

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 AND ENVIRONMENT

**MONDAY, FEBRUARY 1, 2021
1:00 P.M.
VIDEOCONFERENCE**

**SENATE BILL 497
RELATING TO MANUFACTURING**

Chairperson Gabbard and Members of the Committee:

Thank you for the opportunity to testify on Senate Bill 497, relating to manufacturing. This bill would establish an income tax credit to incentivize the development of the food manufacturing industry in the State. The Department supports incentivizing food manufacturing facilities in the State but has concerns about its role in administration of the tax credit, and therefore offers the following comments.

Value-added manufactured products are an important and creative way for local agricultural producers to diversify revenue streams and up-cycle lower-grade harvests. Agricultural producers in the state would benefit from the development of the local food manufacturing industry. However, this bill would task the Department to “verify the nature” of qualified expenses including:

- The purchasing of food manufacturing equipment;
- Training of employees on the use of food manufacturing equipment;
- Improving existing energy efficiency manufacturing equipment or the purchase of improved energy efficiency equipment in the food manufacturing process; or
- Studying or planning the implementation of a new food manufacturing facility.

Approximately ninety per cent of the State’s farmers do not engage in value-added activities. Most value-added enhancements to locally grown products are performed by food manufacturing entities that are not growers. While the Department specializes in production agriculture that involves the growing of crops and livestock, and harvesting and distributing local commodities, we lack expertise and resources in the manufacturing sphere. Administering this aspect of the tax credit would require hiring new staff knowledgeable of food manufacturing practices to properly verify qualified



expenses. The Department therefore respectfully suggests that that administration of this tax credit be carried out by an entity that has the requisite expertise in manufacturing.

Thank you for the opportunity to testify on this measure.

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



ISAAC W. CHOY
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
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To: The Honorable Mike Gabbard, Chair;
The Honorable Clarence K. Nishihara, Vice Chair;
and Members of the Senate Committee on Agriculture and Environment

From: Isaac W. Choy, Director
Department of Taxation

Date: February 1, 2021
Time: 1:00 P.M.
Place: Via Videoconference, Hawaii State Capitol

Re: S.B. 497, Relating to Manufacturing

The Department of Taxation (Department) offers the following comments regarding S.B. 497 for your consideration.

S.B. 497 adds a new section to chapter 235, Hawaii Revised Statutes (HRS), to create a nonrefundable tax credit for “any person or business entity engaged in the food manufacturing industry in the State.” The tax credit is capped at an unspecified amount of qualified expenses, with an unspecified aggregate cap. The Department of Agriculture (DOA) will be responsible for verifying the nature and amount of qualified expenses, certifying the tax credit, and administering the aggregate cap. The measure defines “qualified expenses” as

- 1) The purchasing of food manufacturing equipment;
- 2) Training of employees on the use of food manufacturing equipment;
- 3) Improving existing energy efficiency manufacturing equipment or the purchase of improved energy efficiency equipment in the food manufacturing process; or
- 4) Studying or planning the implementation of a new food manufacturing facility.

The measure is effective upon approval and applies to taxable years beginning after December 31, 2020.

The Department notes that the measure as currently drafted is extremely broad. The proposed measure would exempt from taxation *any* person or business engaged in the State’s food manufacturing industry, and includes quite a wide range of activities in its definition of qualified expenses. The Department recommends amending this measure to include specified individual and aggregate cap amounts as well as additional definitions, criteria, and restrictions

for the proposed exemption to better effectuate the Legislature's desired policy goals, eliminate major administrative difficulties, and avoid unintended revenue losses.

Moreover, the Department also notes that there are already several existing tax credits relating to agriculture and thus recommends that this proposed credit be narrowly tailored to avoid duplicative or redundant credits that might lead to unintended losses of revenue.

Finally, if the Committee wishes to advance this measure, the Department respectfully requests that the new tax credit be made available for taxable years beginning after December 31, 2021. This will give the Department sufficient time to make the necessary form and computer system changes.

Thank you for the opportunity to provide comments.



