

SB 115

NEIL ABERCROMBIE
Governor



State of Hawaii
DEPARTMENT OF AGRICULTURE
1428 South King Street
Honolulu, Hawaii 96814-2512

RUSSELL S. KOKUBUN
Chairperson, Board of Agriculture

JAMES J. NAKATANI
Deputy to the Chairperson

LATE

TESTIMONY OF RUSSELL KOKUBUN
CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE SENATE COMMITTEES ON AGRICULTURE AND
COMMERCE AND CONSUMER PROTECTION

TUESDAY, FEBRUARY 15, 2011
2:45 P.M.
CONFERENCE ROOM 229

SENATE BILL NO. 115
RELATING TO THE AGRIBUSINESS DEVELOPMENT CORPORATION

Chairpersons Nishihara and Baker and Members of the Committees:

Thank you for the opportunity to testify on Senate Bill 115, relating to the Agribusiness Development Corporation. The purpose of the bill is to authorize ADC to issue revenue bonds to finance construction of facilities, acquire agricultural lands, and finance intrastate marine transportation options to assist agricultural and maricultural products to local markets and consumers.

The Department understands this well intended measure, however would like to recommend that these important issues be best addressed by a working group of stakeholders that include but not limited to the Hawaii Farm Bureau, Department of Agriculture, Department of Transportation, College of Tropical Agriculture and Human Resources, and Young Brothers and to report back their findings and recommendations to the 2012 session of the Legislature.

Thank you for the opportunity to testify on this measure.



NEIL ABERCROMBIE
Governor



ALFREDO A. LEE
Executive Director

STATE OF HAWAII
AGRIBUSINESS DEVELOPMENT CORPORATION
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Phone: (808) 586-0186 Fax: (808) 586-0189

LATE

TESTIMONY OF ALFREDO LEE
EXECUTIVE DIRECTOR
AGRIBUSINESS DEVELOPMENT CORPORATION

BEFORE THE SENATE COMMITTEES ON
AGRICULTURE AND COMMERCE AND CONSUMER PROTECTION

Tuesday, February 15, 2011
2:45 pm
Conference Room 229

SENATE BILL NO. 115
RELATING TO THE AGRIBUSINESS DEVELOPMENT CORPORATION

Chairpersons Nishihara, Baker, and Members of the Committees:

Thank you for the opportunity to testify on Senate Bill 115. While we understand and respect the good intentions of SB 115 to support the various capital intensive needs of local agriculture, the Agribusiness Development Corporation (ADC) has concerns with this bill.

While it is true that Section 163D-9 of the Hawaii Revised Statutes (HRS) currently allows the ADC to issue revenue bonds, realistically we are not yet at a financial level or capacity that would be feasible. To issue bonds of this nature, ADC should have sufficient cash flow in order to illustrate ability to make payments, as well as have a sufficiently large enough equity asset base to serve as collateral. However, we would like to point out that the issuance of general obligation bonds (G.O. bonds) would be an alternative method of financing.

Furthermore, ADC also recognizes there are several critical issues for agriculture which need attention, due to these tough economic times. We recommend the formation of a task force or study group of stakeholders, to include but not be limited to DOA, ADC, Hawaii Farm Bureau Federation, CTAHR, and commodity groups, with the goal to prioritize the various issues and how resources should be best allocated in order to optimize efficiency and effectiveness.

TESTIMONY BY KALBERT K. YOUNG
INTERIM DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEES ON AGRICULTURE AND
COMMERCE AND CONSUMER PROTECTION
ON
SENATE BILL NO. 115

February 15, 2011

RELATING TO AGRIBUSINESS DEVELOPMENT CORPORATION

Senate Bill No. 115 authorizes the Agribusiness Development Corporation to issue revenue bonds to finance intrastate marine transportation options to assist agricultural and maricultural product producers in transporting their products to local markets and consumers.

The Department has a technical comment on this bill.

