



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

MEETING MINUTES

Tuesday, November 17, 2020

10:00 a.m.

An Interactive Conference Technology Meeting was held at

NELHA OceanView Conference Room
Hale Iako Building
73-970 Makako Bay Drive
Kailua-Kona, HI 96740

and via Zoom Video Conferencing Software.

Members/Designees in Attendance

Linda Rosehill (Gov. Appointee/Chair)
Riley Saito (County of Hawaii)
Robert Masuda (DLNR)
Dr. Gerry Cysewski (Tenant Representative)
Chung Chang (DBEDT)
Alan Hilton (RAC Chair)
William Mielcke (Gov. Appointee/Vice Chair)
Dr. Vassilis Syrmos (University of Hawaii)
Cyd Miyashiro (Gov. Appointee)
Dr. Phil Bossert (RAC Secretary)
Neil Sims (Tenant Representative)

Guests/Staff Present

Greg Barbour (Executive Director)
Laurence Sombardier (Dep. Director)
Keith Olson (NELHA)
Daniel Jacobs (Deputy AG)
Albert Shiotsuko, (Kona Trans)
Jeff Zimpfer (National Park Service)
Gretchen Watson-Kabei

Board Members Not Attending and Excused

None.

- **Item 1. Call to Order.**

The meeting was called to order by Chair Rosehill at 10:00 a.m. Upon calling the meeting to order, Chair Rosehill requested a roll call of Board members, NELHA staff, and guests in attendance.

- **Item 2. Approval September 15, 2020 NELHA Board of Directors' Meeting Minutes.**

Chair Rosehill entertained a motion to approve the September 15, 2020 minutes. The motion was made by Director Mielcke and seconded by Director Hilton. No discussion ensued or corrections were noted. A roll call vote was taken. The motion carried unanimously.

- Director Masuda joined the meeting at 10:09 am and Chair Rosehill announced a change in the order of the agenda due to guests attending the meeting for Item 5b.

- **Item No. 5b. Approval in Concept for the Transfer of Destiny Deep Sea Water to SJA Partnership LLP.**

Deputy Director Sombardier explained that Destiny is currently in negotiations with SJA Partnership LLP (SJA) to purchase certain Destiny assets and assume the Destiny Sublease K-12. An approval in concept is requested for this project.

SJA Partnership LLP is the holding company for Kona Trans Moving and Storage (SJA). Kona Tans is a trucking, moving and warehousing company on the island of Hawaii founded in 1939. Utilizing a fleet of 60 trucks, it is the largest freight forwarder on Hawaii island.

Destiny, a desalination and water bottling company has been seeking to sell its facility covered by sublease K-12 for several years. Destiny and SJA are in the very early stages of negotiating a potential sale. Although the terms of the sale are not yet known, Destiny and SJA would like to confirm that the planned use is acceptable to NELHA. An approval in concept would also facilitate the exploration of financing options for SJA.

SJA has three reasons to locate at NELHA:

- a. SJA wishes to operate a temperature-controlled warehouse using SWAC to store, handle and distribute a variety of commercial goods and items including packaged foods, fruits, vegetables, medical supplies, nutraceuticals such as Bioastin produced by Cyanotech.
- b. SJA also wishes to make use of the fact that NELHA is a designated Foreign Trade Zone area. They plan to apply for their warehouse to be a foreign trade zone and bonded warehouse.
- c. Finally, SJA wishes to convert their power machinery and ground support vehicles to utilize either electric or hydrogen power. The high solar resources

of the facility are desirable to generate power from PV while the proximity to HNEI's H2 facility is desirable for H2 powered vehicles.

This project would be a support project for other NELHA clients and the Hawaii Island community in general. Much of the work carried out at the facility will involve breaking and loading containers. The Destiny facility location is close to the Queen Kaahumanu Highway which is a desirable feature to SJA.

There are many details that will need to be examined more closely in particular traffic impact, wastewater disposal capabilities and final lease terms. If an approval in concept is provided, there will be an opportunity to review a full business plan and make informed decisions at a subsequent board review.

As such, staff recommends that the NELHA Board grant "Approval in Concept" based on the preliminary proposal submitted and included in this summary. It is understood that further details will be provided in the form of a final business plan to be reviewed before a final approval can be granted. If Destiny and SJA can come to terms on the sale, staff would bring this issue back to the Board for "Final Approval" sometime next year after all lease details are agreed upon.