Hawaii Technology Development Corporation
521 Ala Moana Blvd, Ste 255 | 808-539-3806
Honolulu, Hawaii 96813 | www.htdc.org

Written Statement of
Len Higashi
Acting Executive Director
Hawaii Technology Development Corporation
before the
Senate Committee On Agriculture And Environment
Monday, February 1, 2021
1:00 p.m.
Videoconference

In consideration of
SB497
RELATING TO MANUFACTURING.

Chair Gabbard, Vice Chair Nishihara, and Members of the Committee.

The Hawaii Technology Development Corporation (HTDC) offers **comments** on SB497 that creates an income tax credit to incentivize the food manufacturing industry in the State. Applies to taxable years beginning after December 31, 2020.

With the economic injury sustained due to the COVID-19 pandemic, efforts to diversify the economy are critical. Since 2016, HTDC's federally funded Manufacturing Extension Partnership (MEP) program has administered the Manufacturing Development Program (Manufacturing Assistance Program or MAP), providing grants to Hawaii manufacturers per HRS [206M-15.1](#). In FY20 the MAP program funded 18 out of 45 applicants. \$1.5 million was requested and \$485 thousand was awarded. The companies invested \$9 million. The most recent reported impact for the MAP program was \$748 million with 2,387 jobs in Hawai'i in 2018. For FY21, the program did not receive an appropriation. HTDC looks forward to working with all stakeholders on this new credit to avoid any potential overlap with the MAP program. HTDC defers to the Department on the tax credit.

Thank you for the opportunity to offer these comments.

SB-497

Submitted on: 1/29/2021 10:48:58 AM

Testimony for AEN on 2/1/2021 1:00:00 PM

| Submitted By | Organization | Testifier Position | Present at Hearing |
|---------------------|---|---------------------------|---------------------------|
| James K. Chan | Testifying for Hawaiian Chip Company, LLC | Support | No |

Comments:

Aloha Chair Gabbard, Vice Chair Nishihara, and Members of the Committee,

Hawaiian Chip Company supports SB497, as it recognizes the importance of supporting food manufacturing in Hawaii. I do ask that the committee consider expanding the bill to include cost of repairs on food processing equipment as qualifying for tax credits as well. It is important to promote growth and development with new equipment. However in this economic crisis, survival is the most urgent priority and keeping current equipment properly maintained between larger than normal gaps in production is a challenge. Think about starting a car after 12 months of just sitting in a garage untouched. Thank you for your consideration.

Mahalo,

Jimmy



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the Senate Committee on Agriculture and Environment
Monday, February 1, 2021 at 1:00 P.M.
Via Videoconference**

RE: SB 497, RELATING TO MANUFACTURING

Chair Gabbard, Vice Chair Nishihara, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports** SB 497, which establishes an income tax credit to incentivize the food manufacturing industry in the State and applies to taxable years beginning after December 31, 2020.

The Chamber is Hawaii's leading statewide business advocacy organization, representing 2,000+ businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

As the exclusive state affiliate for the National Association of Manufacturers, the Chamber of Commerce Hawaii, in partnership with INNOVATE Hawaii, continues to lead a Manufacturing in Hawaii initiative to **increase and diversify** the manufacturing industry in Hawaii and promote the importance of this growing industry to our state.

With the transformation of the pineapple and sugar industries, Hawaii must continue to invigorate manufacturing industries such as local food manufacturing and production to continue to support Hawaii's economy. Hawaii has coined the "Made in Hawaii" expression, a value for all manufacturers and producers in Hawaii, with a value of over 700 active manufacturers in the state, employing 14,000 people, and contributing billions of dollars to the state economy. Specifically, in 2018 Hawaii manufacturers helped our state's economy by contributing nearly \$1.87 billion in manufactured goods exported outside of Hawaii.

Hawaii faces competitive disadvantages on the global stage and this measure will assist food manufacturing companies in Hawaii to start or grow their operations with the help of tax credit incentives.

Thank you for this opportunity to provide testimony in support of SB 497.

SB-497

Submitted on: 1/29/2021 11:35:18 AM

Testimony for AEN on 2/1/2021 1:00:00 PM

| Submitted By | Organization | Testifier Position | Present at Hearing |
|---------------------|---|---------------------------|---------------------------|
| Gary T. Yoshioka | Testifying for Diamond Bakery Co., Ltd. | Support | No |

Comments:

Mahalo to the Senate leadership for recognizing the need to support our local food manufacturing industry to spur economic growth and, in turn, increase the potential for growth of value-added agricultural activity. The tax credit is a sensible way to spur investment for economic growth. Food manufacturing has reach beyond tourism into the local consumer base and beyond Hawaii into Mainland and global markets.

