

**COMMUNITY-BASED ECONOMIC DEVELOPMENT (CBED)
ADVISORY COUNCIL MEETING
Tuesday, January 16, 2024, 10:00 a.m.**

Old Business

Approval of CBED Advisory Council Meeting Minutes for
December 12, 2023

DRAFT
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM (DBEDT)

**MINUTES OF THE COMMUNITY-BASED ECONOMIC DEVELOPMENT (CBED)
ADVISORY COUNCIL MEETING**

TUESDAY, December 12, 2023, AT 10:00 A.M.
Department of Business, Economic Development and Tourism
250 South Hotel Street, 5th Floor
Conference Room 503, Honolulu, Hawaii 96813
AND VIA VIRTUAL APPLICATION ZOOM: VIDEO/AUDIO CONFERENCE

Advisory Members Present were:

Nancy Elvira Lo (Chair)	-	Advisory Council Member (Oahu)
Karen Barr	-	Advisory Council Member (Oahu)
Casey Brown	-	Office of Hawaiian Affairs (Ex-Officio)
Jane Horike	-	Advisory Council Member (Hawaii/Hilo)
Kaleokalani Kuroda	-	Advisory Council Member (Oahu)
Colleen McAluney	-	Advisory Council Member (Oahu)
Mark Ritchie For	-	Department of Business,
Dennis Ling (Ex-Officio)	-	Economic Development & Tourism (DBEDT)

Guests:

Amber Coutsos	-	Maui Chamber of Commerce
Aaron Ellis	-	Feed the Hunger Fund
Nainoa Logan	-	Waianae Economic Development Council
Lei Reidel	-	Pakini Loan Fund

Staff:

Elisa Amemiya	-	Attorney General's Office
Timothy Tiu	-	DBEDT
Selma Malcolm	-	DBEDT

Apologies:

Matthew Loke	-	Department of Agriculture (Ex-Officio)
Roberta Melton	-	Advisory Council Member (Kauai)
Teena Rasmussen	-	Advisory Council Member (Maui)

CALL TO ORDER:

Mr. Ritchie called the meeting to order on Tuesday, December 12, 2023, at 10:07 a.m.
All members and guests participated via ZOOM.

▪ **Welcome Current Council Members and Introduction of any Guests:**

Mr. Ritchie welcomed all present and wished everyone happy holidays. He also thanked members for agreeing to do this end-of-year “wrap-up” meeting. A roll call vote was conducted, and members indicated if they were alone at their respective locations.

Mr. Ritchie introduced Ms. Amber Coutsos of the Maui Chamber of Commerce (MCOOC), Mr. Nainoa Logan of Waianae Economic Development Council (WEDC), Ms. Lei Reidel, new director of the Pakini Loan Fund, Ms. Amemiya, Deputy Attorney General, Mr. Jason Ushijima, new DBEDT/CBED member of staff and Mr. Timothy Tiu also of DBEDT who helps with our Zoom meetings. He then announced that he’s DBEDT’s Ex/Officio at that meeting in place of Mr. Dennis Ling.

OLD BUSINESS:

1. Approval of Minutes of October 17, 2023:

Minutes of the October 17, 2023, meeting were distributed and reviewed by Council. Mr. Ritchie asked if there were any comments and/or corrections to the Minutes. Hearing none, he asked for a motion to approve the Minutes.

Motion was made by Ms. Lo and seconded by Ms. McAluney to approve the Minutes of October 17, 2023, as presented.

A roll call vote was taken with the following Council members approving the motion: Ms. Barr, Mr. Brown, Ms. McAluney, Ms. Horike, Mr. Kuroda, Chair Lo and Mr. Ritchie.

Motion to adopt the October 17, 2023, Minutes were approved unanimously.

Public Testimony:

There was no public testimony.

2. Report on CBED Grant of \$65,000 to Maui Chamber of Commerce:

Mr. Ritchie advised that Ms. Amber Coutsos, Office Manager of Maui County Chamber of Commerce (MCOOC) would report on the DBEDT/CBED grant of \$65,000 to MCOOC to distribute to the Maui County exhibitors at the Made in Maui Festival held in November 2023, to offset the cost of booth space for exhibitors.

