



State of Hawaii
DEPARTMENT OF AGRICULTURE
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**TESTIMONY OF SCOTT E. ENRIGHT
CHAIRPERSON, BOARD OF AGRICULTURE**

**BEFORE THE HOUSE COMMITTEE ON JUDICIARY
TUESDAY, JANUARY 21, 2014
2:00 P.M.
Room 325**

**HOUSE BILL NO. 748
PROPOSING AN AMENDMENT TO THE HAWAII CONSTITUTION TO AUTHORIZE
THE ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS TO ASSIST
AGRICULTURAL ENTERPRISES**

Chairperson Rhoads and Members of the Committee:

Thank you for the opportunity to testify on House Bill No.748 that proposes to amend article VII, section 12 of the Hawaii State Constitution for the purpose to issue special purpose revenue bonds and use the proceeds from the bonds to assist agricultural enterprises 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.



TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON JUDICIARY
ON
HOUSE BILL NO. 748

January 21, 2014

PROPOSING AN AMENDMENT TO THE HAWAII CONSTITUTION TO AUTHORIZE THE ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS TO ASSIST AGRICULTURAL ENTERPRISES.

House Bill No. 748, proposes to amend Article VII, Section 12, of the Constitution of the State of Hawaii to authorize the State to issue special purpose revenue bonds (SPRBs) and use the proceeds from the bonds to assist agricultural enterprises.

The Department offers the following comments with the intent of making the benefits of this SPRB legislation more practical to implement:

In place of adding new Constitutional and statutory provisions for the issuance of SPRBs for agricultural enterprises, the Department recommends amending the current Constitutional and statutory authorization of SPRBs for “Agricultural enterprises serving important agricultural lands”. In particular, the Department recommends deleting the phrase “serving important agricultural lands” from the current Constitutional and statutory provisions which will broaden the authority to issue SPRBs for any type of “Agricultural enterprises”. With regards to the bill, the Department recommends deletion of language at the end of line 16 and all of lines 17 through 18 on page 5 as follows (deleted language lined through):

7. Agricultural enterprises ~~serving important~~

—— agricultural lands [-]; ~~or~~

8. Agricultural enterprises, ...

The Department also recommends the insertion of additional language at the end of line 13 on page 6 of the bill in order to clarify the potential assistance to for-profit as well as not-for-profit entities. The insertion is as follows (new language double underlined):

...schools, colleges, [~~and~~] universities, and for-profit and not-for-profit agricultural enterprises,...

Thank you for the opportunity to provide testimony on this measure.



THE HOUSE
THE TWENTY-SEVENTH LEGISLATURE
REGULAR SESSION OF 2014

COMMITTEE ON JUDICIARY

DATE: Tuesday, January 21, 2014
TIME: 2:00 p.m.
PLACE: Room 325
State Capitol
415 South Beretania Street

RE: Testimony in strong support of HB 748, Proposing an Amendment to the Hawai'i Constitution to Authorize Issuance of Special Purpose Revenue Bonds to Assist Agricultural Enterprises

Aloha Chair Rhodes, Vice Chair Har, and Committee Members:

The Hawaii Aquaculture and Aquaponic Association, representing aquaculture and aquaponic producers, researchers, and supporters statewide, strongly supports HB 748.

The agricultural activities that comprise Hawai'i's agricultural sector today are very diverse and support our State's goal of increasing local food production and enhancing food security. However, to take full advantage of the economic opportunities offered by such local agricultural production and value-added processing, substantial financial investments will be required. Such new agricultural investments would greatly benefit from the inclusion of "agriculture" in the definition of special purpose revenue bonds (SPRBs), and this definition should include all forms of agriculture, including aquaculture and aquaponics.

The proposed amendment, if subsequently approved by Hawai'i's voters, would enable Hawai'i agricultural enterprises to obtain authorization for Local Food Bonds (SPRBs) and use this financing in their agricultural businesses for the benefit of our Hawai'i's people and economy. The HAAA therefore respectfully requests your support of this important measure.

Sincerely,

Ronald P. Weidenbach
HAAA President



Hawaii Cattlemen's Council, Inc.

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HOUSE COMMITTEE ON JUDICIARY
Tuesday January 21, 2014 2:00 p.m. Room 325

HB 748

PROPOSING AN AMENDMENT TO THE HAWAII CONSTITUTION TO AUTHORIZE THE ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS TO ASSIST AGRICULTURAL ENTERPRISES

Chair Rhoads, Vice Chair Har and Members of the Committees:

My name is Alan Gottlieb, and I am a Rancher and the Government Affairs Chairperson of the Hawaii Cattlemen's Council. The Hawaii Cattlemen's Council, Inc. (HCC) is the Statewide umbrella organization comprised of the five county level Cattlemen's Associations. Our 130+ member ranchers represent over 60,000 head of beef cows; more than 75% of all the beef cows in the State. Ranchers are the stewards of approximately 25% of the State's total land mass.

The Hawaii Cattlemen's Council strongly supports HB 748.

Special Purpose revenue bonds provide the private sector access to the lower rates available in public finance capital markets. Agricultural projects do not easily qualify under the current definition, which needs to be amended. The capital markets are just beginning to create new funds for agriculture investments at national scale. The historically low rates make it important to act now.

We believe there are many projects that could qualify for SPRBs that would total more than \$150 MM in new investment. Here are some examples:

Agriculture SPRBs for Water Infrastructure: These can be made available to public-private partnerships that increase water supply from existing or new water systems, including new water storage systems.

Agriculture SPRBs for Farmer and Rancher Irrigation Systems: Irrigation systems require capital to install, and fencing for intensive grazing and crop security.

