

Honolulu, Hawaii

March 20, 2008

RE: S.B. No. 2646
S.D. 2
H.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Fourth State Legislature
Regular Session of 2008
State of Hawaii

Sir:

Your Committees on Water, Land, Ocean Resources & Hawaiian Affairs and Agriculture, to which was referred S.B. No. 2646, S.D. 2, entitled:

"A BILL FOR AN ACT RELATING TO IMPORTANT AGRICULTURAL LANDS,"

beg leave to report as follows:

The purpose of this bill is to provide tax incentives and protections to establish and sustain viable agricultural operations on important agricultural lands (IALs). Specifically, this bill:

- (1) Exempts income from certain agricultural leases on lands designated as IALs from the income tax;
- (2) Exempts income from certain agricultural leases on lands designated as IALs from the general excise tax;
- (3) Creates an IAL real property tax credit which would make a portion of real property taxes paid on IALs deductible from the taxpayer's income tax;
- (4) Authorizes landowners who have designated their agricultural lands as IALs to construct residential dwellings for farmers, employees, and their families on the IALs on which the farmer, employee, or their families work;



- (5) Creates an IAL agricultural business tax credit that would make a certain percentage of costs for agricultural infrastructure and equipment deductible from the taxpayer's income;
- (6) Authorizes the chairperson of the Board of Agriculture to guarantee agricultural loans for agricultural projects located on IALs; and
- (7) Requires the priority processing of permit applications for agricultural processing facilities submitted by an agribusiness, where the majority of the agribusinesses' lands are designated IAL.

The Department of Agriculture (DOA), Alexander & Baldwin, Inc., Hawaiian Commercial & Sugar Company, Kauai Coffee Company, Inc., Dole Food Company Hawaii, Maui Land & Pineapple Company, Inc., and a concerned individual testified in support of this bill. The Office of Planning, Chamber of Commerce of Hawaii, Hawaii Association of REALTORS, and Hawaii Leeward Planning Conference supported the intent of this measure. The Hawaii Farm Bureau Federation, Maui County Farm Bureau, Castle & Cooke Hawaii, and Land Use Research Foundation of Hawaii supported this bill with amendments. The Department of Budget and Finance, Hawaii's Thousand Friends, and Sierra Club-Hawaii Chapter opposed this measure. The Department of Taxation, City and County of Honolulu, Department of Planning and Permitting, and Tax Foundation of Hawaii provided comments.

Upon careful consideration, your Committees have amended this bill by:

- (1) Replacing its contents with the provisions of House Bill No. 2357, H.D. 1, that, among other things:
 - (a) Does not require the amount of lease rent to be reviewed or approved by DOA if the lease term is shorter than 20 years for purposes of the income tax and general excise tax exemptions;
 - (b) Does not include the IAL real property tax credit;
 - (c) Provides that an unspecified percentage of total IAL land area may be occupied by the farmer and employee dwelling units;



- (d) Refers to the IAL agricultural business tax credit as the IAL qualified agricultural cost tax credit;
- (e) Requires a taxpayer to obtain a letter from DOA specifying the qualified agricultural costs that will be claimed, rather than authorizing the taxpayer to request one;
- (f) Requires DOA to identify sources of water for agricultural operations, particularly on IALs and current and future water needs on IALs;
- (g) Declares that the incentives for IALs in this Act satisfy the requirements of section 205-46, Hawaii Revised Statutes, and section 9 of Act 183, Session Laws of Hawaii 2005; and
- (h) Does not provide a sunset date;

and

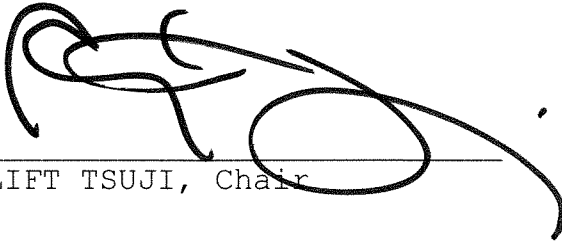
- (2) Inserting additional language from House Bill No. 2361, H.D. 1, which:
 - (a) Requires the Department of Land and Natural Resources (DNLR) and DOA to jointly identify and map public lands to be designated as IALs;
 - (b) Requires the Land Use Commission to designate those lands identified by DLNR and DOA as IALs; and
 - (c) Transfers management responsibility over the lands designated as IALs to DOA.

Your Committees have further amended this bill by changing the effective date to July 1, 2008, and applicable tax years to taxable years beginning after December 31, 2007.



As affirmed by the records of votes of the members of your Committees on Water, Land, Ocean Resources & Hawaiian Affairs and Agriculture that are attached to this report, your Committees are in accord with the intent and purpose of S.B. No. 2646, S.D. 2, as amended herein, and recommend that it pass Second Reading in the form attached hereto as S.B. No. 2646, S.D. 2, H.D. 1, and be referred to the Committee on Finance.

Respectfully submitted on
behalf of the members of the
Committees on Water, Land,
Ocean Resources & Hawaiian
Affairs and Agriculture,



CLIFT TSUJI, Chair



KEN ITO, Chair



State of Hawaii
House of Representatives
The Twenty-fourth Legislature

HRC 1323-08

Record of Votes of the Committee on Agriculture

Bill/Resolution No.: SB 2646, SD 2	Committee Referral: WLH/AGR, FIN	Date: 3/19/08		
<input type="checkbox"/> The committee is reconsidering its previous decision on the measure.				
The recommendation is to: <input type="checkbox"/> Pass, unamended (as is) <input checked="" type="checkbox"/> Pass, with amendments (HD) <input type="checkbox"/> Hold <input type="checkbox"/> Pass short form bill with HD to recommit for future public hearing (recommit)				
AGR Members	Ayes	Ayes (WR)	Nays	Excused
1. TSUJI, Clift (C)	/			
2. BROWER, Tom (VC)	/			
3. BERG, Lyla B., Ph.D.				/
4. CHANG, Jerry L.	/			
5. HANOHANO, Faye P.	/			
6. HERKES, Robert N.	/			
7. MANAHAN, Joey	/			
8. WAKAI, Glenn				/
9. YAMANE, Ryan I.	/			
10. YAMASHITA, Kyle T.	/			
11. CHING, Corinne W.L.	/			
12. MEYER, Colleen Rose				/
TOTAL (12)	9	∅	∅	3
The recommendation is: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted If joint referral, _____ did not support recommendation. <div style="text-align: center; font-size: small;">committee acronym(s)</div>				
Vice Chair's or designee's signature: <u>Tom Brower</u>				
Distribution: Original (White) – Committee Duplicate (Yellow) – Chief Clerk's Office				