Ms. Coutsos reported that Ms. Pamela Tumpap, President of the Maui Chamber of Commerce was in Japan at the time of our Council meeting. However, she shared a video presentation from Ms. Tumpap. She sincerely thanked Council members especially Mr. Ritchie/DBEDT for providing \$65,000 in grants to cover booth fees for

the exhibitors at the 10th Annual Hawaiian Airlines Made in Maui Festival in November 2023. She stated that many of the small vendors experienced hardship following the fires in Maui and this grant took a lot of worries off them. Also, DBEDT has made a tremendous difference in the vendors' lives during a very rough period, and the vendors deeply appreciated the support. It was incredible! – Mahalo nui . Ms. Tumpap also noted that the support that the vendors got from the community was just "over-the-moon" and they were deeply touched by it. Their sales hit record numbers and was climbing when she left the festival. Companies saw outstanding sales and Mr. Fujikawa from DBEDT brought the Hankyu team in great numbers to support the vendors. Ms. Tumpap reiterated her sincere thanks to DBEDT for the grant and hoping that DBEDT will be able to support the festival again next year as it's going to be a very long recovery for Maui. She then wished everyone blessings & Aloha during the holiday season and a Happy New.

Ms. Coutsos reported that the 2023 event had the highest retail sale they had ever seen in the previous 9-years of the festival. The vendors made over \$768,000 and sold over 3300 items. The second highest year was 2018 where vendors had over \$681,000 in sales. There were approximately 8,4000 attendees and each attendee spent about \$91. Vendors gained over 600 new wholesale leads, over 193 new wholesale accounts and several vendors were sold-out at the festival. She then reiterated that Ms. Tumpap stated in her presentation that it was extremely helpful to get that grant and all the vendors shared their thanks and appreciation. And on behalf of all our vendors, Ms. Coutsos thanked DBEDT for the grant.

At this point, Mr. Ritchie asked if anyone had questions for Ms. Coutsos. Hearing none, he thanked Ms. Coutsos and Ms. Tumpap for their presentations and for everything they are doing on Maui.

NEW BUSINESS:

Approval of \$50,000 Grant to add Capital to Pakini Loan Fund for Micro-Loans (\$1,000 - \$30,000)

Mr. Ritchie gave a brief introduction on Waianae Economic Development Council (WEDC) and the Pakini Loan Fund requesting a \$50,000 grant to add capital to their micro-loan fund (\$1,000 - \$30,000) for mostly native-Hawaiian-owned small business. He stated that DBEDT/CBED has been working with WEDC over the years and they have been helping DBEDT/CBED with loan servicing and loan underwriting while DBEDT is trying to help them to reach their CDFI status.

Mr. Logan asked Ms. Reidel to introduce herself. Ms. Reidel is from Hawaii Community Assets (HCA) and started working with WEDC under the Pakini Loan Fund in late November 2023. This is her first meeting with the CBED Advisory Council. She then handed off this portion of the meeting to Mr. Logan to make the presentation.

Mr. Logan stated that the Mission of the Pakini Loan Fund is to increase economic opportunity by providing the financial resources necessary to enhance the personal entrepreneurial capacity of Native Hawaiians, individual businesses, community organizations on the Waianae Coast and throughout the State. It is a sister fund and it's a separate 501C-3 entity with a separate board, but they work together. WEDC provides technical assistance and the Pakini Loan Fund disburses the funding. Mr. Logan mentioned that currently there are five (5) CDFIs in the State of Hawaii and WEDC would be the sixth (6) which is quite awesome.

Mr. Logan said that their primary focus is to provide loans and support services to the underserved Native Hawaiian communities primarily on the Waianae Coast as well as state-wide. He also said that they have supported loans from non-Hawaiians in rural communities and other islands and WEDC appreciates the partnership with DBEDT.

Mr. Logan indicated that their strategy is to stimulate entrepreneur initiatives, developing non-profits and business training, providing loans and financial tools that would support community development. Mr. Logan noted that one of the distinguishing factors of WEDC is struggling to work with as many CDFIs as possible. He said they are looking to collaborate and lend as well as provide more participation loans. They are making loans from \$1,000 to \$30,000 and provide borrowers vocational and financial development with one-on-one coaching. He also mentioned a couple of companies that are doing very well after receiving a DBEDT-CBED/WEDC loan, e.g., to Holoholo Tree Service, Uncle Mel.

