

AGRIBUSINESS DEVELOPMENT CORPORATION

Minutes of the Administration Committee Meeting held Virtually on January 14, 2025

Via Zoom Teleconference and In-Person location at 235 S. Beretania St., Ste. 205, Honolulu, HI 96813

Pursuant to section 92-3.7, Hawaii Revised Statutes (HRS), this meeting was held remotely with Committee members, Staff, and the Public participating via Zoom meeting venue, and an In-Person meeting location available for public participation at the State of Hawai'i, Leiopapa A Kamehameha, State Office Tower Building, 235 S. Beretania St., Room 205, Honolulu, HI 96813.

Members Present, virtually:

Lyle Tabata, Kauai County Member, (Chair)
Glen Hong, Member-At-Large, (Member Hong)
Jason Okuhama, Member-At-Large, (Member Okuhama)
Jesse Cooke, Honolulu City & County, (Member Cooke)
Jayson Watts, Maui County Member, (Member Watts)

Members Excused:

None.

Counsel Present, virtually:

Delanie Prescott-Tate, Deputy Attorney General (Ms. Prescott-Tate)

Staff Present, virtually:

Wendy Gady, Executive Director (Ms. Gady)
Mark Takemoto, Senior Executive Assistant (Mr. Takemoto)
Lyle Roe, Asset Manager (Mr. Roe)
Ingrid Hisatake, Secretary, Zoom operator

Guests Present, virtually:

18082414064
ADC Guest
Alec Sou, Aloun Farms
Arumuganatheswami
Jenny
Joshua Uyehara (Mr. Uyehara), Kekaha Agriculture Association (KAA)
Les Milnes, Kalepa Koalition, (Mr. Milnes)
Matt
Mike Faye, KAA

Guests Present, physical location:

None.

A. Call to Order

Chair called the meeting to order at 2:01 p.m. and conducted a roll call of the administration committee members. Chair called the name of each committee member and asked them to

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acknowledge their presence and state who if anyone over the age of eighteen was present in the room with them. The roll call served as a roll call vote and for each subsequent vote, Chair would ask if there were any objections or abstentions. If there were no objections or abstentions the motion would be approved on the same basis as the roll call.

Roll call: Chair, Member Cooke, Member Hong, Member Okuhama, and Member Watts acknowledged their presence with no one in the room with them.

B. Approval of Minutes

1. Regular Session Administration Committee Minutes, May 14, 2024

Chair called for a motion to approve the May 14, 2024 regular session administration committee minutes.

Member Cooke noted there was only one person present today who was in attendance at the May 14, 2024 administration committee meeting.

Chair asked if anyone from the public wished to give testimony. There was none.

Chair deferred approval of the May 14, 2024 administration committee meeting minutes due to lack of quorum.

2. Regular Session Administration Committee Minutes, October 11, 2024

Chair asked for a motion to approve the October 11, 2024 regular session administration committee minutes.

Motion by Member Cooke; Second by Member Okuhama.

Chair asked if there was any presentation from staff. There was none.

Chair asked if anyone from the public wished to give testimony. There was none.

Chair asked if there was any Board discussion.

Chair and Member Hong noted they were not present at the October 11, 2024 administration committee meeting and would abstain from voting.

Chair conducted a roll call vote: Member Cooke, Member Okuhama, and Member Watts voted to approve the October 11, 2024 administration committee minutes. Chair and Member Hong abstained. Motion approved: 3 - 0, 2 abstained.

B. Action Items

- 1. Determine recommendation of the license fee for new applicants based on current appraisal rates for recommendation to the Board of Directors, deferred from October 11, 2024**

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Chair stated that the committee was to continue the conversation from the October 11, 2024 meeting to make a recommendation to the full Board on the license fee for new applicants based on current appraisal rates. At the last meeting the committee received testimony from several current tenants contesting any license fee increase. As a reminder, the license fee was for new land applicants only, not current licensees. The common area maintenance (CAM) fee in Kekaha was determined by KAA according to the Restated and Amended Memorandum of Agreement (RMOA) between ADC and KAA. KAA collects the CAM fee. KAA will be assessing \$518 per acre, per year for 2025. Similarly, the CAM fee for Kalepa was determined and assessed by the Kalepa Koalition pursuant to the memorandum of understanding between ADC and Kalepa Koalition. Each licensee was to contribute a reasonable share as determined by the Koalition, which was set at \$25 per acre, per year. In Central Oahu, the CAM fee was set by ADC with the goal to recoup actual costs. The current CAM fee for Central Oahu is \$594 per acre, per year.

