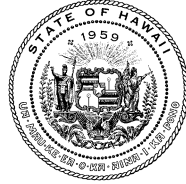


DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



RONA M. SUZUKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
Phone: (808) 587-1540 / Fax: (808) 587-1560
Email: Tax.Directors.Office@hawaii.gov

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

From: Rona M. Suzuki, Director
Department of Taxation

Re: **S.B. 2705, Relating to the Important Agricultural Land Qualified Agricultural Cost Tax Credit**

Date: Monday, February 3, 2020

Time: 1:15 P.M.

Place: Conference Room 224, State Capitol

The Department of Taxation (Department) offers the following comments on S.B. 2705.

S.B. 2705 amends the important agricultural land qualified agricultural cost tax credit by changing the date upon which the Department of Agriculture (DOA) shall cease certifying credits under section 235-110.93(l), Hawaii Revised Statutes (HRS), from December 31, 2021, to December 31, 2030. The measure is effective upon approval.

The Department is able to administer the bill as written and defers to the DOA on the substance of the measure and its ability to continue certification of the tax credit through 2030. The Department requests that the certification requirement for this credit be maintained, as it does not have the knowledge and expertise necessary to certify this credit.

Thank you for the opportunity to provide comments.

DAVID Y. IGE
Governor

JOSH GREEN
Lt. Governor



PHYLLIS SHIMABUKURO-GEISER
Chairperson, Board of Agriculture

MORRIS M. ATTA
Deputy to the Chairperson

State of Hawaii
DEPARTMENT OF AGRICULTURE
1428 South King Street
Honolulu, Hawaii 96814-2512
Phone: (808) 973-9600 FAX: (808) 973-9613

**TESTIMONY OF PHYLLIS SHIMABUKURO-GEISER
CHAIRPERSON, BOARD OF AGRICULTURE**

BEFORE THE SENATE COMMITTEE ON AGRICULTURE

**FEBRUARY 3, 2020
1:15 P.M.
CONFERENCE ROOM 224**

**SENATE BILL NO. 2705
RELATING TO THE IMPORTANT AGRICULTURAL LAND QUALIFIED
AGRICULTURAL COST TAX CREDIT**

Chairperson Gabbard and Members of the Committee:

Thank you for the opportunity to testify on Senate Bill 2705. This measure extends the time that the Department of Agriculture may certify Important Agricultural Lands (IAL) qualified agricultural costs from 2021 to 2030. The Department of Agriculture strongly supports this measure

It is very important for the Department to continue certifying IAL qualified costs for the tax credits for two reasons. First, the landowners and farmers that have voluntarily identified and had the Land Use Commission designate their agricultural lands continue to fund improvements to their farmlands to increase productivity. Second, two of the four counties (Maui and Hawaii) have yet to complete the mapping of their potential IAL and have these lands designated as IAL by the Land Use Commission, pursuant to Section 205-47. Affected landowners and farmers will expect access to all the IAL incentives enacted in 2008, of which the tax credit is one component. Further, IAL has a significant role in increasing local food self-sufficiency which is a priority for both the Legislature and the Administration.

Thank you for the opportunity to testify on this measure.





KAMEHAMEHA SCHOOLS®

Senate Committee on Agriculture and Environment

Time: 1:15p.m.

Date: February 3, 2020

Where: State Capitol Room 224

TESTIMONY

By Dana Sato

Director, Asset Management (O‘ahu)

RE: **SB 2705 Relating to the Important Agricultural Land Qualified Agricultural Cost Tax Credit**

E ka Luna Ho‘omalū Gabbard, ka Hope Luna Ho‘omalū Ruderman, a me nā Lālā o kēia Kōmike, aloha! My name is Dana Sato and I serve as the O‘ahu Director of Asset Management for Kamehameha Schools.

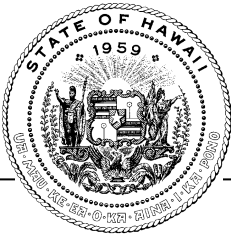
We are writing in **SUPPORT of SB 2705**, which extends to the 2030 taxable year the important agricultural land qualified agricultural cost tax credit.

Kamehameha Schools believes that our educational mission is best achieved in a society that supports and enables the success of our learners. One significant component of such a society is a sustainable, local food system. For this reason, we have heavily invested in agriculture on our lands across Hawai‘i to contribute to the State’s Aloha+ Challenge goal of doubling local food production by 2030.

The IAL tax credit plays an important role in achieving this goal by promoting greater investment in Hawai‘i’s agricultural economy. Specifically, IAL Tax Credits incentivize landowners and lessees to invest in improving and upgrading decades-old infrastructure and, maybe more importantly, to invest in new facilities essential to a modern agricultural economy, lowering (at least in part) the economic barriers that have historically dissuaded needed investments.