I also appreciate the vision the Governor and Legislature has shown in drawing strategic focus to develop new advanced industries where we can be globally competitive, best utilizing our unique Hawaii attributes, and combining that with the significant talent that we possess in our young people. We have enough of the resources in our ecosystem to begin building valuable new global advanced industry niches where can compete.

On-going dialog with local small business leaders in food manufacturing and across all local small business will be critical to ensure these tax credits are applied most effectively to multiply the impact across our economy.

We at Diamond Bakery and the Hawaii Food Manufacturers Association want to be a part of this right and visionary effort, to enact the right tactics wthin a broader strategic framework for the benefit of our economy and our people.

I vote in support. Mahalo nui loa.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax Credit for Food Manufacturing Development

BILL NUMBER: SB 497

INTRODUCED BY: GABBARD, CHANG, KEITH-AGARAN, MISALUCHA, Acasio, Nishihara

EXECUTIVE SUMMARY: Creates a nonrefundable income tax credit to incentivize the food manufacturing industry in the State. Applies to taxable years beginning after December 31, 2020.

SYNOPSIS: Adds a new section to chapter 235, HRS, to establish a nonrefundable tax credit equal to 100% of the qualified expenses of a qualified taxpayer up to \$ _____ in any taxable year.

Specifies that the credit is determined at the entity level and may be allocated to partners, S corporation shareholders, or trust beneficiaries following section 704(b) of the Internal Revenue Code.

Caps the tax credits at \$ _____ per taxable year. If the cap is reached, any taxpayers who are limited may claim the balance of the credit in the subsequent taxable year.

Creates a process where a qualified taxpayer submits an application to the Department of Agriculture, which will certify eligible expenses. Allows for a user fee. All tax credit claims shall be filed before the end of the 12th month following the close of the taxable year for which the credit may be claimed, upon pain of waiver of the right to claim the credit.

Defines "qualified expenses" as expenses incurred by a qualified taxpayer for: (1) The purchasing of food manufacturing equipment; (2) Training of employees on the use of food manufacturing equipment; (3) Improving existing energy efficiency manufacturing equipment or the purchase of improved energy efficiency equipment in the food manufacturing process; or (4) Studying or planning the implementation of a new food manufacturing facility.

Defines "qualified taxpayer" means any person or business entity engaged in the food manufacturing industry in the State.

EFFECTIVE DATE: Applies to taxable years beginning after December 31, 2020.

STAFF COMMENTS: The credit as proposed is a 100% credit, meaning, at least for expenses under the limit, the business pays nothing and the Hawaii taxpayers pay everything. There is currently nothing to indicate that the business seeking the credits would have "skin in the game."

The tax system is there to raise revenue to keep the government moving. Using the tax system to shape social policy merely throws the revenue raising system out of whack, making the system less than reliable as there is no way to determine how many taxpayers will avail themselves of the credit and in what amount.

Furthermore, tax credits are nothing more than the expenditure of public dollars, but out the back door. If, in fact, these dollars were subject to the appropriation process, would taxpayers be as generous about the expenditure of these funds when our kids are roasting in the public school classrooms, there isn't enough money for social service programs, or our state hospitals are on the verge of collapse, overtaxed by the pandemic?

If lawmakers want to subsidize this activity, then a direct appropriation would be more accountable and transparent. That way lawmakers will be very clear on (1) how much we taxpayers are paying, and (2) what we are getting in return. For example, lawmakers could authorize a distribution to the agricultural development and food security special fund for appropriate grants under HRS section 141-10(c).

Digested 1/29/2021

SB-497

Submitted on: 1/29/2021 3:51:47 PM

Testimony for AEN on 2/1/2021 1:00:00 PM

| Submitted By | Organization | Testifier Position | Present at Hearing |
|-----------------------|----------------------------------|---------------------------|---------------------------|
| Christopher Bornstein | Testifying for Spicy Ninja Sauce | Support | No |

Comments:

To whom it may concern,

As a farmer and value added producer, ANYTHING that enables me to more effectively move forward in my aim of producing a superior ORGANICALLY GROWN and MANUFACTURED in Hawaii product is a boon.

