



# NATURAL ENERGY LABORATORY OF HAWAII AUTHORITY

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



**NATURAL ENERGY LABORATORY OF HAWAII AUTHORITY (NELHA)  
BOARD OF DIRECTORS  
MEETING MINUTES  
Thursday, October 3, 2019  
12:15 p.m.**

**NELHA Oceanview Conference Room  
Hale Iako Building  
73-970 Makako Bay Drive  
Kailua-Kona Hawaii 96740**

and

**DLNR Conference Room No. 132  
Kalanimoku Building  
1151 Punchbowl St.  
Honolulu, Hawaii 96813**

## **Members**

### In Kailua-Kona

Linda Rosehill (Gov. Appointee - Chair)  
William Mielcke (Gov Appointee – Vice-Chair)  
Cyd Miyashiro (Gov. Appointee)  
Dr. Gerry Cysewski (Tenant Representative)  
Alan Hilton (RAC-Chair)  
Diane Ley (County of Hawaii)  
Neil Sims (Tenant Representative)  
Randy Tanaka (DBEDT)

### In Honolulu

Robert Masuda (DLNR)

## **Staff**

### In Kailua-Kona

Gregory Barbour (NELHA)  
Keith Olson (NELHA)  
Laurence Sombardier (NELHA)  
Alex Leonard (NELHA)  
Jan War (NELHA)  
Stacey Burge (NELHA)  
Daniel Jacobs (Deputy AG)

**1. Call to Order.**

The meeting was called to order at 12:16pm by Chair Rosehill.

**2. Approval July 16, 2019 NELHA Board of Directors' Meeting Minutes.**

Chair Rosehill entertained a motion to approve the July 16, 2019 Board of Director's Meeting Minutes. Director Mielcke made the motion, which was seconded by Director Tanaka.

Director Sims requested two grammatical corrections to page 10, paragraph 4. The words "the project did not use" will be added to the first sentence. The sentence will read "Director Sims inquired why the project did not use the 3.4 acres on the makai side of the expansion of the KOWA property and why it was being reserved for solar panels."

The second correction will replace the word "sit" with "site" in the last sentence of the paragraph.

**A vote was taken and the motion to approve the July 16, 2019 Board of Directors Meeting Minutes with the noted corrections was passed unanimously, 9-0.**

**3. Approval August 26, 2019 NELHA Board of Directors' Meeting Minutes.**

Chair Rosehill entertained a motion to approve the August 26, 2019 Board of Director's Meeting Minutes. Director Cysewski made the motion, which was seconded by Director Hilton. A vote was taken, and the motion passed unanimously, 9-0.

**4. Approval August 26, 2019 NELHA Board of Directors' Executive Session Meeting Minutes.**

Chair Rosehill entertained a motion to enter Executive Session pursuant to section 92-5(a), section 227D-3.5, (HRS) for the purpose of approving the August 26, 2019 Executive Session Meeting Minutes regarding the KOWA Discussion and Decision for the 15.5-acre expansion project final approval for Kowa Premium Foods Hawaii Corporation and amendment of the existing Sublease K6\*. Director Cysewski made the motion, which was seconded by Director Hilton. A vote was taken, and the motion passed unanimously, 9-0.

## **5. Financial Report. – Approval and Decision Making.**

Executive Director Barbour presented the NELHA financial revenue report to date.

### **FY2020 Revenue vs. FY2019 Revenue**

Total revenue was \$886,000 for the first two months of this fiscal year and this represents an increase of almost 18 percent for the same period last year. Of notice for FY20 are the following:

- Seawater system revenue is up by almost 5 percent due to higher demand of a similar amount.
- Lease base rent is up significantly by \$130,000 or almost 40 percent, mainly due to collection of arrears.
- For the Research Campus office rent is down by about \$6,000 while outside space is up slightly by \$2,500.
- Percent rent is down by \$30,000 due to late payments received in the first two months of last year.
- Labor services continues to increase and is up by \$2,000 with additional lab services being provided to clients.
- Reimbursements for electric are up by \$35,000 or 33 percent with as one tenant paid their electric bill late last year and this should wash out next report.

