JAN 2 7 2021

#### A BILL FOR AN ACT

RELATING TO AGRICULTURAL ENTERPRISES.

#### BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The Hawaii Revised Statutes is amended by 2 adding a new chapter to be appropriately designated and to read

4 "CHAPTER

3

5

11

12

13

14

15

16

17

as follows:

#### AGRICULTURAL ENTERPRISES

§ -1 Purpose. Article XI, section 3, of the Hawaii
7 State Constitution establishes in part that the "State shall
8 conserve and protect agricultural lands, promote diversified
9 agriculture, increase agricultural self-sufficiency and assure
10 the availability of agriculturally suitable lands."

The legislature finds that smaller scale farming operations, particularly those associated with diversified agriculture, often do not have ready access to, or the resources to pay for, their own modern processing, packing, storage, and distribution enterprises to allow them to expand or maximize the productivity of their agricultural operations. Due to global competition and the recent implementation of national food

- 1 safety standards, the department of agriculture has found it
- 2 necessary to support the growth of diversified agriculture by
- 3 encouraging agricultural enterprises on the department of
- 4 agriculture's lands. The department of agriculture encourages
- 5 activities including the planning, design, construction,
- 6 operation, and management of agricultural enterprises to ensure
- 7 the economic viability of agricultural operations, and allows
- 8 lessees to do the same. Therefore, the legislature finds that
- 9 it is in the State's best interests and helps meet state
- 10 constitutional requirements to promote and support diversified
- 11 agriculture and increase agricultural self-sufficiency by
- 12 establishing an agricultural enterprise program within the
- 13 department of agriculture.
- 14 Accordingly, the purpose of this chapter is to authorize
- 15 the department of agriculture or its lessees to plan, design,
- 16 construct, operate, manage, maintain, repair, demolish, and
- 17 remove infrastructure or improvements on any lands over which
- 18 the department has jurisdiction where the activity is necessary
- 19 to support and promote agriculture; to accept from the
- 20 department of land and natural resources the transfer of any

- 1 lands that will serve an agricultural purpose; and to
- 2 efficiently operate or manage those resources.
- 3 § -2 Definitions. As used in this chapter, unless the
- 4 context otherwise requires:
- 5 "Agricultural activities" include:
- 6 (1) The care and production of livestock, livestock
- 7 products, poultry, poultry products, and apiary,
- 8 horticultural, and floricultural products;
- 9 (2) The planting, cultivating, and harvesting of crops or
- 10 trees; and
- 11 (3) Any other activity that is directly associated with
- agriculture.
- "Agricultural enterprise" means an activity directly and
- 14 primarily supporting the production and sale of agricultural
- 15 products in the State.
- 16 "Agricultural enterprise lands" means agricultural lands
- 17 that are not designated as agricultural parks or non-
- 18 agricultural park lands pursuant to chapter 166 or 166E,
- 19 respectively.
- 20 "Aquacultural activities" means the farming or ranching of
- 21 any plant or animal species in a controlled salt, brackish, or

- freshwater environment; provided that the farm or ranch is on or
  directly adjacent to land.

  "Board" means the board of agriculture.

  "Department" means the department of agriculture.

  "Lessee" means a lessee under a lease issued by or
- 6 transferred to the department or any tenant, licensee, grantee,
  7 assignee, or other person authorized to conduct an agricultural
  8 enterprise by the board or department.
- 9 § -3 Department's powers in general; agricultural
  10 enterprises. In addition to any other powers authorized in this
  11 chapter, to support and promote agriculture, the department may:
- 12 (1) Plan, design, construct, operate, manage, maintain,
  13 repair, demolish, and remove infrastructure or
  14 improvements on any lands under the jurisdiction of
  15 the department; and
- 16 (2) Permit a lessee to plan, design, construct, operate,
  17 manage, maintain, repair, demolish, and remove
  18 infrastructure or improvements on any lands under the
  19 jurisdiction of the department.
- 20 § -4 Transfer and management of agricultural enterprise 21 lands and agricultural enterprises; agricultural enterprise



1	program.	. (a)	Upon	mutual	agreemen	it and	approval	by	the	board
2	and the	board	of la	nd and	natural r	esour	ces:			

