

NEIL ABERCROMBIE
Governor



SCOTT E. ENRIGHT
Chairperson, Board of Agriculture

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**TESTIMONY OF SCOTT E. ENRIGHT
CHAIRPERSON, BOARD OF AGRICULTURE**

**BEFORE THE SENATE COMMITTEE ON
WAYS AND MEANS
MARCH 28, 2014, 9:20 A.M.
ROOM 211**

**HOUSE BILL NO. 2179 HD1
RELATING TO LOWER HAMAKUA DITCH**

Chairperson Ige and Members of the Committee:

Thank you for the opportunity to testify on House Bill No. 2179 HD1. The purpose of this bill is to limit the toll that the Hawaii Department of Agriculture (HDOA) may charge for water from the Lower Hamakua Ditch. The HDOA provides comments.

The HDOA strives to promote all forms of agriculture in a fair and consistent manner. At the current rate of fifty cents per thousand gallons of irrigation water delivered, the Department maintains a very reasonable agricultural water rate. Hawaii County agricultural water rates are approximately \$1 per thousand gallons and other non-potable irrigation water systems are also within the 50 cents to \$2 per thousand gallon range.

When the legislature transferred the operation and management of State owned irrigation systems to the Department of Agriculture in 1987, it also created the irrigation system revolving fund. By doing so, it removed the program expenses from the general fund and placed them in the new revolving fund. By law, revolving funds are required to be self-sufficient. The revolving fund encompasses all of the State's irrigation systems which allows the Department to create a level playing field for all irrigation users



throughout the state, regardless of the size of the system. If this was not done, agriculture in certain areas would not be possible due to the extremely high cost of irrigation water.

The Lower Hamakua system does have the potential to deliver significantly more water than it currently does. We continue to work with farmers and ranchers along the system to open new acreage. Last year, the Department dedicated \$150,000 to encourage the growth of ranching in the State. This will be done by reimbursing the approved rancher up to thirty cents per thousand gallons of water delivered, effectively reducing their water delivery bill by sixty percent. We are currently in the process of soliciting an entity to manage the program and reviewing the possibility of additional funding for next fiscal year. We anticipate this program to last between two and five years dependent on funding. We would request awaiting the results of this program before moving forward with this bill.

Thank you for the opportunity to testify.



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March 28, 2014

HEARING BEFORE THE
SENATE COMMITTEE ON WAYS AND MEANS

TESTIMONY ON HB 2179, HD1
RELATING TO LOWER HAMAKUA DITCH

Room 211
9:20 AM

Chair Ige, Vice Chair Kidani, and Members of the Committee:

I am Christopher Manfredi, President of the Hawaii Farm Bureau (HFB). Organized since 1948, the HFB is comprised of 1,832 farm family members statewide, and serves as Hawaii's voice of agriculture to protect, advocate and advance the social, economic and educational interests of our diverse agricultural community.

HFB **supports HB 2179, HD1**, which limits the toll that the Department of Agriculture may charge for water from Lower Hamakua Ditch.

Farmers and ranchers need not only stability but low cost of inputs to be competitive in the local and global marketplace. Water represents a major cost for farms and ranches particularly in times of drought. Defining affordable water rates will help provide this stability, certainty and competitiveness. Farmers and ranchers often plan crops and herds years in advance. Providing this cap will help ensure that those plans will be viable and that the yield will be competitive in the marketplace. This is an important factor for food security and bolsters the local economy.

We ask you to support HB2179, HD1.

Thank you.



SENATE COMMITTEE ON WAYS & MEANS
Tuesday, March 28, 2014 – 9:20 a.m. – Room 211

Ulupono Initiative Strongly Supports HB 2179 HD 1, Relating to Lower Hamakua Ditch

Dear Chair Ige, Vice Chair Kidani and Members of the Committee:

My name is Kyle Datta and I am general partner of the Ulupono Initiative, a Hawai'i-based impact investment firm that strives to improve the quality of life for the people of Hawai'i by working toward solutions that create more locally grown food, increase renewable energy, and reduce/recycle waste. Ulupono invests in projects that have the potential to create large-scale, innovative change.