Thank you for your time and for your support of those who seek to move through this time of madness and make Hawaii and more eco freindly and tropical paradise for years to come through better business practices.

Alha,

Christopher Bornstein

Spicy Ninja Sauce



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Executive Officers

Joe Carter, Coca-Cola Bottling of Hawaii, *Chair*
Charlie Gustafson, Tamura Super Market, *Vice Chair*
Eddie Asato, The Pint Size Corp., *Secretary/Treas.*
Lauren Zirbel, HFIA, *Executive Director*
John Schlif, Rainbow Sales and Marketing, *Advisor*
Stan Brown, Acosta Sales & Marketing, *Advisor*
Paul Kosasa, ABC Stores, *Advisor*
Derek Kurisu, KTA Superstores, *Advisor*
Beau Oshiro, C&S Wholesale Grocers, *Advisor*
Toby Taniguchi, KTA Superstores, *Advisor*

TO:

Committee on Agriculture and Environment
Senator Mike Gabbard, Chair
Senator Clarence K. Nishihara, Vice Chair

FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

DATE: February 1, 2021
TIME: 1pm
PLACE: Via Videoconference

RE: SB497 Relating to Manufacturing

Position: Support

The Hawaii Food Industry Association is comprised of two hundred member companies representing retailers, suppliers, producers, and distributors of food and beverage related products in the State of Hawaii.

Now more than ever we can see the importance of diversifying Hawaii's economy and increasing local food production.

Hawaii food manufacturers are already making a range of great products. These businesses are innovative and perseverant. They are vital economic drivers in our state that create jobs and promote a more robust local economy by making local products for local people.

These businesses demonstrate that local food manufacturing is an area with great potential. This bill is a great example of the positive support our Hawaii businesses need right now from our government in order to survive and thrive. Manufacturing in Hawaii presents many challenges like high labor costs and the distance from other markets. This bill can help to offset those challenges and promote much needed growth in our local food manufacturing sector.

Investing in local food manufacturing makes our state less food dependent, more food self-sufficient, and more resilient. During the economic downturn in our state the amount of GET being collected fell precipitously, as did income taxes, payroll taxes however did not decrease by the same percentage. By supporting local companies that create jobs this measure will also help create a more stable tax base for the State.

We urge you to pass this measure and we thank you for the opportunity to testify.



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February 1, 2021

HEARING BEFORE THE
SENATE COMMITTEE ON AGRICULTURE AND ENVIRONMENT

TESTIMONY ON SB 497
RELATING TO MANUFACTURING

Videoconference
1:00 PM

Aloha Chair Gabbard, Vice Chair Nishihara, 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 497, which creates an income tax credit to incentivize the food manufacturing industry in the State.

The strength of Hawaii's economy is dependent upon a diversity in commerce that is resilient to economic downturns and aggressive in creating new growth opportunities.

A major weakness in agriculture is our lack of value-added production. Our over-dependence on the sale of fresh goods makes us especially vulnerable to weather, pest outbreaks, and pandemics while strict quarantine measures and transportation costs of heavy goods make exports difficult. This measure creates incentives for value-added manufacturing. Farmers like to farm. They are not experts in value-added production. Partnerships with the manufacturing sector could help us in this area.

For example, beef. Maui entrepreneurs created a new product called Maui Crisps. The owner had difficulty meeting demand and recently expanded his operations. This provides a value-added product to our cattle industry, is portable and light -- perfect for suitcase exports, and is shelf-stable, not requiring refrigeration. Taro, sweet potato, ulu, and cassava chips are other innovative value-added products that support local farmers.

We have also seen a rise in local crops being used to create locally distilled spirits such as sugarcane rum, sweet potato shochu, and pineapple vodka. These products are popular “omiyage” gifts and are popular with both Hawaii residents and visitors. Products like these can help with agricultural expansion and supports our State’s policy to increase agriculture production.

