



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 June 21, 2022
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

William Mielcke (Gov. Appointee/Chair)
Cyd Miyashiro (Gov. Appointee/Vice Chair)
Noelani Kalipi (Gov. Appointee)
Scott Glenn (DBEDT)
Robert Masuda (DLNR)
Robert Command (County of Hawaii)
Dr. Vassilis Syrmos (University of Hawaii)
Alan Hilton (RAC Chair)
Dr. Phil Bossert (RAC Secretary)
Neil Sims (Tenant Representative)
Dick Jones (Tenant Representative)

Guests/Staff Present

Greg Barbour (NELHA)
Laurence Sombardier (NELHA)
Keith Olson (NELHA)
John Cole (Deputy AG)
Mayor Mitch Roth (County of Hawaii)
Jeff Zimpher (NPS)

Board Members Not Attending and Excused

None.

73-4460 Queen Kaahumanu Hwy., #101, Kailua-Kona, Hawai'i USA 96740-2637
Phone: (808) 327-9585 Fax: (808) 327-9586 Email: nelha@nelha.org Website:
<http://www.nelha.hawaii.gov>

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

The meeting was called to order by Chair Mielcke at 10:02 a.m. Reference to Act 220.

Chair Mielcke welcomed Noelani Kalipi as a new Governor appointee to the NELHA Board of Directors and asked her to introduce herself.

Chair Mielcke also welcomed Scott Glenn, Director of the Hawaii State Energy Office as the new DBEDT representative.

Chair Mielcke also welcomed Mayor Mitch Roth who is joining the meeting this morning.

Chair Mielcke asked Executive Director (ED) Barbour for a roll call of Board members and NELHA staff.

- **Item 2. Approval March 15, 2022, NELHA Board of Directors' Meeting Minutes.**

Chair Mielcke entertained a motion to approve the March 15, 2022, minutes. The motion was made by Director Masuda and seconded by Director Jones. There were no objections, Director Glenn abstained, and the minutes were approved as circulated (10-0).

- **Item 3. Approval April 19, 2022, NELHA Board of Directors' Meeting Minutes.**

Chair Mielcke entertained a motion to approve the April 19, 2022, minutes. The motion was made by Director Masuda and seconded by Director Sims. There were no objections, Director Glenn abstained, and the minutes were approved as circulated (10-0).

- **Item 4. Election of NELHA Board of Director's Officers for FY 2023 beginning July 1, 2022, through June 30, 2023.**

Chair Mielcke asked for nominations for officers of the Board. Director Bossert nominated a slate that included Director Miyashiro as Chair and Director Mielcke as Vice-Chair. Seconded by Director Hilton. Director Masuda made a motion to move the nomination. Seconded by Director Command. There were no objections and the slate of officers nominated by Director Bossert was approved unanimously (11-0).

- **Item 5. Financial Report: Approval and Decision Making.**

Chair Mielcke asked ED Barbour to present this agenda item. ED Barbour explained that NELHA is presenting an abbreviated financial report due to the Business Manager being on Family Medical Leave over the past 3 months. The Special Funds Account

Summary and Arrears Report, both as of May 31, 2022, were discussed. The special fund shows a balance of \$633,000 and arrears show a balance of \$95,000.

Director Masuda asked about projections for tenant revenues for the future given new tenants, his calculations show that rent revenue will be increasing. ED Barbour indicated that he is correct, and we anticipate an increase of approximately \$20,000 per month next year. Director Masuda indicated that we are moving in the right direction.

Director Command asked about the status of the 80-acre Ocean CenterPiece site. ED Barbour indicated that we received funds to complete a comprehensive EIS update for HOST Park and the leasing and development of that area will go more smoothly once the EIS is completed. But that does not preclude from looking for a developer partner now as private investment will be needed to achieve the goals for the Ocean Center Piece.

Director Masuda made a motion to defer approval of the financial report until the next meeting which will present a full report. Director Hilton seconded. There were no objections, and the deferral of the financial report was approved unanimously (11-0).

- **Item 6. Old Business (none).**
- **Item 7a. Discussion and Decision-Making Regarding Approval to Increase Leasing Policy Established Rates*.**

Chair Mielcke asked Deputy Director (DD) Sombardier to present this agenda item. DD Sombardier explained that NELHA lease rates at HOST Park have remained unchanged since the leasing policy was established in 2012. Considering inflation over the past decade and specifically in the past year, it is appropriate to consider an adjustment. Staff proposes to increase rates as described below.

Description	Old Rate	New Rate		% Change
Energy Use	\$ 1,800.00	\$ 1,900.00	per acre per month	5.6%
Extractive Use	\$ 1,800.00	\$ 1,900.00	per acre per month	5.6%
Productive Use	\$ 342.75	\$ 360.00	per acre per month	5.0%
Office (Stand-alone in campus)	\$ 1.75	\$ 1.85	per SF per month	5.7%
Research Campus/Gateway				
- Laboratory space	\$ 2.00	\$ 2.10	per SF per month	5.0%
- Covered space/tent areas	\$ 0.75	\$ 0.80	per SF per month	6.7%
- Open air wet lab	\$ 1.50	\$ 1.60	per SF per month	6.7%
- Improved land/open space	\$ 0.25	\$ 0.30	per SF per month	20.0%
Incubator Building				
- Office with windows	\$ 2.25	\$ 2.40	per SF per month	6.7%
- Office without windows	\$ 2.00	\$ 2.10	per SF per month	5.0%
Offshore Use	Case by case	Case by case		
Other Use	Case by case	Case by case		

The NELHA leasing policy was developed in 2011 and approved by the Board in November 2012. This policy is published on NELHA's website and provides the basis and guidance for all NELHA leasing activities: https://nelha.hawaii.gov/wp-content/uploads/2021/04/Leasing-policy-Updated-4_26_2021.pdf

The rates were established based on a comprehensive professional appraisal in 2010 as well as arbitration in 2011 for a specific client.