The motion was made to "approve in concept the transfer of Destiny Deep Sea Water, LLC Sublease K-12 to SJA Partnership LLP" by Director Mielcke and seconded by Director Hilton. Chair Rosehill asked if there is any discussion or questions regarding the motion.

Director Miyashiro asked if this would be an asset purchase or a stock purchase and Mr. Shiotsuko responded that it would be an asset purchase. Director Miyashiro also asked about the difference between temperature-controlled warehouse and a refrigerated warehouse. Mr. Shiotsuko responded that temperature-controlled is between 50-75 degrees F and refrigerated is below that. Temperature controlled is necessary for medical supplies, coffee, macadamia nuts and candies as well as beverages such as wine. Director Miyashiro mentioned that she feels there is a good nexus between the company proposed use and NELHA's mission and requested further detail in the final business plan.

Director Hilton asked if the building is already set up for deep sea water cooling (DSW). DD Sombardier responded that there is already DSW pipelines going into the building and ED Barbour mentioned that the building is fully insulated. Mr. Shiotsuko mentioned that the heat exchanger may need to be increased in size but that needs further investigation.

Director Sims asked if the USDA and Customs inspections will be set up for inbound or outbound cargo. Mr. Shiotsuko mentioned that it will be initially setup for out bound cargo such as coffee that requires USDA inspection.

Director Bosset asked about the foreign trade zone (FTZ) regulations and if that will require additional security. Mr. Shiotsuko stated that yes it does and that the FTZ designation is a more longer-term prospect and not started for a year or so after they get established.

With no further questions, Chair Rosehill asked for a roll call vote to be taken. The motion carried unanimously.

- **Item 3. Financial Report: Approval and Decision Making.**
ED Barbour presented and overview and summary the Financial Report in the board packet (Attachment A). Chair Rosehill called for a motion to accept the report. Director Cysewski made the motion which was seconded by Director Masuda. There being no further discussion or questions concerning the Financial Report, Chair Rosehill thanked NELHA and its staff for its report. A roll call vote was then taken on the motion to accept the Financial Report as presented. The vote was unanimous.

- **Item 4a. Old Business – Report from the Special Investigative Committee regarding the annual performance evaluation of the NELHA Executive Director.**

Director Rosehill entertained a motion to go into Executive Session at 10:33 am pursuant to Section 92-5(a)(2), HRS to consider the evaluation of its executive director where considerations of matters affecting privacy will be involved. The motion was made by Director Mielcke and seconded by Director Cysewski. There being no objection, further discussion or comments, the motion carried unanimously. Staff left the room and all Zoom visitors were transferred into a breakout waiting room.

- The Board exited its Executive Session at 10:41 am.
- **Item 5a. New Business – Summary and Review of 2011 Master Plan Update Process and Key Issues to be Addressed.**

Chair Rosehill stated that the next item on the agenda is Item 5a – a discussion of the Master Plan update and asked for a report. ED Barbour explained that NELHA last updated its Master Plan in 2011. It is appropriate to review strategic issues affecting the overall vision and mission statements in the 2011 plan and present background and a timeline for reviewing the plan over the coming year.

NELHA has formulated three master plans since 1975. This includes a 1976 plan, 1989 plan and the current 2011 plan. It is typical for master plans to be reviewed every 10 years to reaffirm the vision or develop new insights into future direction regarding emerging trends, new technologies and cultural sensitivity.

The 2011 Master Plan (see Attachment B) identified four major themes:

- Energy production;
- Food, aquaculture, and nutraceuticals;
- Energy research driven programs; and,
- Public outreach, education, and tourism.

In addition, the 2011 master plan identified six zones of use. They include:

- Applied Renewable Energy Zone;
- Economic Driver;
- Applied Technology Labs & Containerization Research;
- Science and Technology Cultural Center;
- Ocean, Air, Energy and Biology Research; and
- Ocean Research Village and Zone.

EB Barbour discussed new developments and concepts that have arisen over the past several years. These include:

- Feature 1 and 3 Applied Technology Zones:
Concept of growing the Ocean Economy as a Statewide economic diversification scheme including an increased focus on global aquaculture vis-à-vis focus on applied renewable energy.
- Feature 2 Economic Driver:
Continued efforts to develop the Ocean CenterPiece at HOST Park
- Feature 4 Science and Cultural Center:
Accelerate native Hawaiian aquaculture and fishponds
Development of a new Gathering Place Visitor Center Building
- Feature 5 Research Village:
Construction of a new South Research Campus or Innovation Center/Village to ease overcrowding in the current research campus.
- Feature 6 Ocean Research Zone:
Complete a Programmatic Offshore EIS to facilitate additional offshore research.