- 3 (1) The department may accept from the department of land
  4 and natural resources the transfer and management of
  5 certain qualifying agricultural enterprise lands and
  6 agricultural enterprises; and
- 7 (2) Certain assets, including position counts, related to
  8 the management of existing encumbered and unencumbered
  9 agricultural enterprise lands and agricultural
  10 enterprises, and related facilities, shall be
  11 transferred to the department.
- 12 (b) The department shall administer an agricultural 13 enterprise program to manage the transferred agricultural 14 enterprise lands and agricultural enterprises under rules 15 adopted by the board pursuant to chapter 91. The program and 16 its rules shall be separate and distinct from the respective 17 programs and rules for agricultural parks and non-agricultural 18 parks. Agricultural enterprise lands and agricultural enterprises shall not be the same as, and shall not be selected 19 20 or managed as, lands under agricultural park or non-agricultural park leases. Notwithstanding any other law to the contrary, the 21

1	agricultural enterprise program shall include the lollowing							
2	condition	conditions pertaining to the transfer of encumbered or						
3	unencumbe	unencumbered agricultural enterprise lands and agricultural						
4	enterpris	es:						
5	(1)	At t	he time of transfer:					
6		(A)	The lessee or permittee shall be in full					
7			compliance with the existing lease or permit;					
8		(B)	The lessee or permittee shall not be in arrears					
9			in the payment of taxes, rents, or other					
10			obligations owed to the State or any county; and					
11		(C)	The lessee's or permittee's agricultural					
12			operation shall be economically viable as					
13			determined by the board;					
14	(2)	No e	ncumbered or unencumbered agricultural enterprise					
15		land	s and agricultural enterprises with soils					
16		clas	sified by the land study bureau's detailed land					
17		clas	sification as overall (master) productivity rating					
18		clas	s A or B shall be transferred for the use or					
19		deve	lopment of golf courses, golf driving ranges, or					
20		coun	try clubs; and					

1	(3)	The board shall determine the manner of transfer of
2		agricultural enterprise lands and agricultural
3		enterprises.

- 4 (c) For any encumbered or unencumbered agricultural
  5 enterprise lands and agricultural enterprises transferred to the
  6 department that are not being utilized or required for the
  7 public purpose stated in an executive order issued by the
  8 governor to the department pursuant to section 171-11, the order
  9 setting aside the lands shall be withdrawn and the lands shall
  10 be returned to the department of land and natural resources.
  - § -5 Conversion of qualified and encumbered other agricultural lands. The department shall establish criteria by rules adopted pursuant to chapter 91 and, subject to approval by the board, may convert qualified and encumbered agricultural enterprise lands and agricultural enterprises to department leases or other forms of encumbrance.
  - § -6 Extension of qualified and encumbered agricultural enterprise lands and agricultural enterprises. Notwithstanding chapter 171, the board shall establish criteria and rules to allow the cancellation, renegotiation, and extension of transferred encumbrances by the department. Notwithstanding any

- 1 law to the contrary, qualified and encumbered agricultural
- 2 enterprise lands and agricultural enterprises transferred to the
- 3 department shall not have the respective length of term of the
- 4 lease or rents reduced over the remaining fixed term of the
- 5 applicable encumbrances.
- 6 § -7 Board rules. The board shall adopt rules pursuant
- 7 to chapter 91, including eligibility requirements for each
- 8 disposition and applicant qualification, to effectuate the
- 9 purposes of this chapter.
- 10 § -8 Agricultural enterprise special fund; established.
- 11 (a) There is established in the state treasury the agricultural
- 12 enterprise special fund to be administered by the department,
- into which shall be deposited:
- 14 (1) Legislative appropriations to the special fund; and
- 15 (2) All lease rent, fees, penalties, and any other revenue
- or funds collected from agricultural enterprise lands
- 17 and agricultural enterprises, together with the
- 18 revenue or funds collected from agricultural
- enterprise lands and agricultural enterprises that are
- transferred, or in the process of being transferred,
- 21 to the department under this chapter.