Realizing the full potential of such investments, however, takes time, commitment, and patience. Extending the IAL Tax Credit through 2030 will give mahi‘ai, our pae‘āina, and our Lāhui the time and opportunity to realize a vision of Hawai‘i that is fully invested in the future of its agricultural economy. Accordingly, we kindly request you **PASS SB 2705**.

Founded in 1887, Kamehameha Schools is an organization striving to advance a thriving Lāhui where all Native Hawaiians are successful, grounded in traditional values, and leading in the local and global communities. We believe that community success is individual success, Hawaiian culture-based education leads to academic success and local leadership drives global leadership. Mahalo nui!



OFFICE OF PLANNING STATE OF HAWAII

DAVID Y. IGE
GOVERNOR

MARY ALICE EVANS
DIRECTOR
OFFICE OF PLANNING

235 South Beretania Street, 6th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804

Telephone: (808) 587-2846
Fax: (808) 587-2824
Web: <http://planning.hawaii.gov/>

Statement of
MARY ALICE EVANS
Director, Office of Planning
before the
SENATE COMMITTEE ON AGRICULTURE AND ENVIRONMENT
Monday, February 3, 2020
1:15 PM
State Capitol, Conference Room 224

in consideration of
SB 2705
**RELATING TO THE IMPORTANT AGRICULTURAL LAND QUALIFIED
AGRICULTURAL COST TAX CREDIT.**

Chair Gabbard, Vice Chair Ruderman, and Members of the Senate Committee on Agriculture and Environment.

The Office of Planning (OP) **strongly supports** SB 2705 and offers the following comments on the bill, which would amend Hawaii Revised Statutes § 235-110.93 to extend the Department of Agriculture's certification of credits for important agricultural land qualified ag cost tax credit from December 31, 2021 to December 31, 2030.

OP strongly supports the renewal and extension of the qualified agricultural cost tax credit to ensure continued availability of the tax credit to help farmers manage the cost of investments in their farming operations. The Agricultural Working Group convened in 2003, which crafted the foundations for the passage of the IAL legislation and subsequent IAL incentives package—believed that successful farming is the most cost-effective way to protect farmland. The incentives package, including this tax credit, was always intended to be a longterm commitment to providing permanent tools and services—like agricultural tax dedication provisions—that would promote and grow Hawaii's agricultural industry and promote agricultural viability for current and future farmers on Hawaii's best lands, those designated as IAL.

OP suggests consideration be given to making this a permanent tax credit since farming requires ongoing investment in agricultural infrastructure, equipment, and farm improvements. If fiscal impact is a concern, then a provision for periodic review could be required.

Thank you for the opportunity to testify on this measure.

SB-2705

Submitted on: 1/28/2020 8:38:41 AM

Testimony for AEN on 2/3/2020 1:15:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Nicole K Galase	Testifying for Hawaii Cattlemen's Council	Support	No

Comments:



January 29, 2020

Senator Mike Gabbard, Chair
Senator Russell E. Ruderman, Vice Chair
Senate Committee on Agriculture and Environment

Support of SB 2705, Relating to the Important Agricultural Land Qualified Agricultural Cost Tax Credit (Extends the time the Department of Agriculture may certify important agricultural lands qualified agricultural cost tax credits from 2021 to 2030).

Monday, February 3, 2020, at 1:15 p.m., in Conference Room 224

The Land Use Research Foundation of Hawaii (LURF) is a private, non-profit research and trade association whose members include major Hawaii landowners, developers and utility companies. LURF's mission is to advocate for reasonable, rational and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources, and public health and safety.

LURF appreciates the opportunity to express its **support of SB 2705** and of the various agricultural stakeholder groups who defend the goals of viable agricultural operations and the conservation and protection of agriculture, including important agricultural lands (IAL) in Hawaii.

SB 2705. The purpose of this bill is to extend the period of time during which the Department of Agriculture [DOA] may certify important agricultural land qualified agricultural cost tax credits from 2021 to 2030, to allow landowners and farmers to claim the tax credit in the event their agricultural lands are identified as potential important agricultural lands and designated as such by the land use commission.

LURF's Position. LURF members include farmers and ranchers who own, maintain, and engage in agricultural enterprises, and who consider incentives such as the subject tax credits very helpful, if not critical to the agriculture industry and conduct of their operations. The tax credits assist by offsetting costs related to establishing and sustaining viable agricultural operations and help to sustain agricultural businesses,

promote local food production, and increase the State's ability to achieve its food self-sufficiency goals.