ED Barbour suggested a potential timeline for this process and could be as follows:

- Jan – June 2021
- June – December 2021
- Early 2022 – Finalization and NELHA BOD Adoption
- 2023 – Update Programmatic HOST Park EIS.

Vice Chair Mielcke mentioned that this is appropriate for the Board to consider at this time and the process should be completed in timely manner.

Director Miyashiro noted that there has been a lot of good discussion Statewide lately on alternatives for economic diversification with the downturn in the visitor industry due to the COVID19 pandemic and it is important to discuss ways to fill in the gaps and this process could be extremely useful.

Chair Rosehill stated that this process should include a review of surrounding areas suitable for expansion and look as far into the future as possible. This review should also be expanded statewide to widen the footprint and be proactive to suggest new opportunities to policymakers and decisionmakers, especially in the area of global aquaculture. In this regard, Chair Rosehill mentioned that she agrees with Director Miyashiro's comments that this review is timely in terms of pandemic.

Director Masuda noted that DLNR has recently began several new major initiatives in its Division of Aquatic Resources. We have been looking a reinventing and renewing efforts to restoring estuaries. He further stated that they recognize the diminishing amount of oceanfront state lands and the need to maintain conservation along the ocean front.

Director Hilton stated that expansion of the NELHA economic development model to non-contiguous areas is not a foreign concept to NELHA (e.g. Puna) and in favor of looking statewide for new opportunities.

Director Sims opined that a terrestrial based look at contiguous areas adjacent to HOST Park has a lot of upside especially with regard to the existing seawater system. He also feels that it is important to look at ways to improve access to the offshore corridor.

Director Chang agreed that its timely for this review and need to work outside silos and look at new options to diversify the economy is paramount at this time.

- **Item 6. 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 and grant application to extend accelerator for four additional years; renewable distributed energy resources initiative including grant applications and solicitations for microgrids, energy storage, and solar desalination; analysis HOST Park energy system; and, the grant application to the US government for damage to buildings and associated items in Kapoho, Hawaii.

ED Barbour presented and overview and summary of NELHA's major goals and key projects timeline as contained in the Board Packet (Attachment C) as part of the Executive Director's Information Status Report. Chair Rosehill asked if there were any questions or comments. Hearing no further questions or comments, the report was accepted unanimously as presented.

- **Announcements.**
The next scheduled NELHA Board meeting will be Tuesday, January 19, 2021. There were no other announcements.