- 1 (b) Moneys in the special fund shall be used for planning,
- 2 designing, constructing, operating, maintaining, managing,
- 3 repairing, demolishing, and removing infrastructure or
- 4 improvements on agricultural enterprise lands and for
- 5 agricultural enterprises under this chapter.
- 6 § -9 Disposition. (a) Notwithstanding any provision of
- 7 this chapter and chapter 171 to the contrary, the department may
- 8 dispose of the following by negotiation, drawing of lots,
- 9 conversion, or public auction:
- 10 (1) Public lands and related enterprises set aside and
- designated for use pursuant to this chapter; and
- 12 (2) Other lands and enterprises under the jurisdiction of
- the department pursuant to section -10.
- 14 Except as provided by subsection (d), the department shall
- 15 dispose of public lands by lease.
- 16 (b) In all dispositions, the department shall be subject
- 17 to the requirements set forth in rules adopted by the board
- 18 consistent with section -7 and subject to the following:
- 19 (1) All land and enterprises shall be disposed of in a
- 20 manner that supports or promotes agricultural or

Ţ	(2)	Each lessee shall derive a major portion of the
2		lessee's total annual income earned from the lessee's
3		activities on the premises; provided that this
4		restriction shall not apply if:
5		(A) Failure to meet the restriction results from
6		mental or physical disability of the lessee or
7		the loss of the lessee's spouse; or
8		(B) The premises are fully used to support or promote
9		the agricultural or aquacultural activities for
10		which the disposition was granted;
11	(3)	The lessee shall comply with all federal and state
12		laws regarding environmental quality control;
13	(4)	The board shall:
14		(A) Determine the specific uses for which the
15		disposition is intended;
16		(B) Parcel the land into minimum size economic units
17		sufficient for the intended uses;
18		(C) Make, or require the lessee to make, improvements
19		that are necessary to achieve the intended uses;



1		(D)	Set the upset price or lease rent based upon an
2			appraised evaluation of the property value,
3			adjustable to the specified use of the lot;
4		(E)	Set the term of the lease, which shall not be
5			less than fifteen years or more than sixty-five
6			years, including any extension granted for
7			mortgage lending or guarantee purposes; and
8		(F)	Establish other terms and conditions that it
9			deems necessary, including restrictions against
10			alienation and provisions for withdrawal by the
11			board; and
12	(5)	Any	transferee, assignee, or sublessee of an
13		agri	cultural enterprise lease shall first qualify as
14		an a	pplicant under this chapter. For the purpose of
15		this	paragraph, any transfer, assignment, sale, or
16		othe	r disposition of any interest, excluding a
17		secu	rity interest, by any legal entity that holds an
18		agri	cultural enterprise lease shall be treated as a
19		tran	sfer of the agricultural enterprise lease and
20		shal	l be subject to the approval of the board,
21		reas	onable terms and conditions consistent with this

1	chapter, and rules adopted pursuant to this chapter.
2	No transfer shall be approved by the board if the
3	disposition of the stock or assets or other interest
4	of the applicant would result in the failure of the
5	person to qualify for an agricultural enterprise
6	lease.
7	(c) A violation of any provision in this section shall be
8	cause for the board to cancel the lease and take possession of
9	the land, or take other action as the board, in its sole
10	discretion, deems appropriate; provided that the board shall
11	provide notice to the lessee of the violation in accordance with
12	rules adopted pursuant to section -7.
13	(d) The board may issue easements, licenses, permits, and
14	rights-of-entry for uses that are consistent with the purposes
15	for which the lands were set aside or are otherwise subject to
16	the authority of the department pursuant to section -10.
17	§ -10 Authority to plan, design, develop, and manage
18	agricultural enterprise lands and agricultural enterprises. The
19	department, or its lessees subject to the department's approval,
20	may plan, design, develop, and manage agricultural enterprise

lands and agricultural enterprises on:

21

1	(1)	Public lands set aside by executive order pursuant to
2		section 171-11 for use as agricultural enterprise
3		lands and agricultural enterprises;
4	(2)	Other lands with the approval of the board that may be
5		subject to a joint venture partnership agreement
6		pursuant to section -11; and
7	(3)	Lands acquired by the department by way of
8		foreclosure, voluntary surrender, or otherwise
9		pursuant to section 155-4(11).
10	§	-11 Agricultural enterprise lands and agricultural
11	enterpris	e development. On behalf of the State or in
12	partnersh	ip with a federal agency, county, or private party, the
13	departmen	t may develop agricultural enterprise lands and
14	agricultu	ral enterprises.
15	§	-12 Lease negotiation. (a) The department may
16	negotiate	and enter into leases with any person who:
17	(1)	Holds a revocable permit for agricultural purposes;
18	(2)	Has formerly held an agricultural lease or a holdover
19		lease of public land that expired within the last ten
20		years and has continued to occupy the land; or