### **FY2020 Expenditures vs. FY2019 Expenditures**

Total expenses for this fiscal year were \$674,000 or \$10,000 (2%) higher as compared to last fiscal year. We continue to very closely monitor expenditures. Of note are the following:

- Seawater system expenditures are down 6 percent (\$17,000) and much of this is due to decreased electrical costs and repair and maintenance of buildings.
- For Tenant Utilities electrical is down slightly but the main difference is due and a decrease of approximately \$7,000 for freshwater which was due to lower use and billing error.
- Ground maintenance and security shows an increase of over \$12,000 due to a timing issue only regarding payment cycle as the security contract cost is the same as last year.
- Environmental Monitoring costs decreased by \$5,000 or mainly due to allocation of personnel costs amongst other categories.
- Beach Park maintenance shows modest increase of \$3,000 due to additional personnel costs for repair and maintenance.
- Administrative costs are up 14% or \$30,000 as compared to the same period last year. Mainly due mainly due to allocation of personnel costs amongst other categories and filling of vacant positions.

### **Special Fund (SF) Account Summary**

All data is as of August 31, 2019. The Special fund balance is \$580,000 and up a healthy \$180,00 in the past two months. Current arrears are \$160,000 and down significantly in the

past several months. If arrears are collected this will bring the balance close to \$765,000.

Director Tanaka asked about Destiny Deep Seawater and their status. Executive Director Barbour explained that Destiny continues to make payments however the payments are inconsistent on a month to month basis. Destiny is in arrears approximately \$75K. Director Barbour noted that that they are in the process of trying to sell the building

Director Miyashiro asked if NELHA would be paid in full prior to any new company taking possession of the lease and building. The ED confirmed that this is our policy and any lease reassignment requires NELHA BOD approval.

Executive Director Barbour informed the NELHA Board members that Kanaloa Octopus Farm has decided not to move forward with expanding their business to the 4.5-acre lot and utilizing the 7,500 sq. ft. facility.

### **Customer Revenue Report**

- Total revenue, for this time period is up 18 percent, reimbursable/pass through revenue is up 11%.
- Relatively no change for the Water Bottling sector but Aquaculture sectors increased significantly with the payment of arrears.
- It is important to note that the Aquaculture sector now accounts for over 70 percent of total revenue if reimbursables are included.
- Energy sector is flat.
- Research/Office category is down by \$8,000 for rent revenue but up by \$13,000 reimbursables are included.

### **Arrears Report**

- As of August 31, 2019, the arrears totaled approximately \$162,000.
- Cyanotech has now brought their account current.
- Destiny Deep Sea Water also makes up a significant amount of the arrears. They continue to make payments but have been unable to make their account current. They are reviewing alternative business plans and the building is for sale.

**Chair Rosehill entertained a motion to approve the Financial Report. Director Tanaka made the motion, which was seconded by Director Hilton. A vote was taken, and the motion passed unanimously, 9-0.**

## **6. Old Business.**

### **6.a. Approval and Decision Making on NELHA Executive Director Performance Review\*\*.**

**Chair Rosehill entertained a motion to enter Executive Session. Director Cysewski made the motion which was seconded by Director Tanaka. A vote was taken, and the motion passed unanimously, 9-0.**

The Board entered Executive Session. All NELHA staff were excused from Executive Session. The Board exited Executive Session at approximately 1:00 p.m.

