

TAX FOUNDATION OF HAWAII

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SUBJECT: FUEL, Earmarks Barrel Tax for Agriculture Accelerator Special Fund

BILL NUMBER: SB 1204

INTRODUCED BY: DELA CRUZ, GALUTERIA, INOUYE, KIDANI, K. Kahele, Wakai

EXECUTIVE SUMMARY: Establishes an agriculture accelerator program and an attached special fund. Feeds the fund by an earmark off the barrel tax. Earmarks and special funds decrease transparency and accountability.

SYNOPSIS: Adds a new section to HRS chapter 163D to establish an agriculture accelerator grant program, and a related special fund. The fund is to be expended at the sole discretion of the Board of Agriculture to assist agriculture businesses that engage in farming, aquaculture, or ranching activities in the State.

Amends HRS section 243-3.5 to provide that ___ cents per barrel shall be deposited into the agriculture accelerator special fund.

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: The proposed measure would add another siphon of revenues and would perpetuate the earmarking of barrel tax revenues. An agriculture accelerator program may provide some benefit to the State. But does that justify grabbing a pot of barrel tax money without going through the normal budgeting process that also considers sweltering primary schools, underfunded state pensions, or the costs of intercollegiate athletics?

Rather than the continual earmarking of revenues, a direct appropriation of general funds would be preferable. Earmarking revenues from any tax type for a particular purpose decreases transparency and accountability.

Next, it should be remembered that revenues diverted for a special purpose, in this case to fund agriculture programs, will not be counted against the state's spending ceiling or debt limit and will obscure the state's true financial condition.

Digested 2/10/2017



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February 13, 2017

HEARING BEFORE THE
SENATE COMMITTEE ON AGRICULTURE AND ENVIRONMENT

TESTIMONY ON SB 1204
RELATING TO

Room 224
1:15 PM

Aloha Chair Gabbard, Vice Chair Riviere, and Members of the Committee:

I am Randy Cabral, President of the Hawaii Farm Bureau (HFB). Organized since 1948, the HFB is comprised of 1,900 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 support the intent of SB 1204, which establishes the agriculture accelerator program to authorize the agribusiness development corporation to provide grants and invest in existing or new agriculture businesses approved by the board of agriculture in return for equity in those agriculture businesses and collects an unspecified amount from the tax of each barrel under environmental response, energy, and food security tax to be deposited into the agriculture accelerator special fund.

The barrel tax was intended to support critical investments in clean energy, local agricultural production, and environmental response to reduce the State's dependence on imported fossil fuels and food products. As an organization opposed to new taxes, HFB took an unusual step by supporting the environmental response, energy, and food security tax, or barrel tax. It was a desperate move by the industry to secure stable funding for Hawaii's agricultural industry. It was originally intended to increase local capacity to grow and produce import replacement products in order to fulfill the State's vision for increased self-sufficiency and sustainability. During the economic downturn, proceeds from this fund were reallocated to balance the budget. We recognize that some of the proceeds continued to benefit agriculture.

ADC was initiated by the agricultural industry as the closure of plantations escalated and there was a need to identify mechanisms that could quickly place farmers on lands that were destined to be idle.

HFB believes that ADC has a tremendous amount of power and has a responsibility in continuing to assist Hawaii's transition from plantation agriculture to smaller diversified agricultural operations.

Hawaii's farmers and ranchers are finding it difficult to secure the financial support necessary to build capacity. The agriculture accelerator program can result in increased capacity, new business opportunities, increase employment opportunities and address Hawaii's goals of increased self-sufficiency and sustainability.

Thank you for this opportunity to testify on this measure.



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Senator Mike Gabbard
Chair, Senate Committee on Agriculture & Environment
Hawaii State Capitol, Room 201
Honolulu, HI 96813

Senator Gabbard:

We are writing in strong support of SB1204, Relating to Agriculture.

SB1204 provides for the creation of a subsidiary of the Hawaii Agribusiness Development Corporation and a discretionary pool of capital for the purpose of funding grants, equity, and debt investments to early and growth-stage agricultural and food enterprises in Hawaii. The creation of this entity and capital pool is in direct support of the Governor's goal to double food production by 2020.

We can speak to the effectiveness of this type of mechanism because our existence as a company is a direct result of a similar initiative, the Energy Excelerator (EEx), which is a program of the Pacific International High Technology Research Center and funded by the US Department of Energy and the US Office of Naval Research. We received \$75k in early stage equity funding from EEx in 2015 and used these funds to develop a business plan, perform customer research, and secure additional funding for growth.

In November of last year, we closed on the purchase of the state's largest meat packing plant in Kapolei, which is a state-owned leasehold, and we are in the process of performing significant upgrades. In just a few months, we will be in a position to receive livestock from across the state and process those animals into finished meat product for local consumption.

As a new agricultural enterprise in Hawaii, we have found that it is incredibly difficult to secure debt and equity funding for several reasons: 1) we don't have a long and profitable operating history; 2) conventional banks and private equity institutions have lost much of their agricultural expertise; 3) the venture capital sector in Hawaii is underdeveloped; and 4) it is difficult to attract mainland investment capital to Hawaii.

As a result, we strongly support the creation of mechanisms that can provide flexible financing to early and growth stage agricultural and food enterprises like the one proposed in SB1204.

We appreciate your support for Hawaii agriculture.

Two handwritten signatures in black ink. The first signature on the left is a simple, stylized line. The second signature on the right is more complex and cursive.

Robert J. Farias, Jr. & Jack Beuttell
Kunoa Cattle Company