



**DEPARTMENT OF BUSINESS,  
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Statement of  
**THEODORE E. LIU**  
**Director**

Department of Business, Economic Development, and Tourism  
before the

**SENATE COMMITTEE ON ECONOMIC DEVELOPMENT  
AND TECHNOLOGY**

Friday, February 6, 2009  
1:15 P.M.

State Capitol, Conference Room 016

in consideration of

**SB 91**

**RELATING TO COMMUNITY-BASED ECONOMIC DEVELOPMENT**

Chair Fukunaga, Vice-Chair Baker, and Committee members:

The department supports the passage of SB 91. This bill makes technical and “housekeeping” revisions to sections of Chapter 210D, Hawaii Revised Statutes, which created the Hawaii Community-Based Economic Development (CBED) Program, the Hawaii Community-Based Development Revolving Fund, and the CBED Advisory Council.

The purpose of this measure is to update and improve the provision of CBED services by:

- Permitting the CBED Revolving Fund to access additional funding from other sources besides the State’s General Funds, and to deposit these outside funds into the CBED Revolving Fund.

- Allowing for smaller CBED loans, and reducing the maximum interest rate on these loans. A smaller CBED loan maximum of \$250,000 is necessitated by the reduced amount of funds available. Currently the CBED loan maximum stands at \$500,000. The interest rate will be reduced from a maximum 10% simple interest to 6%.
- Clarifying the definition of “community of interest” to mean “a group of people who may not live in the same geographic area, but who are bound together through a common economic interest, e.g coffee growers, aquaculture cooperatives, Pacific Island crafters, etc.”

On advice from our Deputy Attorney General, DBEDT also requests that the committee amend the definition of "community-based organization" by deleting the words "membership-based" so that recipients of CBED's financial assistance would no longer be required to be membership-based as many qualified nonprofits that serve a community purpose are not “membership based”. Accordingly, we recommend that this committee insert into Section 2 of the bill an amendment to the definition of "community-based organization" in section 210D-2 to read as follows:

"Community-based organization" means a [~~membership-based,~~] nonprofit corporation incorporated in the State of Hawaii that is organized and controlled by either a geographic community, a community of identity, or a community of interest and which is directly involved in community-based economic development activities.

The definition would still require the nonprofit to be organized and controlled by a geographic community, a community of identity (defined as a group of people who are bound together through a common ethnicity or personal characteristic), or a community of interest (defined as a group of people bound together through a common economic interest).

Further, we also respectfully request this committee delete Section 6 of the bill, the amendment to section 210D-11(b)(1)(B), which requires a grant recipient to be "determined to be a nonprofit organization by the Internal Revenue Service." Our Deputy Attorney General has explained to us that the IRS does not determine an organization to be a nonprofit. The IRS determines an organization to be exempt from federal income tax. As the language in the bill stands now, it might be arguable that no organization could meet this requirement since the IRS does not, in fact, determine an organization to be a nonprofit.

Due to the constrained financial conditions of the State that affect financial assistance for community-based economic development, and the evolving challenges faced by distressed communities throughout Hawaii, it is imperative that Chapter 210D, Hawaii Revised Statutes, be revised to keep pace with those challenges and needs of our most distressed communities. Facing the budget shortfalls of the next biennium, it is imperative that we take full advantage of opportunities to leverage limited State resources by accessing Federal and other private resources.

Thank you for the opportunity to offer these comments.



**SB91,**  
**Relating to Community-Based Economic Development**  
COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

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The Office of Hawaiian Affairs (OHA) **SUPPORTS** SB91, which would make technical revisions and other significant updates to sections of Chapter 210D, Hawaii Revised Statutes, which created the Hawaii Community-Based Economic Development (CBED) Program, the Hawaii Community-Based Revolving Loan Fund, and the CBED Advisory Council.

The revisions proposed in the current version of SB91 will increase the ability of the Hawaii CBED Program to meet the evolving needs of non-profit community-based organizations engaged in CBED activities, especially critical during this current period of economic turmoil, by:

- Expanding access to funding for CBED projects through the introduction of language into Section 210D-4, Hawaii Revised Statutes, that would permit moneys received by the Revolving Loan Fund from other sources aside from those currently identified to be available for use according to the purposes of this chapter of the Hawaii Revised Statutes;
- Allowing the CBED Council to approve grants or loans from the revolving fund moneys that are not already appropriated without requiring that a certain percentage or dollar amount be designated for CBED loans in particular;
- Increasing the impact of the program by reducing the maximum loan size from \$500,000 to \$250,000, thereby allowing the Hawaii CBED Program to disburse it's limited resources over a greater number of communities and at the same time better leverage funding;
- Increasing the likelihood of repayment for future loans made by the Hawaii Community-Based Revolving Loan Fund by lowering the interest rate from 10% to 6%;
- Clarifying certain misleading or ambiguous language, such as the language defining "community of interest," so that the potential beneficiaries of this program can better understand their eligibility.

Additionally, OHA supports the proposed amendment suggested by the Director of the Department of Business, Economic Development, and Tourism to redefine the term "community-based organization" by deleting the words "membership-based." In our experience, many qualified non-profit organizations undertaking projects to promote community-based economic and community development are not membership-based, and this limits their ability to access funds.

As is evidenced by our continued commitment of resources to CBED projects across Hawaii, OHA strongly believes in the transformative power of the CBED model, and appreciate this opportunity to revise the current Hawaii CBED Program to better meet the needs of our people.

OHA urges the Committee to PASS SB 91. Thank you for the opportunity to testify.

February 5, 2008

Honorable Senator Carol Fukunaga, Chairperson  
And Committee Members  
Economic Development & Technology Committee  
State Capitol, Room 16  
415 South Beretania Street  
Honolulu, HI 96813

Dear Chairperson Fukunaga and Members:

RE: In Support of Senate Bill No. 91, Relating to Community Based Economic Development

I am John Isobe writing in support of SB. 91 and the Community Based Economic Development (CBED) Program.

As a former member of the CBED Advisory Committee representing the Island of Kauai, I have first hand knowledge of the efforts that have been made by the CBED program in facilitating and assisting community entrepreneurship throughout our State.

The CBED Program leverages limited State resources to develop sustainable projects within a community. The economic development programs that are funded by CBED grants provide hope and strengthen community relationships. It is truly a grass-roots effort that encourages and supports residents becoming engaged in the long term stability of the community in which they reside.

Because of the State's budgetary shortfalls, it is vital that the CBED Program be provided the flexibility to:

1. Access additional funding from other sources besides the State's General Fund and deposit these funds into the CBED Revolving Fund;
2. Provide for smaller loans amounts and reduce the interest rates on such loans; and
3. Serve a broader network of people by clarifying the definition of "community of interest" to mean a group of people who may not live in the same geographic area, but who are bound together through common economic interest.

During this period of economic instability and uncertainty, the CBED Program continues to provide a cost-effective approach in developing strong, reliable, stable and self-sufficient communities.

I humbly ask for your support of the CBED Program and the passage of SB No.91.

Thank you.