**Chair Rosehill asked Vice-Chair Mielcke, who chaired the Permitted Interaction Group (PIG) for the Executive Director's performance report, to continue the discussion. Vice Chair Mielcke stated that on behalf of the Strategic Investigative Committee, the Committee recommends that Executive Director Barbour's salary be increased to \$154,000 per year retroactive to July 1, 2019. Vice Chair Mielcke made the motion which was seconded by Director Tanaka. A vote was taken, and the motion passed 9-0.**

**6.b. Discussion and Decision-Making regarding waiver agreement to permit TriplePoint Capital LLC to hold a security interest in Forever Ocean Corporation's personal property.**

Ms. Sombardier provided an overview of Forever Oceans who has been a client of NELHA since October 2014. FOC focuses on offshore cage technology and they are looking to obtain a loan for equipment purchases. The lender they are working with, TriplePoint Capital LLC, requires a landlord representation and waiver agreement to secure their right to personal property and specifically equipment. The waiver also allows the lender to enter the FOC premises to remove the equipment. FOC is in good financial standing with NELHA.

FOC's sublease with NELHA allows for liens on equipment and personal property provided that NELHA provides written approval (such as this representation and waiver). Although the lease language does not clearly state that NELHA Board approval is required, NELHA attorney suggested staff obtain approval. The sublease language does state that mortgage consents need NELHA Board approval and several of those have been completed in the past.

The NELHA attorney has reviewed the representation and waiver. NELHA requested two changes to the original proposed document and the lender agreed to the changes. The two changes were to 1) have the agreement governed by Hawaii law rather than California law and 2) remove a requirement for NELHA to inform lender of defaults by FOC under the lease.

Mr. Jason Heckathorn, CEO of Forever Oceans was available via telecon for any questions from the NELHA Board of Directors. The Board did not have any questions for Mr. Heckathorn.

**Chair Rosehill entertained a motion to accept the staff recommendation that the NELHA Board grant approval to finalize and execute the attached Landlord Representation and Waiver Agreement. Director Tanaka made the motion, which was seconded by Director Ley.**

**Director Sims voluntarily recused himself from the vote. A vote was taken, and the motion passed, 8-0.**

**7. New Business.**

**7.a Discussion and Decision-Making regarding lease to Pacific Hybreed, Inc.**

Ms. Sombardier provided an overview of the Pacific Hybreed project.

Pacific Hybreed, Inc. is an early stage company established in Washington State which specializes in breeding a variety of shellfish including oysters, clams and scallops. They operate a hatchery in Manchester, Washington and are working with Baywater Shellfish Company under an arrangement that will help fund operating expenses from an initial harvest of oysters in late 2019. The company has recently concluded its second round of funding to expand their hatcheries, including for R&D to advance its development of proprietary broodstock. The company's goal is to produce shellfish for the global market that are higher yielding and more resilient given changing ocean conditions and emerging diseases.

The State of Washington presents challenges for hatcheries from a water quality and acidity point of view and has intrinsic seasonal limitations. Pacific Hybreed has determined that Hawaii, and more specifically NELHA, can provide the most desirable conditions for their project.

Pacific Hybreed has an experienced team and several members of the team have visited NELHA. The company has developed customized containerized portable labs and hatcheries and plans to ship three 40 ft containers initially for the project. These will be mostly pre-wired. One of the containers will be for seaweed while the other two will be for shellfish. There will be no GMO species involved in this project. Pacific Hybreed and NELHA staff have spent significant time establishing the company's requirements for electricity, and water and a 4,000 sq. ft area next to Kampachi Farms was deemed to be the best location for this project. This area would also allow the project to expand threefold in the future. Should additional space be needed, the containerized approach will make it easier to move as needed within the campus or out into the tech park.

NELHA already has several shellfish hatcheries (Taylor Shellfish, Kona Coast Shellfish and Jamestown Venture). This project would be at a significant distance from any of the other projects. One of the reasons Pacific Hybreed has chosen NELHA as a preferred location is its biosecurity program and reputation. Pacific Hybreed will comply with all Dept of Ag (DOA) permitting requirements for importation of species and will maintain their own stringent biosecurity program. Pacific Hybreed will also import only a limited number of animals and will breed them to develop superior broodstock at NELHA.

NELHA staff has reached out to the only immediate neighbor, Kampachi Farms, and they expressed that they would welcome the project.