Mr. Ritchie and Council members thanked Mr. Logan for his presentation.

Mr. Ritchie stated that the CBED fund would like to work with the Pakini Loan Fund on a \$50,000 grant that will be used to help capitalize their loan fund which will allow CBED to help in the micro-lending area as well as the native-Hawaiian community. He says this will provide a pipeline for CBED loans later when they may need expansion loans.

During discussion, Mr. Kuroda asked Mr. Ritchie if from a government perspective, the \$50,000 is characterized as grant/non-loan and if the \$50,000 will stay with WEDC. Mr. Ritchie answered in the affirmative and explained that by Statute, DBEDT/CBED could not lend WEDC money to reloan, but we can do a grant which then involves a contract with a scope of work.

Mr. Kuroda also asked if at the end of the grant, the funds would be considered as unrestricted assets for WEDC? Mr. Ritchie answered yes and explained that WEDC will be doing a contract with DBEDT/CBED, and the funds loaned out would be WEDC funds with interest and principal coming back into the Pakini Fund for re-lending.

Mr. Brown commended Mr. Logan/WEDC for everything they are doing in the community. He also mentioned that OHA has its own loan programs, and they also do micro-grants. When they give out these small grants, they create big impacts.

At this point Mr. Ritchie asked for a motion on this agenda item.

Motion was made by Mr. Brown and seconded by Ms. Horike to approve a DBEDT/CBED \$50,000 grant to add capital to the Pakini Loan Fund for micro-loans of \$1,000 to \$30,000 for mostly native-Hawaiian-owned small businesses state-wide.

A roll call vote was taken with the following Council members approving the motion: Ms. Barr, Mr. Brown, Ms. McAluney, Ms. Horike, Mr. Kuroda, Chair Lo and Mr. Ritchie.

The motion was approved unanimously.

Mr. Ritchie reviewed the following documents with the Council members:

- 1) Loan Dashboard to Date;
- 2) Review of the End-of-Year Loan Metrics;
- 3) Administrative Bill for State Legislature Modifying the Maximum CBED Interest Rate.
- 4) A Summary of the CBED Annual Report to the Legislature to read at their leisure and let him know if there are any comments or suggestions for next year's report.

Mr. Ritchie again thanked everyone for attending the meeting and wished everyone happy holidays.

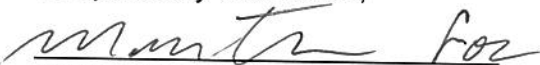
NEXT MEETING:

Tuesday, January 16, 2023, at 10:00 a.m. via Zoom.

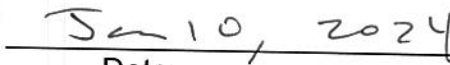
ADJOURNMENT:

The meeting was adjourned at 11:00a.m., on a motion by Ms. Lo and seconded by Ms. McAluney.

Respectfully submitted,



Nancy Elvira Lo
Chair



Date

New Business

Recommendation/Approval of CBED Loan of \$100,000 to C&C Tropicals a Hilo-based, agricultural company that produces and sells tropical flowers, primarily anthuriums. Co-lending with Feed the Hunger Fund, which will also make a loan of \$100,000. CBED loan is for working capital to support a planned expansion of newly acquired farm leases and a warehouse. The CBED loan will have a term of 5 years with an interest rate of 5%. Underwriting review by Eric Bowman, Loan Officer Hawaii Island, Feed the Hunger Fund.

Loan Presentation:

Date: 1.10.24	Total Project Cost: \$ 1,300,000
Business: C & C Tropicals	Loan amount requested: \$ 100,000
Principal Name(s): Shane Castillo & Kris Carlson	Recommended Interest rate: 5.0%
Address: Business Address 15-2060 25th Avenue; Keaau, HI 96749	Term / Amortization: 60
Business Type:	RISK RATING: 2
FTHF Loan Client: Existing	Access to Other Capital*: The acquisition financing is coming from a sellers financing, the USDA lending limits, and we are proposing to fund the remainder in partnership with DBEDT
Loan Status: Current	
Business Structure:	Business description: Shane Castillo and his partner Kris Carlson, own and operate C & C Tropicals, a thriving flower production busines. C & C has expanded rapidly over five years to manage 35 acres of production, providing a variety of species for wholesale and recently opened a florist shop in Hilo. C & C Tropicals has become a key player in the local market. C & C is seeking capital to acquire Pacific Floral Exchange (PFE). PFE is one of the largest flower distributor on Hawaii Island and operates out of a large warehouse on a 2 acre commerical parcel in Keaau, owned by Milo Ventures, the seller of PFE. The sale includes assignment of several HDOA leases, totaling 30 acres in production.
Purpose of Loan: Working Capital	
Jobs created: 1	
Jobs retained: 18	
Ownership Structure:	
50% Shane Castillo	
50% Kris Carlson	

Loan #	Original	Principal Balance	Original Loan purpose	Delinquency	30 +	60+	90+
FTHF #1; 5/31/22	\$ 50,000	\$ 45,439	Fixed Asset & Working Capital				
TOTAL	\$ 50,000	\$ 45,439					

COLLATERAL							
Type	Source of Value	Date of Value	Gross Value	LTV**	Net Value	Prior liens	equity
Packing Equipment	Seller	1/10/2024	\$ 36,100	80%	\$ 28,880	\$ 28,880	\$ -
Vehicles (excluding farm vehicles)	Seller	1/10/2024	\$ 77,000	80%	\$ 61,600	\$ 61,600	\$ -
Office Equipment	Seller	1/10/2024	\$ 25,800	80%	\$ 20,640	\$ 20,640	\$ -
Shade Houses and Plants	Seller	1/10/2024	\$ 300,000	50%	\$ 150,000	\$ 150,000	\$ -
Farm Equipment	Seller	1/10/2024	\$ 42,300	80%	\$ 33,840	\$ 33,840	\$ -
Inventory - Anthurium stems	Seller	1/10/2024	\$ 500,000	50%	\$ 250,000	\$ 125,000	\$ 125,000
Personal Equipment	Seller	1/10/2024	\$ 51,350	80%	\$ 41,080	\$ 20,540	\$ 20,540
Total			\$ 1,032,550		\$ 586,040		\$ 145,540
Collateral coverage***							1.46

SOURCES	
Lender	Amount
FTHF	\$ 100,000
DBEDT	\$ 100,000
USDA FSA	\$ 300,000
Seller Financing	\$ 700,000
Equity	\$ 100,000
Total	\$ 1,300,000

USES	
Uses	Amount
Business Acquisition	\$ 1,000,000
Working Capital	\$ 300,000
	\$ 1,300,000

FEES		
Closing Fee:	2.5%	\$ 2,500
Wire Transfer Fee		\$ 30
Application fee:		\$ -
Borrower to pay all out of pocket expenses		

*additional capital this loan(s) allowed borrower to receive from another lending source

**loan to value-advance rate allowed by CCED to calculate for liquidation of collateral to determine the net value of collateral

***collateral coverage-is equal to the total discounted collateral value divided by the total loan request

FTHF Risk Rating Chart

Date: 1.10.24

Borrower: Shane Castillo

Loan Officer: Eric Bowman

Rate each category from 1 to 5

Rating	1	2	3	4	5	Score
Personal Net Worth	\$200,001<	\$50,001-\$200,000	1-\$50,000	0	Negative	2
GDSC	1.51<	1.26x-1.5x	1.25x	1.10x-1.24x	<1.10x	3
Collateral Coverage	1.1<	.76-1:1	.75:1	.5:1 - .74:1	<.5:1	1
Quick Ratio*	1.5:1<	1.1:1 - 1.5:1	1:1	.75:1 - .99:1	<.75:1	2
Credit Score	700<	651-700	621-650	600-620	<600	1
Years In Industry	> 9 year	8-9 years	4-7 years	1-3 years	0	1
Years of Industry Management	> 5 years	3 - 5 years	1-2 years	< 1	0	1
Owners Equity Into Transaction	25%+	16-24%	10-15%	1-9%	0	4
Business Profitability	Exceeds industry average by 50% of profitability	Profitable 3 of last 3 years	Profitable 2 of last 3 years	Profitable 1 of last 3 years	Start up - 2 years	2
Business debt ratio**	<.75:1	.89:1-.75:1	.9:1	1:1-.91:1	>1:1	5

