

DAVID Y. IGE
Governor

JOSH GREEN
Lt. Governor



PHYLLIS SHIMABUKURO-GEISER
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TESTIMONY OF THE DEPARTMENT OF AGRICULTURE
BEFORE THE SENATE COMMITTEE ON AGRICULTURE & ENVIRONMENT

MARCH 11, 2019
1:15 P.M.
CONFERENCE ROOM 224

HOUSE BILL NO. 530 HD1
RELATING TO MANAGEMENT OF STATE FUNDS

Chairperson Gabbard and Members of the Committee:

Thank you for the opportunity to present testimony on House Bill 530 HD1. This bill establishes linked investments to provide loan funds for agriculture and authorizes the State to invest in linked investments. The Department of Agriculture supports the intent of the bill provided it does not impact the Department's priorities listed in the Executive Budget and offers the following comments.

The Department supports the concept of making additional funds available for agriculture but feels that available capital is not an issue for financial institutions. The Department would also note that during times of natural disasters, commercial lenders are often hesitant to make loans and it is often the mission of government lenders. Having a robust state agricultural lending program would be able to address this need.

Thank you for the opportunity to testify on this measure.



DAVID Y. IGE
GOVERNOR



RODERICK K. BECKER
DIRECTOR

ROBERT YU
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
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MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY

TESTIMONY BY RODERICK K. BECKER
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON AGRICULTURE AND ENVIRONMENT
ON
HOUSE BILL NO. 530, H.D. 1

March 11, 2019
1:15 P.M.
Conference Room 224

RELATING TO MANAGEMENT OF STATE FUNDS

House Bill No. 530, H.D. 1, proposes to amend Chapter 36, HRS, relating to the Management of State Funds. The bill proposes establishment of a Linked Investment Program to support loans relating to Agriculture in Hawai'i.

The Department offers the following comments on the Bill and requests clarification of the following:

1. Whether the certificate of deposit (CD) placed with an eligible lending institution, upon approval of a linked investment loan package, would be at risk of loss should the loan default. The State should not be at risk for any loan defaults and we recommend that the banks have sole responsibility for establishing the loan program underwriting and approval guidelines.
2. Who can exercise option to extend the CD for renewal for eight additional one-year periods. Section 36-21(a), HRS, limits the term of the State's investments to five years.

The following amendments are recommended to the bill:

1. Section 2, item (e) of the Bill provides for up to 10% of the money available in the state treasury for deposit under Section 38-2, HRS, may be invested for the linked investment program. We recommend a specific dollar amount commitment to the program be established instead, as the “amount of available funds” is vague and will vary on a daily basis, making it very difficult for staff to administer.
2. Section 3 of the Bill proposes amending Section 36-21 (a), HRS, which specifies the types of authorized investments, by adding item “(16) Linked investments...”. We recommend revising this to “(16) Certificates of Deposit related to linked investments pursuant to section 36-...”, due to the fact that linked investments are not technically a type of investment.
3. Recommend including appropriate resources within the department, to implement the establishment and ongoing management of a new Linked Investment Program for the state, by including one initial FTE position.

Thank you for your consideration of our comments.



O`ahu County Committee on Legislative Priorities (OCCLP)

COMMITTEE ON AGRICULTURE AND ENVIRONMENT

Senator Mike Gabbard, Chair

Senator Russell E. Ruderman, Vice Chair

DATE: Monday, March 11, 2019

TIME: 1:15 p.m.

PLACE: Conference Room 224 State Capitol

RE: HB 530, HD 1, Relating to Management of State Funds

To the Honorable Mike Gabbard, Chair; the Honorable Russell E. Ruderman, Vice Chair; and Members of the Committee on Agriculture and Environment:

My name is Melodie Aduja and I serve as Chair of the O`ahu County Committee on Legislative Priorities of the Democratic Party of Hawai`i ("DPH"). Mahalo for this opportunity to submit testimony on HB 530, HD 1. The O`ahu County Committee on Legislative Priorities ("OCCLP") hereby submits its testimony in **SUPPORT of HB 530, HD 1, Relating Management of State Funds.**

The purpose of HB 530, HD1 is to expand the availability of agricultural loans by committing no more than ten per cent excess state moneys for the creation of linked investments through agreements with eligible lending institutions. HB 530, HD1, establishes linked investments to provide loan funds for agriculture and authorizes the State to invest in linked investments.

"Linked investment" means a certificate of deposit placed with an eligible lending institution; provided that the eligible lending institution agrees to lend not more than ninety per cent of the value of the certificate of deposit to an eligible borrower at a rate not more than the prime rate or per cent a year, whichever is less; and provided further that the certificate of deposit shall: (1) Earn a rate of interest of not less than the current market rate; (2) Not be subject to a penalty for early withdrawal; and (3) Have a maturity of one year for the initial period with an option for renewal for eight additional one year periods.