All new leases follow the policy. In addition, over the years, NELHA staff has brought the majority of the existing clients' lease agreements in line with the established policy.

The leasing rates have not been adjusted since 2012. Meanwhile, CPI has increased about 15% between 2012 and 2021, with another 6% increase expected for 2022. Given NELHA's mission to assist with economic development, an increase of this magnitude might be too large for businesses to absorb. It is nevertheless appropriate to increase lease rates by an amount commensurate with the inflation experienced in Hawaii in the past year or so. NELHA staff proposes to increase lease rates as listed in the table below. Increases are between 5% and 6.7% except for improved open space which will experience a larger 20% increase. Before 2012, the rate in the campus was \$0.50/sqft/month. This rate was reduced to \$0.25/sqft/month in part to attract new projects to the campus. With the campus being close to full, NELHA can now afford to increase campus open rates.

NELHA long term subleases contain annual adjustments tied to CPI as well as reopening clauses. In the event that CPI declines, rent remains the same and does not increase until cumulative CPI (declines plus subsequent gains) become positive. The standard sublease reopening clause establishes reopening periods every 10 years. With the annual CPI increases, there typically is no need to further adjust at reopening since rates have kept up with inflation maintaining them generally in line with market value.

Short term leases are renewed on an annual basis every 1st of July. The short-term lease boiler plate clause allows for an increase provided that the increase in monthly rent be less than 5% or the rate equal to the 12-month change in the Honolulu consumer price index, whichever is greater. This year, NELHA adjusted short-term leases that were due for an extension on July 1, 2022, by 4.3%.

To be fair to existing clients, the published rates for new clients and projects should not be lower than these increased rates of existing clients. Therefore, it is appropriate to increase the established rates publishes rates as shown above and to continue adjusting them on an automatic and annual bases going forward in a similar fashion that the sublease rates are adjusted according to CPI. Attachment 7 in the current published leasing policy is to be replaced with the rates shown in Attachment A to these minutes.

Director Masuda stated that he recognizes that rates at HOST Park are lower than market rates as our mission is to stimulate research and economic development in the

marine and energy sectors. He supports the proposal on that basis as increases are minimal.

Director Glenn asked if tenants are aware of the proposed increases and if they have any comments. DD Sombardier indicated long-term leases have set opening dates and would not be affected. These long-term leases also generally have the CPI increases built in. Regarding existing short-term leases including office leases, we sent a letter in May indicating increases and almost 100% have agreed to one-year extensions at the new rates. The new rates would affect new projects and leases.

Director Hilton asked if this applies to new leases that are currently under discussion including those that have received approval in principle. DD Sombardier stated that the new rates will apply to these. There is only one approval in concept at this point in time (EcoHarvest), and we have not discussed these rates with them as yet. This project is at the very early stages.

Chair Mielcke asked if there are any questions from the public and there were none.

Chair Mielcke entertained a motion approve to increase published leased rates and to establish automatic annual CPI adjustments to these leases rates going forward. The motion was made by Vice Chair Miyashiro and seconded by Director Bossert. There were no objections, Tenant Representatives Director Jones and Director Sims recused themselves, and the motion was approved (9-0).

- **Item 8. Executive Director's Informational Status Report on ongoing projects.**

See Attachment B.

- **Item 9. Announcements.**

Chair Mielcke noted that our next meeting is scheduled for July 19, 2022.

Chair Mielcke asked Director Command to convey our appreciation to Mayor Roth for attending a portion of today's meeting and to thank him for all his efforts to support NELHA by providing increased police patrols at HOST Park.

- **Item 10. Adjournment.**

Chair Mielcke adjourned the meeting at 10:57 a.m.

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ATTACHMENT 7

RENTAL RATES

EFFECTIVE July 1, 2022

This update adjusts the 2016 leasing policy rates which were based on the June 10, 2010, professional appraisal by ACM Consultants, Inc. and the rental arbitration for BIAC (June 2011).

Rates shall be adjusted annually, every July 1st, according to the US Bureau of Labor Statistics Consumer Price Index (CPI). If the CPI declines, the rental fee shall remain the same as the previous year and shall not increase until cumulative CPI calculated as the sum of the declines plus subsequent gains becomes positive.

FIXED RENTAL RATES

Energy Use *	\$1,900.00/acre/month (or most recent arbitrated rate if different)
Extractive Use *	\$1,900.00/acre/month (or most recent arbitrated rate if different)
Productive Use *	\$360.00/acre/month for 10-acre parcel (or most recent arbitrated rate if different)
Office (Stand-alone in campus)	\$1.85/SF/month
Research Campus/Gateway	
- Laboratory space	\$2.10/SF/month
- Covered space/tent areas	\$0.80/SF/month
- Open air wet lab	\$1.60/SF/month
- Improved land/open space	\$0.30/SF/month
Incubator Building	
- Office with windows	\$2.40/SF/month
- Office without windows	\$2.10/SF/month
Offshore Use	Case by Case
Other Use	Case by Case

*Rates listed are for unimproved lands. Rates for improved properties shall be set on a case-by-case basis using an underlying unimproved land value plus additional lease rent

based upon improvements including but not limited to grading, paving, sub-grade utilities, disposal trenching, fencing, buildings, and tanks.

PERCENT RENTAL RATES

Percent rental rates range from 2.5% to 7% depending on whether products sold are wholesale or retail.