The project is expected to have significant revenues if successful. Percent rent may be owed as soon as the second year of operations. The boiler plate for short term rental agreements will be used as a basis for this project. The agreement will include a 2.5% percent rent clause. An agreement based on the NELHA boiler plate has been agreed upon and reviewed by NELHA attorney. The main changes include 1) a clarification to the definition of gross sales and definition of "products", 2) ability for company to have a lien on equipment and personal property provided NELHA gives approval, and 3) other small changes which are shown in the markup versions included in this meeting's Board packet.

Pacific Hybreed expects to form a Hawaii entity at some point. There may be the need to assign this document to this entity in the future. Should this occur, there will be no changes to the terms of the agreement. Staff does not anticipate needing to come back to the Board for approval of this assignment.

Jon Kroman, Chief Development Officer and Dennis Hedgecock, Chief Science Officer are available via telecon for any questions from the NELHA Board of Directors.

The Research Advisory Committee was requested to review the proposal for this project. Chair Hilton provided an overview of the RAC recommendations. All reviewers provided positive feedback about the project and it should be able to proceed. The RAC supports the NELHA staff recommendation to proceed.

The RAC did note that this particular project has raised issues that should be considered for future discussions. How well are the revised biosecurity policies and protocols put in place in early 2016 working out in practice? Does NELHA believe they have adequate expertise to carry out the policy and/or seek improvements to the policy as new operations come online? Do other NELHA clients, who have high reliance on broodstock produced in Hawaii, have backup operations offsite in the event of a failure? Does NELHA have a role in consulting or developing a recovery plan? Finally, the future rulings on the Maui wastewater issue may impact how NELHA handles wastewater.

**Chair Rosehill entertained a motion to accept the staff recommendation that the NELHA Board grant final approval to Pacific Hybreed's proposed multi-year project and instruct the NELHA Executive Director to finalize and execute a short-term rental agreement for up to 5 years. Director Hilton made the motion, which was seconded by Director Mielcke.**

Director Tanaka asked about the number of jobs this project will create. Mr. Kroman stated that the current project calls for two positions immediately and two additional positions dependent upon the success for the project. Director Tanaka asked what the goals were after the initial 5-year project plan. Mr. Kroman indicated Pacific Hybreed would continue to be at NELHA as a small volume, high variety operation. The project is not capital intensive and would be in continuation mode should the project prove successful at the 5-year mark.

**A vote was taken, and the motion passed, 9-0. Chair Rosehill thanked Mr. Kroman and Mr. Hedgecock for their participation.**

Chair Rosehill stated that she wanted to review the RAC's recommendations in regard to the biosecurity issues that were recognized during the RAC's review of the Pacific Hybreed's project. Chair Rosehill asked if there is the need to discuss the biosecurity plan on a future agenda. Director Hilton stated the last biosecurity plan was updated in 2016. Director Hilton stated a presentation should be made to the board regarding how well the biosecurity plan is working, if there have been any violations, and if there needs to be any updates made to the plan. Director Hilton suggested that an additional advisory activity

could be set up with an outside expert to provide advice. Executive Director Barbour indicated that the biosecurity update can be included in an upcoming agenda.

Chair Rosehill believes it is prudent, with respect to the injection well issue that is occurring on Maui for the NELHA Board to be aware of what is happening. Chair Rosehill's understanding is that the Maui County Council has passed a resolution to withdraw the lawsuit that is scheduled to be heard in November by the Supreme Court. The Maui Mayor wants to continue to pursue the suit. The Mayor's attorney has advised that he is the sole decision maker as to if the lawsuit proceeds, but the Council's attorney has advised the Council has input into this decision. The suit was brought by the Sierra Club regarding discharge of wastewater using injection wells off of Lahaina. Should the US Supreme Court rule in favor of the Sierra Club, all organizations with wastewater injection wells will be impacted including resorts, hotels, and other organizations.

**7.b Discussion and Decision-Making regarding nomination of Dr. Shaun M. Moss to be appointed to the Research Advisory Committee.**

Executive Director Barbour thanked Director Hilton for contacting the four experts as potential RAC members. Director Hilton presented information on the four RAC nominations.