Agriculture in our state must be preserved and its future strengthened. Sufficient prime agricultural lands must be maintained for the health, economic well-being and sustenance of the

people. DPH believes in an integrated approach to agricultural innovation and sustainability. DPH encourages the responsible development of ocean resources and aquaculture to achieve sustainability in our State of our marine resources an ensure and improve the health of our reef and marine life.

This approach includes, but is not limited to, the adoption of the Native Hawaiian concept of ahupua`a, an integrated approach to land management. This could also include development of economic, land and ocean use policies that foster sustainable crops both for local consumption and for export, polices to foster agriculture-related infrastructure at shipping points, and increased inspection to protect against invasive species and to encourage reduced holding times. We need to ensure food safety, strive towards food security an strive to set the highest standards for food quality and nutrition. *Democratic Party of Hawai`i Platform (2018), p. 9, ln. 5-16.*

For the foregoing reasons, to wit, agriculture in our state must be preserved and its future strengthened as sufficient prime agricultural lands must be maintained for the health, economic well-being and sustenance of the people, therefore, OCCLP supports HB 530, HD 1, and urges its passage out of the Committee on Agriculture and Environment.

Mahalo nui loa
Me ka `oia`i`o

/s/ Melodie Aduja

Melodie Aduja

Chair, O`ahu County Committee on Legislative Priorities of the Democratic Party of Hawai`i

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Testimony of
Jon Okudara
on
H.B. No. 530, H.D.1
Relating to Management of State Funds
Committee on Agriculture and Environment
Monday, March 11, 2019, 1:15 p.m.
Room 224

I strongly support H.B. No. 530, H.D.1, which is a concept that follows a program started in Iowa in 1986, initially as a horticultural and alternative crops loan program to help diversify Iowa's agricultural-based economy, and since expanded to assist other businesses.

The language of H.B. No. 530, was developed years ago after discussion with Stanley Fujiyama, who was a bank agricultural loan officer. It attempts to duplicate the program in Iowa, which provides an incentive for financial institutions, which are often uncomfortable with agricultural lending, to make loans for agriculture.

Unlike state, which is the lender of last resort, the program proposes to give an incentive for lending institutions to make loans to sound, viable agricultural proposals. Under the program:

- A lending institution will accept and review applications for loans from eligible borrowers, who will be evaluated by the institution using their usual lending standards to determine the creditworthiness of the borrower;
- The institution will forward a linked investment loan package to the Director of Finance, stating the loan amount, purpose of the loan, and the institution's certification the applicant's qualification for the loan;
- The Director of Finance may accept or reject the loan package, and, if accepted, will place a certificate of deposit with the lending institution; and
- The institution is required to make the loan to the eligible borrower in accordance with the loan agreement.

H.B. No. 530 specifies that the certificate of deposit:

- Shall earn an interest rate not less than the current market rate;
- Shall not be subject to a penalty for early withdrawal; and
- Have a maturity of one year with an option for renewal for eight additional one-year periods.

In response to comments and recommendations by the Department of Budget and Finance and make clarifying amendments, H.B. No. 530 should be amended by:

1. Amending subsection (c) on page 3 to give the director of finance discretion rather than require the consideration, acceptance, or rejection of a linked investment package.

“(c) The director of finance **may** consider the availability of state funds and accept or reject a linked investment loan package.”

2. Amending the definition of “linked investment” starting on page 4 to limit the renewal of certificates of deposit to five additional one-year periods to conform to section 36-21(a), require approval of the director of finance for renewal, and clarify that certificate of deposit are not to be considered security for the linked investment.

“Linked investment” means a certificate of deposit placed with an eligible lending institution; provided that the eligible lending institution agrees to lend not more than ninety per cent of the value of the certificate of deposit to an eligible borrower at a rate not more than the prime rate or ___ per cent a year, whichever is less; and provided further that the certificate of deposit shall:

- (1) Earn a rate of interest of not less than the current market rate;
- (2) Not be subject to a penalty for early withdrawal;
- (3) Have a maturity of one year for the initial period with an option for renewal **with the approval of the director of finance for five additional one-year periods[.]** and
- (4) Not be considered security for a linked investment loan.**

3. Page 7, line 20, amend §36-21(a)(16) to read:

“(16) Certificates of deposit for linked investments pursuant to section 36- .;”

With these amendments, I strongly support H.B. 530.

Thank You for the opportunity to provide these comments.