*Quick Ratio: (Current Assets - Inventories) / Current Liabilities 1.22

**Business debt ratio: Total Liabilities / Total Assets 0.99 2.2

Loan Score	2
1	Excellent
2	Good
3	Acceptable
4	Poor
5	Unacceptable

C & C Tropicals

Website: www.tropicalflowershawaii.com

Social: www.facebook.com/candctropicals and www.instagram.com/c_and_c_tropicals/

PFE: www.pacflor.com and www.geckofarms.com and www.tropicalpros.com

Shane Castillo and Kris Carlson, own and manage C & C Tropicals as a sole proprietorship. Shane, trilingual and having grown up in a farming family in Waimea, Kauai, has a rich background in agriculture. He worked for numerous agricultural companies such as Novartis Seeds, Pioneer Hybrid International, and Syngenta, managing large Ilocano-speaking crews for seed growers.

Though initially discouraged by his family to pursue a career in agriculture, his passion for farming persisted. He interned at Iowa State University, focusing on sustainable horticulture and agronomy.

C & C Tropicals, has grown significantly over the past five years, expanding to 35 acres of production across three sites in Hawaiian Acres, Pahoia, and Keaau, with sales nearly \$600k in 2023. The enterprise primarily focuses on wholesale cut flower and foliage production, supplying a diverse range of species including heliconias, orchids, anthuriums, and gingers. In February 2023, they opened a florist shop in Hilo.

Despite being the youngest commercial flower grower in the State of Hawai'i, Shane's enterprise has become a major player in the wholesale market due to little competition.

In early 2023, the owner-operator of Pacific Floral Exchange (PFE), Grayson Inouye, expressed to Shane that he would like for him to purchase his business as a succession plan for himself. He has been partnering with the second largest warehouse on Hawaii Island, PFE for years; where he is one of their largest suppliers.

For the past 5 to 10 years, PFE has consistently averaged well over \$2m in gross sales. The company has been managed profitably, with substantial financial benefit to the owner. PFE sells primarily wholesale on the U.S. continent, with about half of all sales going to nationally, a quarter wholesale in the islands, and the remainder being sold online, direct, or to other brokerages.

The warehouse was built in the 90s for the Hawaii Anthurium Growers Co-op and purchased by the seller who will retain ownership of the warehouse property and lease it to Shane from the seller's company, Milo Ventures, with an opportunity to purchase.

Shane is dedicated to securing a warehouse and this acquisition brings an ideal facility into his operation. Additionally, it brings 3 HDOA leases of 30 additional acres of heliconia production under his management. This is a unique expansion and vertical integration opportunity for his dynamic growing operation.

Recommendation:

I recommend the approval of a \$100,000 loan, 5% interest, at a 5-year term, pending the following conditions:

1. funding USDA loan for \$300k; which has been conditionally approved and is subject to assignment of 3 leases to Shane's PFE or an understanding that this is in process and nearly completed
2. approval of the DBEDT loan for \$100k
3. completed legal review, which includes the 3 HDOA leases, and our acceptance that no new material information has come to light
4. Updated purchase agreement that reflects these new realities, perhaps also one that has been executed

At which time, it would come back to the loan committee for final approval.

My recommendation is based on the following.

Pros:

- **Target market:** As a low income, native Hawaiian farmer, C & C Tropicals fits the fund's mission.
- **Excellent credit:** Shane has demonstrated a strong capacity to manage his financial administration and to repay his debts, including his FTHF loan. He is deemed creditworthy by his other lenders and landlords.
- **Industry health:** Without PFE, there's a limited number of other options for flower producers to sell to.

Cons:

- **Rapid business expansion:** Business growth represents both great opportunity and additional risk. To mitigate these challenges, Shane has worked closely with the Small Business Development Center and The Kohala Center.
- **Working capital:** This is a highly leveraged acquisition. It is vital that the new owners can perform as well or better than the seller, this will require cash liquidity. This loan secures the additional working capital to have adequate cash.
- **Goodwill:** The seller is requesting top dollar for the sale of the company. The buyer will need a plan to repay the balloon payment, and secure permanent financing for the warehouse within 7 years. This process is already underway with other lenders.