1	(3)	Is determined by the department to have a beneficial
2		impact on agriculture;

- 3 provided that the department shall notify in writing those
- 4 eligible for lease negotiations under this section and shall
- 5 inform the applicants of the terms, conditions, and restrictions
- 6 provided by this section.
- 7 Any eligible person may apply for a lease by submitting a
- 8 written application to the department within thirty days from
- 9 the date of receipt of notification; provided that the
- 10 department may require documentary proof from any applicant to
- 11 determine that the applicant meets eligibility and qualification
- 12 requirements for a lease.
- (b) Lands eligible for lease negotiations under this
- 14 section are limited to lands that are:
- (1) Determined to be sufficiently capable of servingagricultural purposes;
- 17 (2) Set aside to the department for agricultural or
  18 agricultural-related uses by the governor through an
  19 executive order; and
- (3) Not needed by any state or county agency for any otherpublic purpose.

1	(c)	In negot	iating an	d executing	a	lease	pursuant	to	this
2	section,	the board	shall:						

- 3 (1) Require the appraisal of the parcel using the Uniform
  4 Standards of Professional Appraisal Practice to
  5 determine the rental amount, including percentage of
  6 rent;
- Require the payment of a premium, computed as twentyfive per cent of the annual lease rent; provided that
  the premium to be added to the annual lease rent for
  each year of the lease shall be equal to the number of
  years the lessee has occupied the land; provided
  further that the premium period shall not exceed seven
  years; and
- 14 (3) Recover from the lessee the costs of expenditures
  15 required by the department to convert the parcel into
  16 leasehold.
- 17 § -13 Public lands exemption. Notwithstanding chapter
  18 171, disposition of lands set aside for use pursuant to this
  19 chapter shall not be subject to the prior approval of the board
  20 of land and natural resources.

1	§ -14 Rights of holders of security interests. (a)
2	Prior board action shall be required when an institutional
3	lender acquires the lessee's interest through a foreclosure
4	sale, judicial or nonjudicial, or by way of assignment in lieu
5	of foreclosure, or when the institutional lender sells or causes
6	the sale of the lessee's interest in a lease by way of a
7	foreclosure sale, judicial or nonjudicial. The institutional
8	lender shall convey to the board a copy of the sale or
9	assignment as recorded in the bureau of conveyances.
10	(b) Notwithstanding any other provision of this chapter,
11	for any lease that is subject to a security interest held by an
12	institutional lender who has given to the board a copy of the
13	encumbrance as recorded in the bureau of conveyances:
14	(1) If the lease is canceled for violation of any non-
15	monetary lease term or condition, or if the lease is
16	deemed terminated or rejected under bankruptcy laws,
17	the institutional lender shall be entitled to issuance
18	of a new lease in its name for a term equal to the
19	term of the lease remaining immediately prior to the
20	cancellation, termination, or rejection, with all
21	terms and conditions being the same as in the

ı		canceled, terminated, or rejected lease, except only					
2		for the liens, claims, and encumbrances, if any, that					
3		were superior to the institutional lender before the					
4		cancellation, termination, or rejection; provided that					
5		a lease that is rejected or deemed rejected under					
6		bankruptcy law shall be deemed canceled and terminated					
7		for all purposes under state law;					
8	(2)	If the lessee's interest under a lease is transferred					
9		to an institutional lender, including by reason of					
10		paragraph (1), acquisition of the lessee's interest					
11		pursuant to a judicial or nonjudicial foreclosure					
12		sale, or an assignment in lieu of foreclosure:					
13		(A) The institutional lender shall be liable for the					
14		obligations of the lessee under the lease for the					
15		period of time during which the institutional					
16		lender is the holder of the lessee's interest;					
17		provided that the institutional lender shall not					
18		be liable for any obligations of the lessee					
19		arising after the institutional lender has					
20		assigned the lease; and					