Ulupono strongly supports HB 2179 HD 1, which caps the water rate charge for the Hamakua ditch system. The Hamakua ditch system is one of many systems that are operated by the Hawai'i Department of Agriculture (HDOA). The revenues and costs for all of DOA's irrigation systems get funneled into one aggregated fund. For fairness and simplicity reasons, the water rate charge for all DOA's irrigation systems is set the same. However, the supply and demand of water is very different for each irrigation system. For example, for the DOA irrigation systems in Molokai and Waimea, there is a shortage of available water relative to the demand. Yet, in Hamakua, our analysis indicates only ~1% of the available water is being sold with the rest of the water unsold and therefore unable to generate income for DOA.

The Hamakua region on the Big Island is also the State's prime livestock region. Through our overall food analysis, Ulupono identified proteins and dairy as two areas that Hawai'i can grow more of its own food but have not been fully successful in doing so for the past few decades. A large challenge for growing animals is the high cost of imported feed, which can comprise most of the production cost. The feed and transportation costs are highly dependent upon fossil fuel prices and are volatile, which leads to greater uncertainty for our local ranchers and dairymen. Ulupono believes the eventual solution involves grass-fed operations. However, growing grass requires steady but large amounts of irrigated water. Since the Hamakua water rate is set artificially at a statewide level without regard to supply and demand considerations, we believe the water rate is not maximizing its sales and income stream for DOA.

Ulupono would propose setting the water rate for the Hamakua ditch system no higher than 20 cents per one thousand gallons. We believe this lowered water rate will incentivize many ranchers to shift their production to grass fed operations over the next few years. Currently, with cow-calf operations, the only water being sold in Hamakua is largely being used for drinking and cooling of the cattle. Yet, if local ranchers and dairymen are able to economically irrigate their fields, our numbers indicate DOA's would generate more revenue than they currently do. We expect at least one ranch to switch over to grass fed operations if the water rates allowed them to economically do so. This one ranch alone should be able to purchase enough water to cover DOA's lost income from lowering the water rate.

Ulupono is working with DOA on helping with a water rate reduction. Currently, DOA is in the process of lowering the Hamakua water rate from \$0.50 to \$0.20 for up to three years via a reimbursement paid for



by a \$150,000 appropriation (potentially only ~\$120,000 after administrative costs). The water rate will revert back to \$0.50 after three years or earlier if the appropriation is exhausted. The goal of this pilot water rate reduction is to determine whether grass fed ranching operations will take hold on the Big Island, given the lower water rates. However, for ranchers, they need at least five years to shift their herds to a more grass fed operation. By passing this bill, it would reassure them today that a sustained reduced water rate would occur. If ranchers do not believe this reduced water rate will last, they may not make the investment decision to switch to grass fed operations, which will heavily reduce water purchases and income to DOA. In fact, since grass fed ranching requires the lower \$0.20 water rate versus the current \$0.50, we believe fewer than expected ranchers will shift and the pilot will not be as successful since ranchers will have no expectation that their investment will translate into a viable economic business model five years down the road. We see this bill's permanent lower water rate as a complimentary piece to DOA's pilot appropriation as that will truly set the stage to showcase the potential of grass fed ranching for the region both during the pilot period and beyond.

Furthermore, we would also like to point out there is little financial risk to the DOA and subsequently the State by adopting this bill. In fiscal year 2011, which is the latest year we have data, DOA earned roughly \$20,000 in revenues off of water sales at a \$0.50 / 1,000 gallons rate for the Hamakua irrigation system. In the worst case scenario where this bill is enacted and water rates drop from \$0.50 to \$0.20 but no rancher shifts over to grass fed operations, the revenues for DOA drop from \$20,000 to \$8,000 – a net loss of \$12,000 per year. However, we expect ranchers will slowly convert with time and therefore will purchase significantly larger quantities of water that will more than make up for the lost \$12,000 in annual revenue. Over the past few decades, the State has invested tens of millions of dollars into the Hamakua irrigation system and has seen only ~1% of its water capacity sold. By lowering the water rate specifically for Hamakua to \$0.20, we feel this change should increase net revenue to DOA, allow for more purchases of water as intended by the State's previous investments in the Hamakua irrigation system, and help our ranching industry in their main region.

We believe that working together we can help produce more local food, support an economically strong homegrown agriculture industry, which strengthens our community with fresh, healthy food. Thank you for this opportunity to testify.

Respectfully,

Kyle Datta
General Partner

Email: communications@ulupono.com