The bill gives an income tax credit to companies on their expenditures for food manufacturing equipment, the training of their employees to use the food manufacturing equipment, and improving energy efficiency in their operations. We believe that this credit will help fuel manufacturing in Hawaii to grow and provide more products for both local consumption and export. This credit will help companies in Hawaii to start or grow their operations.

According to the National Association of Manufacturers, every new manufacturing job created adds another 1.6 jobs to the local service economy, and for every dollar in manufacturing sales, another \$1.34 is added to the economy. Investments in manufacturing can have a stronger impact than investments in other economic sectors. This is a wise investment for Hawaii.

We need to expand agricultural value-added production capacities and this income tax credit will incentive manufacturers to achieve this goal.

Thank you for this opportunity to provide our opinion on this important matter.



Email: communications@ulupono.com

SENATE COMMITTEE ON AGRICULTURE & ENVIRONMENT
Monday, February 1, 2021 — 1:00 p.m.

Ulupono Initiative supports SB 497, Relating to Manufacturing.

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 freshwater and waste resources.

Ulupono supports SB 497, which creates an income tax credit to incentivize the food manufacturing industry in the State.

Ulupono supports local food manufacturing as it provides market options for local farmers and ranchers to bring products to consumers. By processing various fruits, vegetables, meats, or dairy products into value-added goods, farmers and ranchers can utilize all of their products, that may have previously been considered food waste, and diversify their revenue streams. This tax incentive will help grow local production and influence future investments in food manufacturing. We recognize that you face many difficult decisions this year to balance the budget in the midst of this economic crisis, but we hope that this support for local farmers, ranchers and food manufacturing can be considered.

Thank you for this opportunity to testify.

Respectfully,

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

Investing in a Sustainable Hawai'i

SB-497

Submitted on: 1/31/2021 10:22:41 AM

Testimony for AEN on 2/1/2021 1:00:00 PM

| Submitted By | Organization | Testifier Position | Present at Hearing |
|---------------------|---|---------------------------|---------------------------|
| Ethan West | Testifying for Punahale Provisions, PBC | Support | No |

Comments:

Aloha and mahalo for your time in reviewing our testimony. There have been many economic stimulus options put forward to: help Hawaii get restarted, keep businesses from shuttering their doors, and get residents of Hawaii back to work. The majority of those initiatives have been focused on and limited to existing infrastructure and maintaining operations albeit with clauses that allow for pivoting.

Now that we have pivoted as a state it is time to look at bringing our outdated manufacturing infrastructure and environment into the modern world with one foot rooted in history as to not repeat the missteps of our past.

This bill will help to spur investment and innovation in diversifying our state economic engine and have lasting impacts on job creation, food security and the overall health and wellness for Hawaii.

SB-497

Submitted on: 1/29/2021 12:20:38 PM

Testimony for AEN on 2/1/2021 1:00:00 PM

| Submitted By | Organization | Testifier Position | Present at Hearing |
|---------------------|---------------------|---------------------------|---------------------------|
| Shawn MAWAE | Individual | Support | No |

Comments:

I support this bill.

LATE



**TESTIMONY OF TINA YAMAKI
PRESIDENT
RETAIL MERCHANTS OF HAWAII
FEBRUARY 1, 2021**

Re: SB 497 RELATING TO MANUFACTURING

Good afternoon Chair Gabbard and members of the Senate Committee on Agriculture and the Environment. I am Tina Yamaki, President of the Retail Merchants of Hawaii and I appreciate this opportunity to testify.

The Retail Merchants of Hawaii was founded in 1901, RMH is a statewide, not for profit trade organization committed to the growth and development of the retail industry in Hawaii. Our membership includes small mom & pop stores, large box stores, resellers, luxury retail, department stores, shopping malls, local, national, and international retailers, chains and everyone in between.

We support the SB 497 Relating to Manufacturing. This measure creates an income tax credit to incentivize the food manufacturing industry in the State; and applies to taxable years beginning after December 31, 2020.

Now more than ever, business like manufacturers need of help. This tax credit is a step in the right direction. Many local manufacturers were devastatingly affected by the pandemic and by state and county orders. We need to keep Hawaii's manufacturers and businesses alive and strong. By helping to keep businesses open - our friends, family and neighbors continue to have jobs and the state's economy can begin to recover.

Mahalo again for this opportunity to testify.