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LATE

January 31, 2013

HEARING BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE

TESTIMONY ON HB 737
RELATING TO SPECIAL PURPOSE REVENUE BONDS TO ASSIST AGRICULTURAL
ENTERPRISES

Room 312
9:00 AM

Chair Wooley, Vice Chair Onishi, and Members of the Committee:

I am Dean Okimoto, President of the Hawaii Farm Bureau Federation (HFBF). Organized since 1948, the HFBF is comprised of 1,950 farm family members statewide, and serves as Hawaii's voice of agriculture to protect, advocate and advance the social, economic and educational interest of our diverse agricultural community.

HFBF strongly supports HB 737 which seeks to assist Hawaii's agricultural businesses by authorizing the State to issue special purpose revenue bonds (SPRBs) for their benefit.

Special purpose revenue bonds provide the private sector access to the lower rates available in public finance capital markets. Decaying plantation-era or obsolete infrastructure, record high transportation costs, and regulatory compliance issues are a crushing burden on our producers and processors and combine to threaten the food security and sustainability of our state.

The State of Hawaii has acknowledged that Agriculture is vital to food security, long-term sustainability and is an important contributor to the State's economy. Hawaii's farmers and ranchers need access to affordable capital to implement the many projects that contribute to feeding our citizens. HB 737 represents a collaborative effort between broad stakeholders engaged in farming and ranching, not-for profits and Government entities.

Some examples of Agricultural Projects that could benefit from SPRBs are water infrastructure including source development, storage, distribution and irrigation systems, local feed and fertilizer mills, processing and value-added facilities that will create jobs, benefit our local economy and expand Hawaii's brand worldwide, including creation of cross promotion opportunities for food, flowers, foliage and tourism, as well as a host of renewable energy systems, including bio, solar, wind and hydo-electric energy systems that compliment agricultural production.

Please support this vitally important measure.

We appreciate this opportunity to provide testimony on this matter.

**HB 737
RELATING TO SPECIAL PURPOSE REVENUE BONDS TO ASSIST
AGRICULTURAL ENTERPRISES**

**PAUL T. OSHIRO
MANAGER – GOVERNMENT RELATIONS
ALEXANDER & BALDWIN, INC.**

LATE

JANUARY 31, 2013

Chair Wooley and Members of the House Committee on Agriculture:

I am Paul Oshiro, testifying on behalf of Alexander & Baldwin, Inc. (A&B) and its agricultural company Hawaiian Commercial & Sugar Company on HB 737, “A BILL FOR AN ACT RELATING TO SPECIAL PURPOSE REVENUE BONDS TO ASSIST AGRICULTURAL ENTERPRISES.” We support this bill.

Hawaiian Commercial & Sugar Company (HC&S) has been in operation for over 125 years and is Hawaii’s last remaining sugar plantation. HC&S has approximately 36,000 acres in active sugar cane cultivation and employs about 800 Maui residents. While all of Hawaii’s other sugar companies have shut down over the years, HC&S has been fortunate, through significant investments in our agricultural infrastructure and operations, to have sustained our operations and continue as a major employer in the State of Hawaii. Despite the current up tick in sugar prices, history has proven that commodity sugar prices will remain relatively flat, as they have over the last few decades, despite increasing production costs. Thus, HC&S has for a number of years been pursuing, and investing in, a transition from a primary producer of commodity sugar to the production of specialty sugar and renewable energy. In addition to being

the main supplier of Sugar In The Raw, the little brown packets of sugar seen at restaurants and coffee shops across the nation, HC&S is also expanding production and sales of our specialty Maui Brand Sugar.

HC&S generates biomass produced electricity for its sugar milling, irrigation pumping, and other internal operations and provides electricity to Maui Electric Company (MECO) for general community use. The source of fuel for this biomass electricity is bagasse, the residual fiber of the sugar cane plant. Not only does HC&S provide approximately 6% of MECO's total electricity, HC&S is a firm power source to MECO (i.e. committed power delivery, not on an 'as available' basis), and has played a significant role in the restoration of MECO's electrical service during power outages.

In addition, HC&S is currently participating in significant new Hawaii-based research initiatives on bio-energy, closely working with the University of Hawaii and various Federal agencies on energy crop development, energy conversion technologies, and long term resource requirements for biomass production. HC&S also provides water (through the County) to approximately 35,000 Upcountry Maui residents and to the Kula Agricultural Park.

This bill proposes statutory provisions to authorize the issuance of special purpose revenue bonds to assist agricultural enterprises. Major infrastructure requirements such as irrigation systems, roads and utilities, and agricultural processing facilities play a critical role in the survival of many agricultural businesses. The special purpose revenue bonds authorized in this bill will provide important financial support for Hawaii's agricultural operations. In addition to assisting these agricultural operations with their current infrastructure needs, this additional means of financing will also serve

as a stimulus to encourage these entities to expand their operations or to enhance their operating efficiencies through the installation of new agricultural infrastructure, equipment, and other related improvements to service their farming operations.

Based on the aforementioned, we respectfully request your favorable consideration on this bill. Thank you for the opportunity to testify.