The Department recommends that Senate Bill No. 115 define the meaning and scope of "intrastate marine transportation options" to clarify the eligible uses of the bond proceeds and to determine whether such uses are eligible for tax-exempt financing. More expensive, taxable revenue bonds may be necessary to finance the program if tax-exempt financing is not permitted.

Furthermore, the financing of intrastate marine transportation options must generate sufficient revenue in order to repay the debt service associated with a bond issue. The Agribusiness Development Corporation must demonstrate their ability to repay the bonds prior to the bonds being issued.



Hawaii Farm Bureau
F E D E R A T I O N

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LATE

February 14, 2011

TESTIMONY

Re: SB115 RELATING TO AGRIBUSINESS DEVELOPMENT CORPORATION

Chair Nishihara, Chair Baker and Members of the Committees:

Hawaii Farm Bureau Federation on behalf of commercial farm and ranch families and organizations in the State submits the following comments on SB115, seeking to allow ADC to issue revenue bonds to assist with certain intrastate transportation.

The Agribusiness Development Corporation was initiated by the agricultural industry as closure of plantations escalated and mechanisms needed to be identified to quickly place farmers on lands that were destined to be idled. The intent was a fast track process similar to the intent behind initiatives now being proposed to promote renewable energy. The need was there. What could be done to make it happen quickly?

The measure was passed but unfunded and ADC struggled through its' initial years. It has gradually matured but still has not reached the intended role of the measure. This role is one that could be within the scope of ADC in the future. ADC still needs to develop to build the capacity to carry out such a function.

We therefore request that a task force made up of the ADC Board, industry representatives, HDOA and CTAHR along with a person with financial expertise be convened to strategize the long term plan for the future of ADC. The Plan should address how it will complement the mission of HDOA and at the same time address the need suggested in this measure. The findings should be reported to the Legislature in 2012 along with necessary legislation to begin the implementation steps.

We respectfully request amending this measure to provide for an orderly transition to fulfill the initial intent of ADC. We appreciate this opportunity to provide our opinion on this matter. If there are any questions please contact Warren Watanabe at 2819716. Thank you.

nishihara5 - Randy

From: richoep@aloha.net
Sent: Saturday, February 12, 2011 2:17 PM
To: AGL Testimony
Subject: Testimony SB 115
Attachments: legislature speech doc.doc

Follow Up Flag: Follow up
Flag Status: Flagged

To: AGL-CPN committee on SB 115 hearing

Where: Conference Room 229, State Capitol

When: February 15, 2011, 2:45PM

From: Rich Hoepfner, 4865G Nonou Rd., Kapaa, Kaua'i, Hawaii, 96746,
808-639-1954

To issue revenue bonds to finance intrastate marine transportation options to assist agricultural and maricultural product producers in transporting their products to local markets and consumers is not financially feasible as planned. This bill obviously relates to H.B. 191, which is also totally financially unfeasible as shown from prior history. The former CEO of Austal, Mr. Alan Lerchbecker, builder of superferry, was concerned about the financial viability of superferry, and publicly stated that a smaller craft of 73 meters instead of the 107 meter superferry should have been purchased because Superferry would require a minimum of 400 to 500 passengers per trip to just break even financially. In January prior to superferry shutting down operations, they averaged just 106 passengers per trip, which wouldn't even cover the cost of fuel consumed. During that time there were insufficient transport of agricultural products shipped intraisland to even justify expenditure of public funds on a new study. It was unreliable then and would be in the future. I obtained specification sheets from Austal stating that Superferry burned 1981 gallons of marine diesel fuel for every hour of operation, which would have required nearly 12,000 gallons of marine diesel fuel for a round trip between Oahu and Kaua'i.