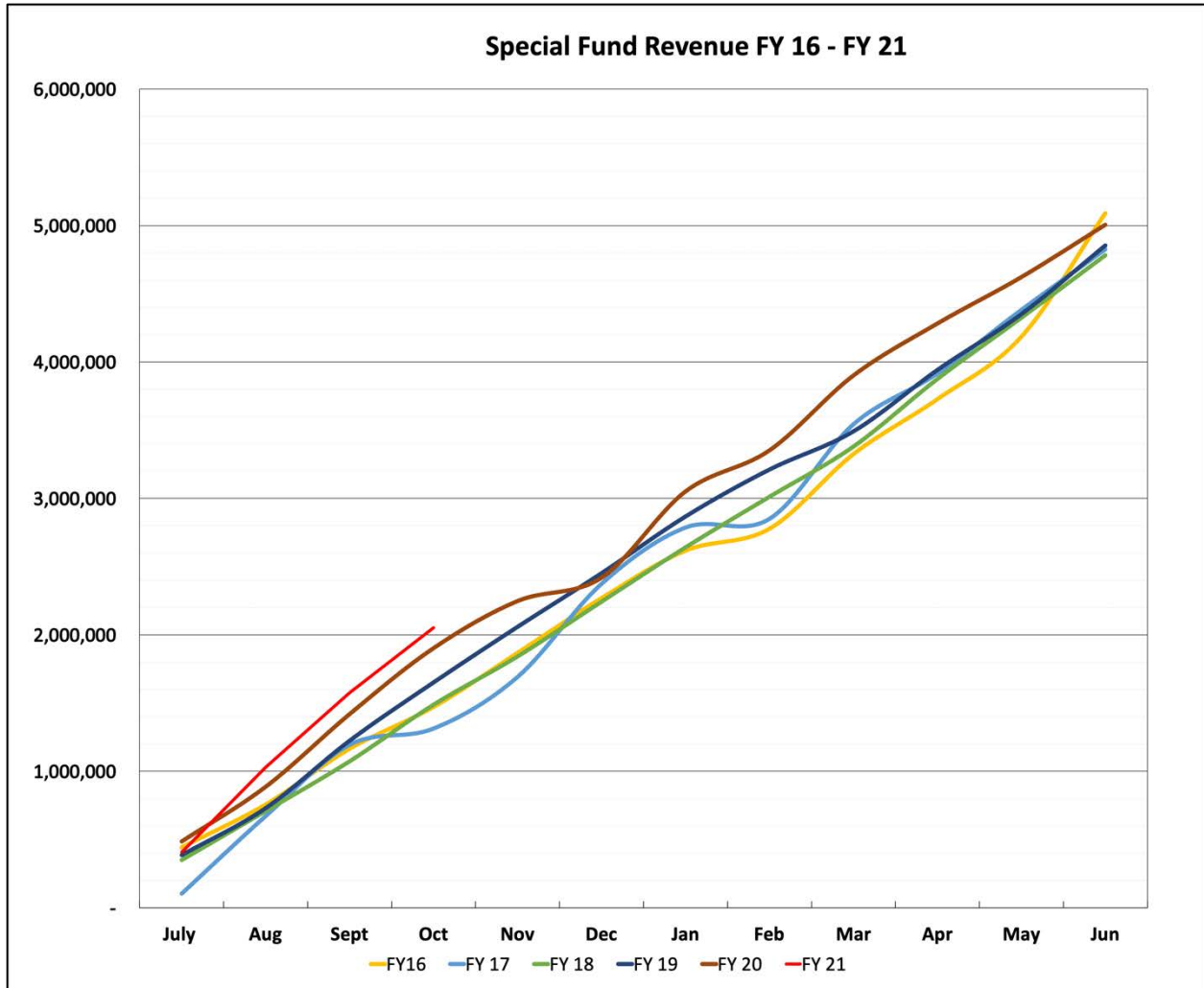
- **Adjournment.**

Chair Rosehill entertained a motion at this time to adjourn the meeting. The motion was made by Director Mielcke and seconded by Director Hilton. There being no objection, further discussion or comments, the motion carried unanimously. The meeting was adjourned at 11:33 a.m.

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NATURAL ENERGY LABORATORY OF HAWAII AUTHORITY
Financial Report Summary