Member Cooke noted that the submittal showed the CAM for Central Oahu was variable.

Ms. Prescott-Tate verified that the CAM fee for Central Oahu was variable. The amount listed was the latest cost assessment.

Mr. Roe stated the committee should consider about \$500 per acre per year for the Galbraith CAM fee, which covers actual costs for things like toilets and security.

Ms. Gady added that the Galbraith CAM fee includes the capital improvement project (CIP) money that was spent over the last five years but never charged to the tenants.

Chair asked if the staff had a presentation. There was none.

Chair continued that the committee was to decide on the new license amount with these CAM fees in mind. Future rent increases for new Central Oahu, Kekaha, and Kalepa land licenses will be according to the Land Management Policy and Procedure Manual at 2.5% increase every five years. Chair started the discussion by calling the committee's attention to the summary provided with the submittals that contained the current rate and proposed rate on a per annum basis for the three locations. Starting with Oahu the diversified ag rate is \$400 per acre, per year. Proposed rate is \$1,800 per acre, per year.

Member Watts asked if KAA had reviewed the appraisal documents. Who came up with the proposed rent figure?

Mr. Takemoto replied that the rent amounts were suggested by staff using the appraisals that collected information on similarly situated landowners from the respective areas.

Member Watts asked to hear from KAA.

Mr. Uyehara from KAA was called forward to provide testimony. Mr. Uyehara stated that at the last Board meeting some of the appraisal details were discussed. But without seeing the appraisal KAA was unable to determine if the appraisals were comparing similar properties. KAA also questioned the CAM amount. KAA had a general concern about how the appraisal and numbers should be interpreted. There's a difference between appraisal of rents that are realized currently

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versus potentially how you should interpret the data if your goal was to license the entire property. Of the large landowners on Kauai, the majority of land is not rented out for agriculture or pastoral use. It's a different question if your mission was to increase ag production versus a canvas of existing realized rents.

Member Hong noted that the discussion moved away from Oahu and on to Kekaha. The appraisals were very lengthy and were done using comparable properties and discussed environmental issues and water availability. Staff used this information to prepare a chart with a rent column, a CAM column, and a total column. The current rent in Kekaha is \$150 per acre per year. CAM was \$480. The appraisal heavily weighs the rent over the CAM and recommends a large increase in rent. ADC's share of the rent was much less with the large CAM going to KAA. The increase is not significant, but a change in the split will benefit ADC.

Ms. Gady asked to clarify how the committee would be addressing the topics under discussion. The committee had started out talking about Oahu then moved to Kekaha without making a decision. How was this going to work?

Ms. Prescott-Tate stated that the committee had four decisions to make: license fee for Oahu ag land, Kekaha ag land, Kalepa ag land, and Kalepa pasture land. By agreement, KAA and Kalepa Coalition are in charge of assessing and collecting the CAM. You might want to look at the current charges, then go from there to what you think the market would bear.

Ms. Gady said if you use the Producer Price Index (PPI), a license fee of \$150 from twenty years ago, according to the 2024 PPI would be \$250. The committee also should consider that 50% of the Kekaha rental income goes to pay the ceded lands fees. At \$150 per acre, per year, \$75 goes to Office of Hawaiian Affairs (OHA) and Department of Hawaiian Homelands (DHHL). Charging below market rates does affect OHA and DHHL, but this is a policy decision. Whatever the Board decides will be carried out by staff.

Mr. Roe raised a couple of issues for the committees awareness. First, there has been no rent increase in Kekaha since 2013. Second, ADC will be adding new staff on Kauai. A property manager, water manager, and three water workers. They will be funded out of ADC's revolving fund, which is funded in part from rents. It's probable that the revolving fund will be experiencing some stresses in the future.