1	(B) S	ection -9(b)(1) and (2) shall not apply to
2	t	he lease or the demised land during the time the
3	i	nstitutional lender holds the lease; provided
4	t	hat:
5	(	i) For non-monetary lease violations, the
6		institutional lender shall first remedy the
7		lease terms that caused the cancellation,
8		termination, or rejection to the
9		satisfaction of the board; and
10	(i	i) The new lease issued to the institutional
11		lender shall terminate one hundred twenty
12		days from the effective date of issuance, at
13		which time the institutional lender shall
14		either sell or assign the lease and section
15		-9(b)(1) and (2) shall apply to the new
16		lease;
17	(3) If the	re is a delinquent loan balance secured by a
18	securi	ty interest:
19	(A) T	he lease shall not be canceled or terminated,
20	e.	xcept for cancellation by reason of default of
21	t	he lessee;



_		(2)	The file case over and above the fair market felle,
2			based upon the actual use of the land demised and
3			subject to the use restrictions imposed by the
4			lease and applicable laws, shall be imposed or
5			become payable; and
6		(C)	No lands shall be withdrawn from the lease,
7			except either by eminent domain proceedings
8			beyond the control of the board or with prior
9			written consent of the institutional lender which
10			shall not be unreasonably withheld; and
11	(4)	If t	he lease contains any provision requiring the
12		paym	ent of a premium to the lessor on assignment of
13		the	lease, any premium shall be assessed only after
14		all	amounts owing by any debt secured by a security
15		inte	rest held by an institutional lender have been
16		paid	in full.
17	(c)	Owne	rship of both the lease and the security interest
18	by an ins	titut	ional lender shall not effect or cause a merger
19	thereof,	and b	oth interests shall remain distinct and in full
20	force and	effe	ct unless the institutional lender elects in

- 1 writing to merge the lease and security interest with the
- 2 consent of the board.
- 3 (d) The board may include in any consent form or document
- 4 provisions consistent with the intent of this section as may be
- 5 required to make a lease mortgageable or more acceptable for
- 6 mortgageability by an institutional lender.
- 7 (e) The rights of a purchaser, assignee, or transferee of
- 8 an institutional lender's security interest, including a junior
- 9 lien holder, shall be exercisable by the purchaser, assignee, or
- 10 transferee as successor in interest to the institutional lender;
- 11 provided that:
- 12 (1) The purchase, assignment, or transfer shall conform
- with subsection (b) (4); and
- 14 (2) The purchase, assignment, or transfer of the rights
- shall be reserved for and exercisable only by an
- institutional lender.
- 17 Other purchasers shall not be precluded from acquiring the
- 18 institutional lender's security interest but shall not have
- 19 exercisable rights as successor in interest to the original
- 20 institutional lender.
- 21 (f) For the purposes of this section:



- "Institutional lender" means a federal, state, or private
- 2 lending institution, licensed to do business in the State, that
- 3 makes loans to qualified applicants on the basis of a lease
- 4 awarded for security, in whole or in part, together with any
- 5 other entity that acquires all or substantially all of an
- 6 institutional lender's loan portfolio.
- 7 "Makes loans" means lends new money or renews or extends
- 8 indebtedness owing by a qualified applicant to an institutional
- 9 lender, after June 30, 2006.
- 10 "Security interest" means any interest created or perfected
- 11 by a mortgage, assignment by way of mortgage, or by a financing
- 12 statement and encumbering a lease, land demised by the lease, or
- 13 personal property located at, affixed or to be affixed to, or
- 14 growing or to be grown upon the demised land."
- 15 SECTION 2. Section 141-1, Hawaii Revised Statutes, is
- 16 amended to read as follows:
- 17 "\$141-1 Duties in general. The department of agriculture
- 18 shall:
- 19 (1) Gather, compile, and tabulate, from time to time,
- information and statistics concerning:

1		(A)	Entomology and plant pathology: Insects, scales,
2			blights, and diseases injurious or liable to
3			become injurious to trees, plants, or other
4			vegetation, and the ways and means of
5			exterminating pests and diseases already in the
6			State and preventing the introduction of pests
7			and diseases not yet [here;] in the State; and
8		(B)	General agriculture: Fruits, fibres, and useful
9			or ornamental plants and their introduction,
10			development, care, and manufacture or
11			exportation, with a view to introducing,
12			establishing, and fostering new and valuable
13			plants and industries;
14	(2)	Enco	urage and cooperate with the agricultural
15		exte	nsion service and agricultural experiment station
16		of t	he University of Hawaii and all private persons
17		and	organizations doing work of an experimental or
18		educ	ational character coming within the scope of the
19		subj	ect matter of chapters 141, 142, and 144 to 150A,
20		and	avoid, as far as practicable, duplicating the work
21		of t	hose persons and organizations;