July 2020 through October 2020



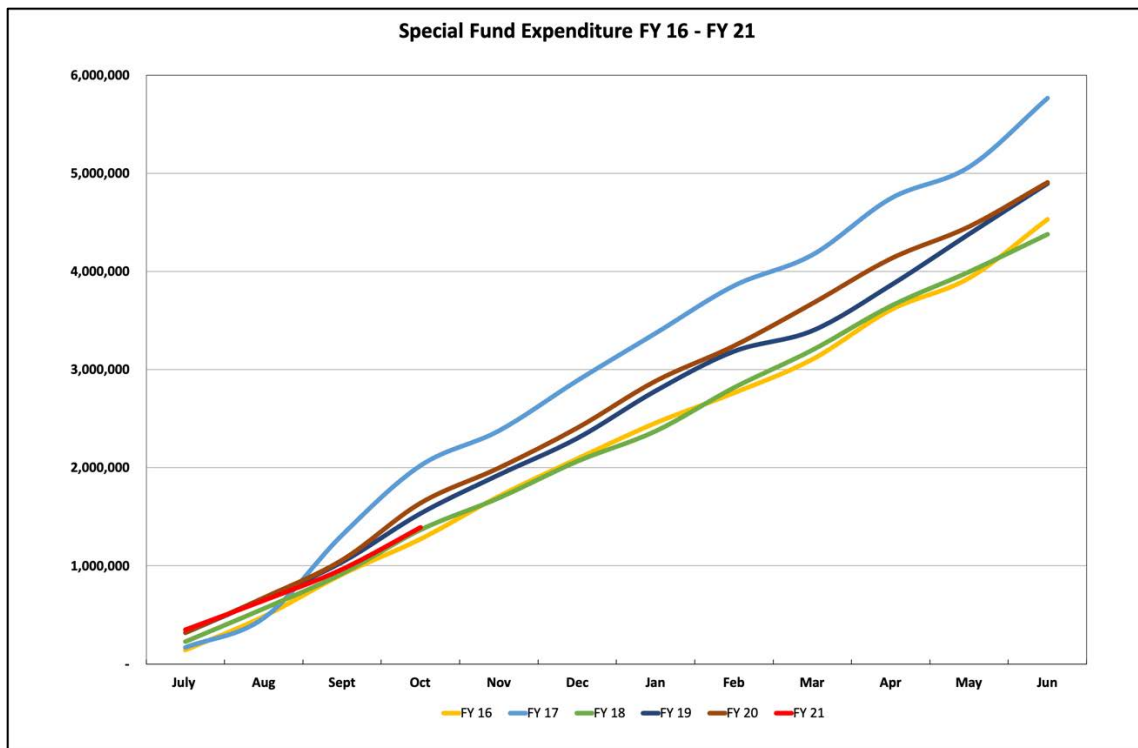
FY 2021 Revenue vs. FY 2020 Revenue

- Total revenue was \$2,050,000 for the first four months of this fiscal year and this represents an increase of 8 percent for the same period last year. As shown on the chart above, this is the highest over the past six years. In summary, seawater sales, rent and electric reimbursements were down collectively by almost \$450,000 while the additional funds from EDA for the accelerator, sale of the HDMI, HHFDC transfer and HNEI transfer amounted to an increase of \$575,000. Of notice for FY21 are the following:

Attachment A: November 17, 2020 NELHA Board of Directors Minutes

- Seawater system revenue is down by almost 20 percent due to lower demand and lower cost of electricity.
- Lease base rent is down significantly by almost \$150,000 or 22 percent, mainly due to collection of arrears last fiscal year of \$100,000 from Cyanotech regarding their purchase of the Cellana property lease. There are also some fluctuations in rent payments which is mainly a timing issue.
- For the Research Campus outside space revenue is up almost 20 percent due to several new companies and office rent is down slightly mainly due to a late payment of arrears from one of the University clients this year and a decrease in conference room rental of almost \$5,000.
- No percent rent was received in the first four months of this fiscal year. We received a late payment for the same period last year.
- Labor services continues to increase and is up by over \$3,000 with additional lab services being provided to clients.
- Reimbursements for electric are down by \$90,000 or almost 50 percent and due to lower use (demand) and lower electrical costs.
- Special projects revenue is up by over \$350,000 with passthrough payments from EDA for the Hatch Accelerator, transfer of \$200,000 from HHFDC and an additional deposit of \$70,000 from HNEI for the hydrogen project.
- Misc. income includes the payment from Blue Ocean Mariculture (\$225,000) for the building they recently purchased.

FY 2021 Expenditure vs. FY 2020 Expenditure



- Total expenses for this fiscal year are down slightly as compared with the same period as last fiscal year by 14 percent or \$235,000. We continue to very closely monitor expenditures. Of note are the following:
- Seawater system expenditures are down 30 percent (\$55,000) and is due to a combination of lower demand and lower price of electricity.
- For Tenant Utilities electrical is down mainly due lower demand and the cost per kWh has gone down about 10%.
- NELHA utilities show the electrical costs flat but a large increase in freshwater due a significant leak in one of the distribution lines in the Research Campus that has since been repaired.
- Environmental Monitoring costs increased by \$8,000 or mainly due to allocation of personnel costs amongst other categories.
- Administrative costs are down 10% or almost \$50,000 as compared to the same period last year. Mainly due mainly due to allocation of personnel costs amongst other categories and not filling of vacant positions.
- Ceded land payments are down due to a quarterly timing issue.
- Service assessments were paid late for last year and show up in this year's expenditures.
- Special projects is down 20% mainly due to charges for the HNEI hydrogen project in the first four months last year.

Special Fund Account Summary

- All data is as October 31, 2020.
- Special fund balance is \$980,000 and up a healthy \$650,00 in the past four months.
- This includes the pre-payment from HHFDC and HNEI of approximately \$300,000.
- Current arrears are \$115,000 and down from \$160,000 at this time last year.
- If arrears are collected this will bring the special fund balance close to \$1.1 million.

Customer Revenue Report

- Total revenue, for this time period is up 16 percent, reimbursable/pass through revenue is up 16%. Details are listed below:
- Relatively no change for the Water Bottling sector continues to decline and is now below 20% of total revenue.
- Aquaculture sector increased significantly with the payment of arrears.

Arrears Report

- As of October 31, 2020, the arrears totaled approximately \$115,000.
- Destiny Deep Sea Water makes up a significant amount of the arrears (55%). 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 and this is on the agenda later this morning.
- This is up slightly from October 31, 2019 when the arrears were approximately \$100,000.