Dr. Moss has a long and distinguished career in extensive professional accomplishments in the areas of shrimp aquaculture, biosecurity research/applications, and technical consulting. His record of publications is also very impressive. He has been associated with Oceanic Institute for over 30 years and is currently the Executive Director. As such he has a solid background in aquaculture which we have seen much growth over the years at NELHA.

**Chair Rosehill entertained a motion to accept the nomination of Dr. Shaun M. Moss to be appointed to the Research Advisory Committee. Director Hilton made the motion, which was seconded by Director Sims. A vote was taken, and the motion passed, 9-0.**

**7.c. Discussion and Decision-Making regarding nomination of Dr. John C. Wiltshire to be appointed to the Research Advisory Committee.**

Dr. Wiltshire has a long and distinguished career in government, technology and education in Hawaii. He has previously worked with the University of Hawaii for over 40 years. Dr. Wiltshire is very familiar with the resources and existing projects at NELHA and economic development issues in Hawaii. His strong background in ocean engineering and related technology will be invaluable in reviewing proposals.

**Chair Rosehill entertained a motion to accept the nomination of Dr. John C. Wiltshire to be appointed to the Research Advisory Committee. Director Hilton made the motion, which was seconded by Director Sims. A vote was taken, and the motion passed, 9-0.**

**7.d. Discussion and Decision-Making regarding nomination of Dr. Patrick S. Cross to be appointed to the Research Advisory Committee.**



Dr. Cross is currently at University of Hawaii Natural Energy Institute (HNEI) and is leading their ocean energy research efforts principally in the area of wave energy. Dr. Cross also has a history in technology sector businesses in Hawaii.

**Chair Rosehill entertained a motion to accept the nomination of Dr. Patrick Cross to be appointed to the Research Advisory Committee. Director Hilton made the motion, which was seconded by Director Mielcke. A vote was taken, and the motion passed, 9-0.**

**7.e. Discussion and Decision-Making regarding nomination of Dr. Thomas B. Reed IV to be appointed to the Research Advisory Committee.**

Dr. Reed has a strong background in marine geology and geophysics. His ocean sciences background and as CEO of Ocean Imaging Consultants Inc. provides him with a good sense of the ups and downs that are typical of starting/running a technology sector business activity in Hawaii and will be a valuable addition to the RAC.

**Chair Rosehill entertained a motion to accept the nomination of Dr. Thomas B. Reed to be appointed to the Research Advisory Committee. Director Hilton made the motion, which was seconded by Director Mielcke. A vote was taken, and the motion passed, 9-0.**

**Director Masuda asked to be excused from the meeting at 12:45p.**

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

Chair Rosehill has raised the issue with the HTDC Board of Directors that she is unable to serve as the HTDC representative to NELHA as she serves as the NELHA Board Chair. HTDC will put this issue on the agenda for their next meeting. Under a statute passed under the last legislative session, there will no longer be an appointment of a member of NELHA Board serving as a liaison on the HTDC board. Under the statutes you cannot be appointed to two Boards, we can serve as liaisons as we have under the past statutes. The current statutes from HTDC does not have liaisons from any place else, it only has 3 from the Senate, 3 from the House and 1 ex-officio. The NELHA Board can try to amend their statute to include a liaison from NELHA. In the interim between now and until their new board takes effect, they will appoint a HTDC representative for NELHA.

The HTDC Executive Director search is continuing. The expectation is that someone will be in place by the end of the year. HTDC would like someone in place before the legislative session starts.

The HTDC Sandbox incubator space in Kakaako is opening next Thursday (10/10/2019).

**9. Executive Director's Informational Status Report on ongoing projects including: new leases; seawater system maintenance; new potable water supply update; aquaculture accelerator and investment fund initiative; renewable distributed energy resources initiative including grant applications for microgrids, energy storage, and solar desalination; analysis HOST Park energy system; NELHA client survey; and, the grant**

**application to the US government for damage to building in Kapoho, Hawaii. \***

Executive Director Barbour distributed the agenda for the HATCH event this afternoon.

