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## A BILL FOR AN ACT

RELATING TO BIOFUEL PRODUCTION FACILITIES.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The legislature finds that currently Hawaii  
2 depends upon imported fuel to meet over eighty-five per cent of  
3 its electricity generation needs and one hundred per cent of its  
4 transportation fuel requirements. Yet, in the 1970s two islands  
5 in Hawaii were producing up to thirty-five per cent of their  
6 electricity from direct combustion of biomass in the form of  
7 sugarcane bagasse, the primary co-product of commercial sugar  
8 producers. In subsequent years, the sugarcane industry has been  
9 affected by lower-cost competition from foreign sugar producers  
10 and the acreage used for sugarcane production in Hawaii has  
11 declined dramatically. This, in turn, has hurt Hawaii's ability  
12 to generate electricity from renewable sources.

13           In the early 1950s, the Hawaii sugarcane industry employed  
14 over twenty-two thousand workers statewide. Two decades later,  
15 that number had dropped to ten thousand workers, with only one  
16 thousand, six hundred workers remaining on the island of Oahu.  
17 Building agriculturally-based biofuel facilities in Hawaii has  
18 the potential to reinvigorate Hawaii's struggling agriculture



1 industry while also helping to meet the renewable energy goals  
2 of Hawaii's clean energy initiative. This initiative aims to  
3 help reduce Hawaii's reliance on petroleum by forty per cent by  
4 the year 2030.

5 The legislature further finds that a relatively small  
6 investment by the State in biofuel production projects will  
7 result in larger private sector investments in those biofuel  
8 projects.

9 The legislature also finds that the construction of biofuel  
10 production facilities is an investment in Hawaii's workforce  
11 that will pay dividends with the training, employment, and  
12 development of skilled local workers. According to federal  
13 estimates, every \$1,000,000 that is spent on construction  
14 generates between a dozen and three dozen direct or indirect  
15 jobs. Based on this data, development of biofuel production  
16 facilities will create numerous jobs in biofeedstock agriculture  
17 and related industries, as well as jobs for the workers who will  
18 operate and maintain the biofuel production facilities.

19 The legislature further finds that biofuel production  
20 facilities are difficult to finance because most technologies  
21 are in their infancy with regard to commercialization. To  
22 encourage this industry, it is desirable to provide incentives



1 and financing support to encourage the development and  
2 construction of biofuel production facilities because these  
3 facilities will:

4 (1) Attract investments in Hawaii's economy that will be  
5 spread across many communities and businesses;

6 (2) Create jobs in agriculture, construction, and biofuel  
7 refinery operations; and

8 (3) Assist the State to become energy self-sufficient,  
9 reduce imports of foreign oil, and improve energy  
10 security.

11 The purpose of this Act is to support the development and  
12 construction of biofuel production facilities in Hawaii by  
13 creating a loan guarantee program for investments in the  
14 construction and development of biofuel production facilities in  
15 the State.

16 SECTION 2. The Hawaii Revised Statutes is amended by  
17 adding a new chapter to be appropriately designated and to read  
18 as follows:

19 "CHAPTER

20 BIOFUEL PRODUCTION FACILITY LOAN GUARANTEE PROGRAM

21 § -1 Definitions. As used in this chapter:



1 "Biofuel" means liquid or gaseous fuel produced from  
2 organic sources such as biomass crops, agricultural residues and  
3 oil crops, such as palm oil, canola oil, soybean oil, waste  
4 cooking oil, grease, and food wastes, animal residues and  
5 wastes, and sewage and landfill wastes.

6 "Department" means the department of business, economic  
7 development, and tourism.

8 "Director" means the director of business, economic  
9 development, and tourism.

10 "Offtake agreement" means an agreement between a producer  
11 of a resource and a buyer of a resource to purchase or sell  
12 portions of the producer's future production.

13 "Qualified buyer" means an entity with a minimum of a grade  
14 rating, as determined by the Better Business Bureau of  
15 Hawaii.

16 § -2 Biofuel production facility loan guarantee program;  
17 established. (a) There is established a biofuel production  
18 facility loan guarantee program that shall be administered by  
19 the department in accordance with the spirit and intent of this  
20 chapter.

21 (b) The department shall adopt rules pursuant to chapter  
22 91 to:



- 1           (1) Prescribe the qualifications for eligibility of
- 2            , applicants for loan guarantees;
- 3           (2) Establish preferences and priorities in determining
- 4           eligibility for loan guarantees;
- 5           (3) Establish the conditions, consistent with the purposes
- 6           of this chapter, for the granting or for the
- 7           continuance of a grant of a loan guarantee; and
- 8           (4) Provide for inspection, at reasonable hours, of the
- 9           facility, books, and records of an enterprise that has
- 10          applied for or has been granted a loan guarantee, and
- 11          to require the submission of progress and final
- 12          reports.

13           §   -3 **Loan guarantees, terms, and restrictions.** (a) The

14 department may make loan guarantees to business concerns engaged

15 in biofuel production facility construction, conversion,

16 expansion, acquisition of land for expansion, and acquisition of

17 equipment, machinery, supplies, or materials.

18           (b) The biofuel production facility loan guarantee program

19 shall not exceed an aggregate total of \$1,000,000,000 in loan

20 guarantees.

21           (c) The terms of the biofuel production facility loan

22 guarantee program shall be subject to the following:



- 1           (1) There shall be an unconditional offtake agreement for  
2           the period of the loan guarantee from a qualified  
3           buyer;
- 4           (2) The earnings before interest, taxes, depreciation, and  
5           amortization for the biofuel refinery shall cover a  
6           minimum of 1.5 times the interest and amortization of  
7           the loan guarantee;
- 8           (3) An annual payment of one per cent of the value of the  
9           loan guarantee shall be required for the term of the  
10          guarantee;
- 11          (4) Insurance coverage shall be required for revenue  
12          losses in the event of a force majeure event or if the  
13          facility is not capable of producing revenue; and
- 14          (5) The default of the loan guarantee shall result in the  
15          transfer of the facility to the State.

16          §   -4 **Reports.** The department shall report as of  
17          December 31 of each year of operations under this chapter to the  
18          governor, the president of the senate, and the speaker of the  
19          house of representatives, on the progress made under this  
20          chapter. The reports shall be submitted no later than the first  
21          day in February that immediately follows the period covered by  
22          the report."



# H.B. NO. 789

1 SECTION 3. This Act shall take effect upon its approval.

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INTRODUCED BY:

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**Report Title:**

Biofuel Production Facility Loan Guarantee Program

**Description:**

Establishes a biofuel production facility loan guarantee program administered by the department of business, economic development, and tourism; requires adoption of rules; establishes terms and restrictions; requires annual report.

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