The purpose of this bill is consistent with the underlying intent and objectives of the IAL laws (Hawaii Revised Statutes [HRS], Sections 205-41 to 52), which were enacted to fulfill the mandate in Article XI, Section 3, of the Hawaii State Constitution, "to conserve and protect agricultural lands, promote diversified agriculture, increase agricultural self-sufficiency and assure the availability of agriculturally suitable lands." The IAL laws established a new paradigm which avoids requirements and mandates, and instead focuses on promoting agricultural viability by providing incentives for farmers and landowners to designate lands as IAL, and to build necessary infrastructure. This bill is thus an effort to expand the existing IAL program by continuing incentives for landowners to preserve and maintain IAL.

As noted in HRS Section 205-41, the intent of Act 183 (2005) was to develop agricultural incentive programs to promote agricultural viability, sustained growth of the agricultural industry, and the long-term use and protection of important agricultural lands for agricultural use in Hawaii concurrently with the process of identifying important agricultural lands as required under the Act. Such incentives and programs are expressly identified in HRS 205-41, and specifically include assistance in identifying federal, state and private grant resources for agricultural business planning and operations; as well as incentives such as tax credits that promote investment in agricultural businesses or value-added agricultural development, and other agricultural financing mechanisms.

The DOA, however, will currently cease certifying Tax Credits for taxable years beginning after December 31, 2021. Moreover, the counties have not provided IAL incentives to date. Passage of the long-awaited IAL legislation would be meaningless without incentives such as the subject measure which help sustain agricultural enterprises and encourage cooperation with, and support of the business and economic communities. By recognizing the significance of, and need to assist the local agriculture industry, and to uphold incentives which help to support the growth and maintenance of agriculture in the State, this measure significantly helps to promote economically viable agriculture and food self-sufficiency in Hawaii.

For the reasons set forth above, LURF is **in support of SB 2705**, and respectfully urges your favorable consideration of this bill.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Extend Important Agricultural Land Credit

BILL NUMBER: SB 2705

INTRODUCED BY: GABBARD, Baker, Ihara, Ruderman

EXECUTIVE SUMMARY: Extends the time that the department of agriculture may certify important agricultural lands qualified agricultural costs from 2021 to 2030.

SYNOPSIS: Amends HRS section 235-110.93 to provide that the department of agriculture shall cease certifying credits for taxable years beginning after December 31, 2030. It previously required cessation of certification after December 31, 2021.

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: The legislature by Act 233, SLH 2008, enacted the important agricultural land qualified agricultural cost tax credit. The law was amended by Act 101, SLH 2014, and by Act 87, SLH 2018.

In the department of agriculture's 2019 report on the credit (<http://hdoa.hawaii.gov/wp-content/uploads/2019/01/DOA-IAL-Tax-Credit-Report-2019.pdf>), representing activity for the 2018 tax year, the department reported that it certified \$375,000 in credits for two applicants. There were only two applicants in the 2017 tax year.

The department in its report recommended an extension of the sunset date of the credit, which otherwise expires at the end of 2021.

The department also stated that none of the counties have submitted their approved plans and maps identifying potential important agricultural lands (IAL) to the Land Use Commission for IAL designation as required under Section 205-47, HRS. In testimony on a similar bill in 2017, some of the counties complained that the process of drawing up such maps was unduly expensive.

Given that the amount of credits certified was negligible, the applicant base was extremely small, and the counties have not cooperated in the past decade, one must ask whether the objectives of the original legislation are being met, and whether there is any prospect of return on our investment of public dollars.

Digested 1/29/2020



P.O. Box 253, Kunia, Hawai'i 96759
Phone: (808) 848-2074; Fax: (808) 848-1921
e-mail info@hfbf.org; www.hfbf.org

February 3, 2020

HEARING BEFORE THE
SENATE COMMITTEE ON AGRICULTURE AND ENVIRONMENT

TESTIMONY ON SB 2705
RELATING TO THE IMPORTANT AGRICULTURAL LAND QUALIFIED
AGRICULTURAL COST TAX CREDIT

Room 224
1:15 PM

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

I am Brian Miyamoto, Executive Director of the Hawaii Farm Bureau (HFB). Organized since 1948, the HFB is comprised of 1,800 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.

The Hawaii Farm Bureau supports SB 2705, which extends the time that the department of agriculture may certify important agricultural lands qualified agricultural costs from 2021 to 2030.