On their website, superferry originally set one way fares at \$52 per person and \$65 per vehicle. The fare for a loaded 40ft truck would have cost the farmer \$850 to \$1050 one way and \$510 to \$610 return empty. They also explained that their fares, based on \$300 per metric ton for marine diesel oil (MDO), would increase 2% for every 10% rise in the cost of that fuel. That cost increased 400% to just over \$1200 per metric ton before and probably why they went bankrupt. This would have raised their fares to over \$400 round trip for a single person with car, and a farmer could not have shipped enough fruits, vegetables, or flowers to cover the cost of shipping via superferry, at over \$3,000 round trip. Current price on MDO in Los Angeles is \$890. Do the math before you spend anymore time or tax dollars contemplating any reintroduction of anything as unreliable and costly as superferry. Einstein said "insanity is doing the same thing over and over, and expecting different results". Hawaii still has debt from the superferry fiasco, and Department of Transportation has already said it does not have the funds for such a venture. A bankrupt intrastate marine transportation option as planned would result in a bankrupt Hawaii.

Rich Hoepfner

Tropical Orchid Farm, Inc
Huelo, Maui

To:
Chairs and Members
Senate AGL/CPN Committees

2-13-2011

From:
Jeffrey Parker
President, Tropical Orchid Farm, Inc.
P.O. Box 170
Haiku, HI 96708
808 572-8569

Subject: SB115
Hearing: Feb. 15th 2:45 pm Rm. 229
Position: **Oppose**

Dear Chairs Nishihara and Baker, and Members,

I am a Member of the Maui County Farm Bureau/ Hawaii Farm Bureau and I have been farming in the same location here on Maui for the past 35 years. I oppose SB 115 because of the inclusion of Item (4) and I oppose the companion Bill HB1239.

In this testimony I hope to draw your attention to some serious issues apparently being overlooked.

Following is an outline of the problems with these Bills, as I see them.

1. The justification for a new State Ferry System is stated to be “to assist agricultural and maricultural product producers in transporting their products to local markets and consumers.” Yet the description of the vessel(s) in HB 1239 clearly “is intended to transport per voyage at least 500 passengers, two hundred motor vehicles, and cargo...” So, this is the full-blown Superferry – with all the potentially negative impacts and controversial aspects – and not just a benign mover of agricultural products.
2. Only four testimonies supporting HB 1239 were submitted. Two of them were signed by Warren Watanabe, Executive Director of MCFB. As a member of the FB organization I have not been consulted about these support letters, nor has our Membership been polled on this issue. Farm Bureau Members are not included in the important decisions, and this is not the first time that important issues have not been discussed with Members. Has the Board of Directors of FB taken a vote on the position put forward by Mr. Watanabe? Or has it even been discussed at Board meetings? I don't know. But If the Senate and House Committees intend to use Mr. Watanabe's testimonies as the chief justification for passing these Bills, then you have a responsibility to question Mr. Watanabe about what votes were taken by Directors and what outreach has been done with Farm Bureau Members regarding support for a new Superferry.
3. At the height of the Superferry controversy, Farm Bureau officers were unable to provide me with a name of a member who was successfully using the Superferry. (I wished to find out for myself if the problems concerning the unwieldy schedules of the Superferry

and the high costs of the drivers having to spend the night on Oahu, etc., before returning to Maui, were being resolved.) Please ask that Mr. Watanabe provide specific examples of Farm Bureau members that were able to make the Superferry work for them.