Agriculture SPRBs for Processing and Value Added – currently the production chain and processing capacity in Hawai'i is approximately 9,000 head a year. Even if 20 percent or 10,000 head of the 50,000 head of cattle shipped annually to the mainland were retained, Hawai'i's processing capacity would be overwhelmed. Thus, without increased processing capacity, the local livestock industry cannot expand.

In addition to the processing capacity, value-added processing is needed. The ability to produce increased value products (barbecue-ready cuts, cooked meats, hot dogs, etc.) adds greatly to the value of the cattle and keeps those dollars in our state economy. Similarly, fruit, vegetable, and aquaculture production should be coupled with value-added processing centers located in the centers of food production regions.

Special Purpose Revenue Bonds for pumped or in-line hydropower that is integrated with irrigation.

Special Purpose Revenue Bond for Feed Mills using Local Inputs. Biofuel crop by-products could be used for feed for cattle or other animals, thereby reducing overall costs for local ranchers.

We appreciate this opportunity to provide testimony on this matter.

The Coalition includes the Hawai‘i Farm Bureau Federation, the Hawai‘i Cattlemen’s Council, Inc., Hawai‘i Famers’ Union United, 4 Ag Hawai‘i, the Hawai‘i Aquaculture and Aquaponics Association, the Kohala Center, Hawai‘i Food Manufacturers Association, Hawai‘i Food Industry Association, Hawai‘i Association of Independent Schools, Maui School Garden Network, Malama Kaua‘i, and Ulupono Initiative.

One major persistent and formidable obstacle to expanding, diversifying and ensuring the sustainability of Hawai‘i’s food production resources is the need for substantial capital investment in agriculture infrastructure, technologies, facilities, agricultural workforce training, and production and growth activities. We recognize that the State has been supporting many facets of agriculture in Hawai‘i over the years. However, there are increasingly severe limits to what it can continue to support and finance. We need to prudently manage those public resources.

In addition to State financial resources, there is also the very real availability of private capital for those required agricultural investments. Indeed, the SPRB provisions enable the State to assist certain qualified enterprises to raise private capital from the capital markets without affecting the State budget or the State’s debt ceiling (i.e., how much the State can borrow). Private funds raised through SPRBs also do not involve the State’s full faith and credit, so the State is not obligated to back the SPRBs. Thus, this avenue of obtaining private financing has been used to support non-profit healthcare facilities; schools and educational institutions; manufacturing, processing and industrial enterprises; public utilities providing electricity or gas; low and moderate income housing, and agricultural enterprises serving important agricultural lands.

However, the range of agricultural activities that are essential parts of Hawai‘i’s agricultural sector is much broader than what is now available under the existing SPRB provisions. These activities range from growing and processing of food crops and vegetables; growing and processing of poultry and poultry products; raising and processing of livestock and livestock products, including cattle, pigs, goats and sheep; growing, processing and packaging of fruits and juices; developing and operating irrigation and water systems, including irrigation ditches, small dams and reservoirs and related control systems; construction and maintenance of shelters and other facilities to grow, raise and process food crops and livestock; and similar essential agricultural activities.

We believe that there are substantial new agricultural investments that would benefit in the near term from the inclusion of “agriculture” in the definition of SPRBs. Furthermore, we can expect that the availability of SPRB financing for agricultural enterprises would greatly increase new investment in Hawai‘i’s agricultural industries.

HB 748 is grounded in the recognition of these real, immediate and critical needs. It will enable agricultural enterprises to obtain authorization for these Local Food Bonds (SPRBs) and use this financing in their businesses, all for the broader immediate and long-term benefit of Hawai‘i’s people and economy. Not only will this provide an important source of

private financing, but also it will not impact the State’s public financial situation, and instead will enhance its resources.

The authorization of the issuance of SPRBs to assist agricultural enterprises will require an amendment to the Hawai‘i Constitution to add agricultural enterprises as eligible for SPRBs. HB 748 is therefore the first step required in this initiative to establish Local Food Bonds. Thus, the other bill that we noted, HB 737, will, by its terms, become effective only after Hawai‘i’s voters amend the Constitution to permit the authorization of SPRBs to assist agricultural enterprises. This HB 748 provides for Hawai‘i’s voters to decide on such a Constitutional amendment.

We greatly appreciate the opportunity to present this testimony in support of HB 748 and ask your favorable consideration of this bill.

Thank you very much,

Kyle Datta
General Partner
Ulupono Initiative

Gerald Sumida
Partner
Carlsmith Ball LLP

Email: communications@ulupono.com

**HB 748
PROPOSING AN AMENDMENT TO THE HAWAII CONSTITUTION TO AUTHORIZE
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AGRICULTURAL ENTERPRISES**

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

JANUARY 21, 2014

Chair Rhoads and Members of the House Committee on Judiciary:

I am Paul Oshiro, testifying on behalf of Alexander & Baldwin, Inc. (A&B) and its agricultural company Hawaiian Commercial & Sugar Company on HB 748, “A BILL FOR AN ACT PROPOSING AN AMENDMENT TO THE HAWAII CONSTITUTION TO AUTHORIZE THE ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS TO ASSIST AGRICULTURAL ENTERPRISES.” We support this bill.

Hawaiian Commercial & Sugar Company (HC&S) has been in operation for over 140 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 uptick 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 also generates biomass produced renewable energy for its sugar milling, irrigation pumping, and other agricultural operations and provides renewable energy to Maui Electric Company (MECO) for Maui's residents and businesses. The source of fuel for this renewable energy is bagasse, which is the residual fiber of the sugar cane plant. Not only does HC&S generate approximately 6% of MECO's total electricity, HC&S is also a firm capacity power provider 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 an amendment to the State Constitution 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 constitutional

amendment 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.