Member Hong commented that using the PPI was appropriate and then use the 2.5% every five years after that. 2.5% every five years was de minimis. We need to look at what the trend of cost and inflation is going. Otherwise we're going to fall further behind every year. The expenses go up and the rents don't, especially if the rates haven't been increased in twelve years. Maybe a step increase every two or three years makes sense, but every twelve years is unacceptable. If ADC's new Kauai staff takes over some management responsibilities the Kekaha CAM should go down. If that happens the license fee should go up maybe to \$237, or \$250.

Member Cooke did not believe rent for Kekaha should go from \$150 to \$237 right now. ADC land is not fully licensed right now at \$150.

Mr. Uyehara clarified that Kekaha is different from the other properties. KAA is tasked with managing all of the infrastructure, regardless of whether it served land that was licensed or not. A typical appraisal, and not having seen the details of this one, they look at CAM as the cost for the

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entire property maintenance, then prorate the CAM over the entirety of the acreage in the subject property. If you run the math on the KAA common area, infrastructure fee, we only assess that against lands that are licensed, instead of charge per acre actually licensed to each tenant. The problem is, who's paying CAM for all the acres that are unlicensed? Approximately 3,000 out of 13,000 acres are licensed. That's why you end up with such a high CAM per acre, because KAA has to amortize the cost of the total maintenance cost over the licensed acres. Staff taking on more responsibility might be true for Kalepa, but wouldn't be true for Kekaha, because the CAM for Kekaha is based on the responsibilities given to KAA in the RMOA. There's been no modification of the RMOA that comes along with the new staff members.

Member Watts asked exactly what positions were being funded by the revolving fund and the job descriptions. Why are these positions being created when there was no money to fund them. Mahi Pono has a 41,000 acre operation on Maui and does \$150 per acre, per year, including water. Why can't ADC do that?

Ms. Gady explained that one position was a Kauai property manager. ADC will be taking over the Beck's facility that will require actively looking for new tenants. ADC also requires staff to take over the East Kauai irrigation system. We need to work with the Pacific Missile Range Facility (PMRF) and ADC will have responsibility for the NPDES permit.

Member Okuhama asked if the unlicensed Kekaha lands had water?

Mr. Roe said that about 1,800 acres of the mauka lands do not have access to water. The other lands have access to water through the Kekaha and Kokee ditch systems and reservoirs.

Mr. Uyehara responded that KAA is investigating different strategies to deliver irrigation water to the Mauka lands.

Chair asked if anyone from the public wished to provide testimony?

Arumuganathaswami, a Kalepa tenant, who conferred with other Kalepa tenants that were surprised to hear about the appraisal and rent increase. They would like to have access to the appraisal. He pointed out that \$25 per acre per year for CAM in Kalepa was not correct. The charge was not by acre, but by the tenant. Each tenant pays \$1,200 per year, regardless of the size. Lin's Farm and Golden Farms were looking to expand their farms, which means rent would be increased. They both need to expand, and the rent increase would apply to any new license. They would be directly impacted. We're a bunch of small farmers, small ranchers. We're hoping to look at the appraisal and respond. You can't jump our prices like this. It will affect people immediately.

Member Cooke clarified that existing tenant rent increases were covered in the existing license and reiterated that the rent increases being discussed now are for new tenants only.

Mr. Roe stated that the Hawaii Golden Farm has already been approved for land that was not affected by the rent increase and Linn's farm was looking for land elsewhere due to water issues that need to be addressed.

Member Okuhama said we've heard the rationale for Kekaha at \$237 per year, but what is the rationale on Kalepa at \$600?

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Ms. Gady said it's from the appraisal rate. If the committee wants to recommend a lower rate, that's up to the committee. But the rationale goes back to the appraisal.

Member Hong stated that the Kekaha and Kalepa appraisals were pretty much equivalent, which lists rent for both properties at \$600 per acre, per year. Access to water and other disadvantages were pretty much equivalent.

Mr. Roe said the appraisals were based on comparable agricultural fields in the same area. Some areas have a steep slope that limit access to water and that should be reflected in the CAM, but that's not always the case. The appraiser could be asked to address any differences because of comparisons with the nearby properties.