4. Maui farmers have not been able to supply a sizeable portion of the fresh produce consumed by Maui residents. Shouldn't the Legislature take a look at this, and possibly craft legislation to encourage the consumption of locally-grown produce - before spending perhaps millions and millions of dollars to "to assist agricultural and maricultural product producers in transporting their products to local [off-island] markets and consumers.?"
5. It is popular for everyone, including the Legislature, to cite the need for Hawaii to conserve energy, even proposing massive wind farms, etc. But the type of ship specifically outlined in both Bills, i.e., capable of carrying "at least 500 passengers, two hundred motor vehicles..." and that can travel at 30 knots or greater, is a massive wasteful fuel guzzler. The amount of fuel used to transport a person and his baggage is twice that used by an airline! The Hawaii Superferry famously could barely generate enough rider ship to cover its fuel costs – much less any of the other high overhead such as wages and benefits, maritime insurance, tugs, dry-docking, etc. Everyone knows the cost of fuel will be increasing – in fact Maui Mayor Alan Arakawa recently said he expects the price of regular gasoline to eventually reach \$7 per gallon.
6. It is a severe mistake for these Bills to specify the size and speed of this vessel(s), locking us in, preventing us from looking at vessels and operations that might work. The oversized, high speed Hawaii Superferry failed precisely for this reason. Too much fuel consumed, too few passengers and too little cargo. In fact the CEO of Austal, the Superferry's builder said so himself:
*"Whether Hawaii Superferry will be profitable is something that concerns Alan Lerchbacker, the former CEO of Austal USA, which built the ferry.
 "I just worry about getting enough business to cover costs because of the sheer size of it," said Lerchbacker, who came to Hawaii to sell the ferry but works in another industry now. Lerchbacker said he suggested a 72-meter vessel only to see the company order the 100-meter model.
 "For a smooth ride on the ocean, that ferry will have to go over 35 knots, and it costs a lot of money on fuel to go that fast," he said. "They may need 400 to 500 passengers to break even."
 Lerchbacker frets about this, and clearly thinks Hawaii Superferry should have gotten a smaller boat, but he doesn't want the venture to fail."*
7. Legislators should consider the possible unintended negative effects of projects like this. Take the recent case of PASHA which has received approval of the PUC to carry cargo inter-island. Young Brothers has stated that the loss in revenues caused by the entry of PASHA may cause them to have to drop their unprofitable service to Molokai and Lanai. Molokai is an important Ag producer to the rest of the State and the farmers there may be put out of business by this PUC decision. Have the Bill's introducers considered all consequences of this current initiative?
8. Neither Bill says anything or does anything to mitigate the controversial, negative and proven impacts of high-speed inter-island transport of private passenger vehicles. With regard to impacts on agriculture, these include lack of funding for proper DOA inspections, the increased risks caused by the transport of private vehicles originating

from pest infested areas (as opposed to say, clean fleet vehicles), the possible transport of the Varoa Mite on bees which are found in the radiator grills of vehicles, etc. Also, there were cases where large producers on Oahu attempted to use the Superferry to bring their products to Maui to compete with us small producers in our own local market. This could have been devastating if it had continued. One of the biggest problems still facing farmers in Hawaii is the introduction and spread of invasive pest species. The rising cost of chemicals, the damage to the environment and people's health, and the increasing difficulty of controlling these pests are our real problem –not whether we need more ways to transport our products to market. While not related to agriculture, we were very disturbed by the resource extraction made possible by the Superferry and that was actually occurring, i.e., loading up private vehicles with Maui's fish, opihi, beach stones, etc. and taking them back to Oahu. We also did not approve of high speed travel through the endangered Humpback Whale Sanctuary.

These current Bills do not even mention any effort or mechanisms to address these problems. Why do these current Bills fail to mention these impacts and propose possible solutions?

9. State monies will be used for a highly speculative venture. Many in the Legislature voted to spend \$50 million on infrastructure for the Hawaii Superferry, even though people like me were telling you that this expenditure was unnecessary. Yes, unnecessary. The operators of the Hawaii Superferry could have simply allowed Austal the shipbuilder to include the onboard stern quarter ramps, like are installed on virtually all other large Austal ferries. This would have eliminated the need for the State to buy the ridiculous barges, which never worked right and were plagued by problems. But moreover, the owners of the Superferry were actually bragging about how deep their pockets were. If the Legislature had taken my advice, and said "Okay, we will let you use our harbors, but YOU pay for the barges" – they would have paid it themselves. And the State would have been 50 – 60 million dollars richer and perhaps we could have kept some teachers working or stepped up the fight against invasive species, or any number of worthy uses.

Conclusion: I find it incredible that in our current state of economic challenge, that Legislators would be eager to risk even more money (than the \$50 million already lost) on a speculative venture that has already failed, despite the deep-pockets of mega-financiers. So I oppose these Bills. I would prefer that you use your time to focus on the real problems facing our State. At the very least, the dubious justification "to assist agricultural and maricultural product producers in transporting their products to local markets and consumers" should be dropped.

Mahalo

Jeffrey Parker
 Pres., Tropical Orchid Farm, Inc