1	(3)	Enter into contracts, cooperative agreements, or other
2		transactions with any person, agency, or organization,
3		public or private, as may be necessary in the conduct
4		of the department's business and on [such] any terms
5		as the department may deem appropriate; provided that
6		the department shall not obligate any funds of the
7		State, except the funds that have been appropriated to
8		the department. Pursuant to cooperative agreement
9		with any authorized federal agency, employees of the
10		cooperative agency may be designated to carry out, on
11		behalf of the State the same as department personnel,
12		specific duties and responsibilities under chapters
13		141, 142, and 150A, and rules adopted pursuant to
14		those chapters, for the effective prosecution of pest
15		control and animal disease control and the regulation
16		of import into the State and intrastate movement of
17		regulated articles;
18	(4)	Secure copies of the laws of other states,
19		territories, and countries, and other publications
20		germane to the subject matters of chapters 141, 142,

1		and 144 to 150A, and make laws and publications
2		available for public information and consultation;
3	(5)	Provide buildings, grounds, apparatus, and
4		appurtenances necessary for the examination,
5		quarantine, inspection, and fumigation provided for by
6		chapters 141, 142, and 144 to 150A; for the obtaining,
7		propagation, study, and distribution of beneficial
8		insects, growths, and antidotes for the eradication of
9		insects, blights, scales, or diseases injurious to
10		vegetation of value and for the destruction of
11		injurious vegetation; and for carrying out any other
12		purposes of chapters 141, 142, and 144 to 150A;
13	(6)	Formulate and recommend to the governor and
14		legislature additional legislation necessary or
15		desirable for carrying out the purposes of chapters
16		141, 142, and 144 to 150A;
17	(7)	Publish at the end of each year a report of the
18		expenditures and proceedings of the department and of
19		the results achieved by the department, together with
20		other matters germane to chapters 141, 142, and 144 to
21		150A and that the department may deem proper;

1	(0)	Administer a program or agricultural planning and
2		development, including the formulation and
3		implementation of general and special plans, including
4		but not limited to the functional plan for
5		agriculture; administer the planning, development, and
6		management of the agricultural park program; plan,
7		construct, operate, and maintain the state irrigation
8		water systems; plan, design, construct, operate,
9		manage, maintain, repair, demolish, and remove
10		infrastructure or improvements on any lands of which
11		the department has jurisdiction; review, interpret,
12		and make recommendations with respect to public
13		policies and actions relating to agricultural land and
14		water use; assist in research, evaluation,
15		development, enhancement, and expansion of local
16		agricultural industries; and serve as liaison with
17		other public agencies and private organizations for
18		the above purposes. In the foregoing, the department
19		shall act to conserve and protect agricultural lands
20		and irrigation water systems, promote diversified
21		agriculture, increase agricultural self-sufficiency,



1		and ensure the availability of agriculturally suitable
2		lands; and
3	(9)	Manage, administer, and exercise control over any
4		public lands, as defined under section 171-2, that are
5		designated important agricultural lands pursuant to
6		section 205-44.5, including but not limited to
7		establishing priorities for the leasing of these
8		public lands within the department's jurisdiction."
9	SECT	ION 3. Statutory material to be repealed is bracketed
10	and stric	ken. New statutory material is underscored.
11	SECT	ION 4. This Act shall take effect upon its approval.
12		INTRODUCED BY:

#### Report Title:

Department of Agriculture; Agricultural Enterprises; Agricultural Enterprise Special Fund

#### Description:

Authorizes the department of agriculture to plan, design, construct, operate, manage, maintain, repair, demolish, and remove infrastructure on any lands under the jurisdiction of the department, to support and promote agriculture. Establishes the agricultural enterprise program. Establishes the agricultural enterprise special fund. Requires the board of agriculture to annually report an accounting of non-agricultural park lessees to the legislature.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.