NEIL ABERCROMBIE
Governor



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RUSSELL S. KOKUBUN
Chairperson, Board of Agriculture

SCOTT E. ENRIGHT
Deputy to the Chairperson

LATE

**TESTIMONY OF RUSSELL S. KOKUBUN
CHAIRPERSON, BOARD OF AGRICULTURE**

**BEFORE THE HOUSE COMMITTEE ON AGRICULTURE
THURSDAY, JANUARY 31, 2013
9:00 a.m.
Room 312**

**HOUSE BILL NO. 737
RELATING TO SPECIAL PURPOSE REVENUE BONDS TO ASSIST AGRICULTURAL
ENTERPRISES**

Chairperson Wooley and Members of the Committee:

Thank you for the opportunity to testify on House Bill No.737 that authorizes the State to issue special purpose revenue bonds and use the proceeds from the bonds to assist an agricultural enterprise in production or processing of crops, vegetables, fruits, livestock, and poultry. The Department of Agriculture supports efforts to allow farmers the opportunity to access funds to produce and process local agricultural products. However, we defer to the Department of Budget and Finance on this measure.

Thank you, again, for the opportunity to testify on this measure.



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SUBJECT: GENERAL EXCISE, Exempt amounts received from the slaughter and processing of poultry or livestock produced and consumed in the state

BILL NUMBER: SB 594; HB 747 (Identical)

INTRODUCED BY: SB by Nishihara and 2 Democrats; HB by Onishi, Awana, Cheape, Hanohano, McKelvey, Morikawa, Tokioka, Tsuji, Ward, Wooley and 5 Democrats

BRIEF SUMMARY: Amends HRS section 237-24.3 to exempt from the general excise tax, the amounts received from the slaughter and processing of poultry, poultry carcasses, livestock, livestock carcasses or meat processed and consumed in the state.

EFFECTIVE DATE: July 1, 2013; provided that the amendments made to HRS section 237-24.3 of this act shall not be repealed when that section is reenacted on December 31, 2014, pursuant to Act 239, SLH 2007, as amended by Act 196, SLH 2009, and Act 91, SLH 2010.

STAFF COMMENTS: This measure proposes a general excise tax exemption to encourage the slaughter and processing of poultry and livestock in the state provided that they are also consumed in the state. It should be remembered that the use of the tax system for such purposes is an inefficient means to accomplish such goals. Exemptions from the excise tax recognize that the imposition of the tax would impose an unusual burden or would otherwise cause the taxpayer to do business in an inefficient manner just to circumvent the tax. Exemptions from the general excise tax are also granted because the entity is a nonprofit or if the tax imposed would have a severe economic impact on the state's economy. The proposed exemption from the general excise tax meets none of these criteria.

It should be noted that the general excise tax rate imposed on producing and processing is set at the lesser 0.5% rate. Thus, the exemption being proposed in this bill will have little, if any, impact or consequence. The other point to remember is that the lesser rate does provide economists, planners, and industry officials with important information about the industry, the size, economic impact, and growth statistics. All of this information would be lost should the exemption in this measure be adopted. It should be noted that in 1977 the department of taxation discontinued asking taxpayers to allocate their general excise income by industry and activity. As a result, a year's worth of information was lost which, in turn, handicapped forecasters of the state's economy. Given the lesser rate and the fact that the tax does not appear to be an insurmountable barrier to the success of these select businesses, this proposed exemption cannot be justified.

That said, lawmakers need to take a good look and see that, on one hand they are scrounging for money attempting to raise new funds with everything from user fees to taxes on specific groups of people and, on the other hand, introduce measures like this one. If all of the tax give-aways that have no rational basis were adopted, they would probably bankrupt the treasury. It should be repeated over and over again that the tax system is not designed to provide some sort of lure to attract taxpayers into doing or acting in some sort of unusual way, but the tax system exists to raise the funds necessary to operate

government. Lawmakers may want to propose various tax breaks for their constituents while continuing to squander the tax resources on more public programs and personnel. However, doing so raises the question of whether or not elected officials have any clue about what their fiduciary responsibility is. This is indeed sad as the voting public has entrusted these elected officials with their hard-earned tax dollars.

Instead of attempting to give away the state treasury with such myopic tax breaks, lawmakers need to pay more attention to the overall economic climate of the state which currently suffers from a continuing burden of taxes and regulations. Lawmakers should remember, giving a tax break to one type of activity comes at a cost to all other taxpayers not so favored unless they are willing to effect a commensurate decrease in state spending. So one has to ask what is the unusual burden of taxes borne by this particular industry or activity or is this proposal nothing more than pandering to the fad industry of the day? There is literally no justification for this proposal.

Finally, from a technical and administrative, if not compliance perspective, the exemption is granted only if the products slaughtered are consumed in the state. There is no reasonable way a slaughterhouse business will know where the products they processed will be consumed - on a Hawaii table or in another country or state or for that matter in transit on a ship or a plane. Thus, this proposal, as drafted, is unworkable.

Digested 1/25/13