Member Hong remarked that in terms of rent the appraisal at \$237 for Kekaha and that the rent has been \$150 for twelve years, makes the fee appropriate. It would seem the rent fee for Kalepa should be similar.

Ms. Gady noted that Kalepa farmers have easy access to the harbor and Lihue, but if you're farming in Kekaha it's quite a drive to Lihue and the harbor. \$600 sounds like a lot, but if you break it down its \$50 a month. There is also a different water situation in Kalepa.

Member Watts noted that at the last committee meeting it was discussed that the appraisal documents should be provided to our partners so they could be part of the solution but they have been prevented from obtaining a copy. Why has the staff prevented our tenants and partners from seeing the appraisal?

Ms. Gady said she misunderstood the committee's intent for her to provide the appraisals directly to KAA and Kalepa and believed the staff was directed to look at the appraisal and come up with the recommendations. She accepts responsibility for that misunderstanding.

Member Watts reiterated his request to provide the appraisals to KAA and other stakeholders.

Mr. Roe noted that KAA and Kalepa Koalition were always invited to attend committee and Board meetings. They receive notice of every meeting.

Member Watts stated that although they were invited, they have not been provided a place on the agenda to present at each meetings. These organizations used to be, or at least KAA used to have a place on the agenda but they have since been removed.

Mr. Roe remarked that since 2020 there has been no standing item on the agenda for KAA.

Member Hong stated that KAA attends as a member of the public, and at times they have made presentations to the Board. All they have to do is reach out and if appropriate their presentation will be added to the agenda.

Chair noted that KAA has a monthly board meeting that ADC staff attends. Kalepa Koalition also has meetings that he tries to attend. Now that ADC will be hiring a property manager and irrigation manager on Kauai it was assumed they will also be part of the monthly Board meetings.

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Ms. Gady asked if, for purposes of the Sunshine Law, it was permissible to provide the appraisals to KAA and Kalepa Coalition without providing it to the general public.

Ms. Prescott-Tate noted that an appraisal has value. The appraisals were provided directly to the Board for their perusal and to understand how the appraisals were conducted. The decision to share the appraisal with others is a Board decision. Right now the appraisals still have value to ADC for use by this committee in making the land rent recommendation for the new tenants, and that recommendation has yet to be made.

Member Cooke asked how much land ADC has in Kalepa and how much was currently leased.

Mr. Roe replied just under 6,000 acres. Everything but 160 acres of unit J are licensed. Most of the land is pastoral operations. Lin's farm, Taiwan Gu, and Hawaii Golden Farm are diversified ag tenants in the lower portions with access to the Hanama'ulu ditch.

Member Cooke asked how much was pasture land?

Mr. Roe didn't have an accurate number but estimated 80% pasture, 20% diversified ag.

Member Cooke remarked that he was open to letting the market decide. New licensees who have their eyes wide open, who know what they're getting into with these agreements that know what the rates are going to be. New folks know what they're getting into. I support trying an increase. We're not even at market rates. When we visited these farmers they're paying on the low end \$150 a month to a high of \$350 a month, and water. We should let the market decide. If nobody wants to rent at the new rates, then we can think of lowering it.

Mr. Roe reminded the committee that if there were concerns about high startup costs for new farmers, there was nothing to prevent the Board from granting rent credits for startups. If a new tenant was looking to convert fallow ground to new fields and install irrigation and start planting, there is that option pending Board approval.

Chair asked if any member of the public wished to give testimony.

Mr. Milnes introduced himself as a licensee and president of the Kalepa Coalition that runs the common area maintenance. He knew the rent increase was not for current tenants, but he had concerns for any new tenants who come to Kalepa, or Kekaha. The appraisal is very important to see how they came to these values. He suggested that ADC look at charging per animal unit per acre for pastoral use. And between Kekaha and Kalepa you have two different type of weather conditions that can affect that animal unit per acre coverage. I'm looking at future tenants. We haven't had enough time to respond to this rent increase proposal but the important thing is to attract farmers to come to the property. Some tenants of these large land owners who charge \$100 per acre find out they can't make ends meet. With diversified ag there's a big difference between a five acre plot, and a hundred acre plot. If you charge \$600 per acre per annum, and you apply that to 300 acres, no one's going to be able to afford that. Maybe for five acres or ten acres, but nothing larger than that. I suggest that you look at a tiered value per acre per annum on diversified. If you want people on the land then look at what a fair rent is for ag users.

Chair wanted the committee members to fully educate themselves on the appraisals and asked for a motion to defer until the next meeting.

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Motion by Member Cooke; Second by Member Hong.

Chair asked if there was any further discussion. Hearing none, Chair added that it was a good idea to give the appraisals to KAA and Kalepa Koalition to help with the CAM numbers and we've got to learn more about how we got to these numbers.

Member Okuhama asked if deferring this recommendation until the next committee meeting will cause a delay getting our new Oahu tenants on board.

Chair acknowledged that it would cause a delay.

Member Cooke stated that there were some applicants that were gonna get kicked off their land soon; we visited them and found them to be good farmers. We need to help them now and they are willing to pay.

Chair said that currently Oahu is \$400 and the proposed amount is \$1,800. That is a significant increase from \$400 to \$1,800.

Member Okuhama said he knows what farmers that he deals with pay on Oahu for land and from reviewing financial information from the applications ADC got for farmers on Oahu, they are paying in excess of \$1,800 per year, which is \$150 per month. They are paying in excess of \$200 a month, sometimes even \$500 a month. \$1,800 a year will be an increase by ADC standards but current market rates are much higher. This is not hypothetical; this is the actual amount farmers are paying. The committee must decide if we're going to keep kicking the can down the road or charge current market rates – at least on Oahu.

Member Hong asked Member Okuhama if the proposed rent of \$1,800 per acre per year was like half of the Oahu current market rate?

Member Okuhama stated it is common to see \$3,400 a month. These are the actual rates being paid by farmers who are looking to license land from ADC. \$1,800 per acre, per year is much, much lower. These applicants will be entering into these licenses with their eyes wide open and they will be fine with this amount. These applicants are looking at 10 to 20 acre lots.

Member Hong said that on Oahu we have applicants where time is of the essence. If we go with an appraisal rate of \$1,800 per acre per year, and the applicants are willing to pay that amount we should recommend that. The Board can always adjust it but I don't think we should go below that.

Ms. Gady remarked that there are applicant farmers on Oahu who are getting kicked off their land and are in crisis mode so the recommendation for Oahu is urgent.

Chair suggested a friendly amendment to the motion before the committee that the motion for deferral be for Kauai only and the committee move forward with Oahu. May I have a motion to amend the deferral of Kauai rates.

Member Cooke withdrew his motion to defer the discussion until the next meeting.

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Member Hong withdrew his second.

Chair called for a motion to recommend to the Board a rental rate of \$1,800 per acre, per year for new Oahu land licenses and defer further discussion on the Kauai rental rate until the next meeting.

Motion by Member Cooke; Second by Member Hong.

Hearing no further discussion by the committee, Chair called for the vote, asking if there were any objections or abstentions. Hearing none, the motion was unanimously approved: 5-0.

D. Informational Items

1. Update and discussion regarding FY2024 budget actuals and schedule for board input for the FY 2027 [should be 2026] budget

Chair noted that at the October 11, 2024 administration committee meeting the committee took action on the review and recommendation of the draft budget, but a member of the committee asked for the 2024 budget actuals to compare with the proposed FY 2027 [should be 2026] and another committee member asked for the cost to join the Hawaii Chamber of Commerce. Pursuant to these requests, the FY 2024 actuals are attached to the submittal and the cost to join the Chamber of Commerce is \$375 plus tax per year. ADC is a member of the Hawaii Chamber of Commerce.

Chair asked if anyone from the public wished to give testimony. There was none.

Chair asked if there was any board discussion.

Member Watts suggested that ADC make an appearance at Hawaii on the Hill, an event sponsored by the Chamber of Commerce in Washington D.C.

E. Adjourn

Chair noted there was no further business before the administration committee and called for a motion to adjourn.

Motion by Member Hong; Second by Member Watts. Hearing no objections or abstentions the motion was unanimously approved: 5-0.

The meeting was adjourned at 3:20 p.m.