we will await the results of the planning and design for the regional SWAC that could have an impact the economics of the OTEC project. Both companies that submitted proposals agreed to hold their proposals.

Energy conference will now be held in December 5-6. Microgrid Initiative: This is one of the reasons NELHA requested the \$4.9M so money was available if we did get the grant from the Korean government we could match it. We've been told by HNEI that they've agreed to resubmit it when the Korean government opens up the grant opportunity again this fall. It looks like we're in line for that consideration once again from the Korean government. NELHA has also approached the Department of Energy, given the fact that this island's position on renewable energy has changed in the last few months with PGV not being available. The US Dept. of Energy provided a favorable response that they may be interested in working on a microgrid project with NELHA. No real change in the potable water project, the EA will be coming out in the next few weeks.

**9. Announcements**

- a. Revised Save the Date – 2<sup>nd</sup> Energy Storage Systems Conference. Correction on the date, it should be December 5<sup>th</sup> & 6<sup>th</sup>.
- b. The September meeting will be on the 18<sup>th</sup>, there is a possibility it will be moved up to an earlier date, possibly the first week.

**10. Adjournment.**

***There being no further business, Director Evans made a motion to adjourn the meeting and Director Cysewski seconded the motion for adjournment. The motion passed unanimously with a vote of 9-0, and the meeting was adjourned at 12:28 pm.***