NELHA Client Survey - Executive Director Barbour gave an overview. The survey was sent out via Survey Monkey to 49 tenants. The survey responses were anonymous, so we do not know who responded. ED Barbour discussed the feedback received from the survey. Question 8 was about the lease rates and ED Barbour is pleased with the responses. It indicates the lease rates are in line with market. Responses to question 10 on the website were interesting. We are going to try to upgrade the website as part of the marketing plan we are developing for presentation to the Board in January. We plan to work in part with HATCH, who have good marketing skills. One of the issues with upgrading the website is that we have to follow the State template which is not always conducive to marketing. Regarding one of the responses to Question 10 Chair Rosehill asked how to make the Board meetings conducive to tenant participation. Neither tenant representative has received feedback from tenants on this subject. The agenda is sent to tenants in advance. Chair Rosehill suggested conducting a bi-yearly tenant meeting or perhaps a social/reception type of event to meet the board members and talk story. Alternatively, we could put the Executive Director report at the beginning of the meeting as NELHA clients could get a quick update. Chair Rosehill wants to ensure we are responding to tenant concerns.

Pipelines - Regarding the deep-water pipe removal, we are getting ready to move forward on the survey. Regarding the nearshore pipes, we are out to bid, will probably install after the winter surf season.

Renewable Energy Projects – We continue to explore the potential for a microgrid – PV and storage at the 55” pump station to lower energy costs. This would be similar to efforts recently completed at the Research Campus pump station. We have entered into an agreement Hawaii Natural Energy Institute to assist us with developing a long-term energy plan for HOST Park. We continue to evaluate the potential of applying to FEMA for funds for a pre-disaster mitigation project. We are looking at funding for an electrical connection between the two main pump stations so power can be transferred back and forth in the event of an emergency.

Regional SWAC Project –Mr. Leonard confirmed the Professional Services procurement is ongoing. A consultant has been selected based on qualifications and we are still negotiating the price. The project needs to be executed by June 30, 2020.

Potable Water Well – An extension for 1 year was requested. We continue to address issues relating to objection from obtaining a permit.

Aquaculture Accelerator - We are very encouraged with the program so far HATCH Inc. and the aquaculture accelerator. Several of the cohort member have also stated that they are very pleased with the program. Director Sims asked about the aquaculture fund development. The ED explained that assets from HSDC relating to the fund were transferred to NELHA. HATCH, who is developing the accelerator, has closed on \$5M for the fund and also have additional potential investors. HATCH is the general partner and NELHA is a limited partner and as such will share in the revenue that comes out of the investment fund. The terms are typical for

investment funds of this sort. The general partner will get their funds back first, then NELHA will get their investment returned. No companies have been invested in as of date.

Puna Property Damage – NELHA's estimate of \$7.6M in damages has been agreed to by FEMA for replacement costs in Puna. NELHA is in discussions with PGV's insurance brokers regarding their initial estimates.

Chair Rosehill inquired if the Ways & Means committee rescheduled their cancelled visit. The ED stated that they have not. Chair Rosehill asked if we had any legislation coming up. The only legislation we have coming up is a request for a non-potable regional water supply project. This request is under consideration by DBEDT and B&F. Director Tanaka said the strategy this year is to clean up a number of legislations rather than ask for new funds. Chair Rosehill asked if this was a regional water project. The ED answered that this project would estimate the costs of construct a pipe at 1,000 ft above sea level to bring non-potable water for agriculture. This would supply NELHA and the DOA agricultural park. Chair Rosehill stated that the County has already received \$1.5M for planning and design for a project that would supply the AG park with water. These funds were received from the Legislature this year following the issues with fresh water and the County is ready to proceed. These projects should be coordinated properly.

**10. Announcements.**

None.

**11. Adjournment.**

**The meeting was adjourned at 1:30pm.**