Hawaii is the first state in the country to have an Agricultural Land Preservation measure focused on agricultural viability. During the weeks of deliberation that created Hawaii's Important Agricultural Lands initiative, a review was conducted of ag land preservation measures across the nation. Initiatives that were passed many years ago were especially taken under close scrutiny to determine whether their intents were realized. What became obvious was payments for development rights, preserved land from agriculture but did not necessarily keep the land in agriculture -- it succeeded in keeping them in open space. Too often, the recipient of the benefit used it to pay off debt, passed the land to a successor who now had no benefits and reduced collateral to go to the bank for loans as the land was devalued.

Taking these lessons to heart, the move was made to create incentives to reward investments in infrastructure – improvements to irrigation systems and other basic infrastructure, construction of value-added facilities, or construction of irrigation water storage facilities were among the qualified agriculture expenditures that were deemed needed for viable operations. The structure of the incentive as a tax credit for only a percentage of costs forces serious investments vs. those that do it just to get a tax credit.

Also, since the tax credit requires that the applicant is paying taxes it is most likely a viable business endeavor.

Reports have been submitted by the Department of Agriculture which details the number of tax credits awarded by year. The highest-level activity was in 2015, reported to the Legislature in 2016.

The breakdown of costs applicants applied for in 2014 are listed as follows:

A \$98,915.58
B \$605,814.04
C \$2,452,699.27
D \$51,486.60
E \$742,979.67
F \$2,500,223.39
G 0

A. Roads or utilities, primarily for agricultural purposes, where most of the lands serviced by the roads or utilities, excluding lands classified as conservation lands, are important agricultural lands;

B. Agricultural processing facilities in the State, primarily for agricultural purposes, where the majority of the crops or livestock processed, harvested, treated, washed, handled, or packaged are from agricultural businesses;

C. Water wells, reservoirs, dams, water storage facilities, water pipelines, ditches, or irrigation systems in the State, primarily for agricultural purposes, providing water for lands, the majority of which, excluding lands classified as conservation lands, are important agricultural lands; and

D. Agricultural housing in the State, exclusively for agricultural purposes; provided that: housing units are occupied solely by farmers or employees for agricultural businesses and their immediate family members; the housing units are owned by the agricultural business; the housing units are in the general vicinity, as determined by the department of agriculture, of agricultural lands owned or leased by the agricultural business; and the housing units conform to any other conditions that may be required by the department of agriculture;

E. Feasibility studies, regulatory processing, and legal and accounting services related to the items under paragraph (1);

F. Equipment, primarily for agricultural purposes, used to cultivate, grow, harvest, or process agricultural products by an agricultural business; and

G. Regulatory processing, studies, and legal and other consultant services related to obtaining or retaining sufficient water for agricultural activities and retaining the right to farm on lands identified as important agricultural lands.

As you can see by the breakdown of use, the majority of funds were associated with improvements/modification of irrigation systems or equipment associated with agricultural production. Both of these investments are critical for agricultural viability.

There appears to be a priority to keep lands in agriculture as seen by numerous measures to purchase lands by the State. The IAL program encourages the VOLUNTARY designation of the lands in exchange for the incentives a cost-effective way to preserve ag operations – not just lands, for future generations.

We therefore respectfully request your strong support of this measure as a continued investment to agriculture's future in the State of Hawaii.



Email: communications@ulupono.com

SENATE COMMITTEE ON AGRICULTURE AND ENVIRONMENT
Monday, February 3, 2020 — 1:15 p.m. — Room 224

Ulupono Initiative supports SB 2705, Relating to the Important Agricultural Land Qualified Agricultural Cost Tax Credit.

Dear Chair Gabbard and Members of the Committee:

My name is Amy Hennessey, and I am the Senior Vice President of Communications & External Affairs at Ulupono Initiative. We are a Hawai'i-based impact investment firm that strives to improve our community's quality of life by creating more locally produced food; increasing affordable clean renewable energy and transportation options; and better managing waste and fresh water resources.

Ulupono supports SB 2705, which extends the time that the Department of Agriculture may certify important agricultural lands qualified agricultural costs from 2021 to 2030.

The Important Agricultural Lands designation is an important tool that exists to keep agricultural land in active production. As development encroaches rural districts, it is important to maintain the State's most productive lands in agriculture and encourage those producers to continue operations to support the State's food security and sustainability goals. This tax credit ensures an incentive to landowners to keep agricultural lands in productivity for perpetuity.

Thank you for this opportunity to testify.

Respectfully,

Amy Hennessey, APR
Senior Vice President, Communications & External Affairs

Investing in a Sustainable Hawai'i

SB-2705

Submitted on: 2/2/2020 4:24:49 PM

Testimony for AEN on 2/3/2020 1:15:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
J Ashman	Individual	Support	No

Comments: