

JOSH GREEN, M.D.
Governor

SYLVIA LUKE
Lt. Governor



SHARON HURD
Chairperson, Board of Agriculture

DEXTER KISHIDA
Deputy to the Chairperson

State of Hawai'i
DEPARTMENT OF AGRICULTURE
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TESTIMONY OF SHARON HURD
CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE SENATE COMMITTEES ON AGRICULTURE AND
ENVIRONMENT AND HEALTH AND HUMAN SERVICES

FEBRUARY 9, 2024
1:00 PM
CONFERENCE ROOM 224

SENATE BILL NO. 2813
RELATING TO MEAT PROCESSING

Chair Gabbard, Vice Chair Richards and Chair San Buenaventura, Vice Chair Aquino,
and Members of the Committees:

Thank you for the opportunity to testify on Senate Bill 2813. The Hawaii Department of Agriculture (Department) recognizes the benefit of increasing in-state food production and supports SB2183 with reservations. The Department also defers to the Department of Taxation on the handling of the proposed meat processing tax exemption.

Senate Bill 2813 requires the Department to: establish and implement meat processing industry standards; conduct a survey on slaughterhouse operations that will evaluate (1) active slaughter operations and their capacities; (2) best practices for sustainable and safe waste disposal options; and (3) opportunities for growth in the industry, and submit a report of its findings and recommendations including any proposed legislation, to the legislature no later than twenty days prior to the convening of the regular session of 2025. The bill also amends Chapter 235, Hawaii Revised Statutes, by adding a new section for Meat processing tax credit. Definitions for qualified expenses and qualified taxpayers are included.



Processes to claim the meat processing tax credit are detailed. A summary of the details requires the qualified taxpayer, before March 31 of each year in which qualified expenses were incurred by in the previous taxable year, to submit a written, certified statement to the Chairperson of the Board of Agriculture identifying qualified expenses incurred, and the amount of the tax credit claimed by the taxpayer.

The Board of Agriculture (BOA) is required to maintain records of the qualified taxpayers claiming the credits, and the total amount of the qualified expenses upon which the tax credits are based. The BOA is to verify the nature and amount of the qualified expenses, total all qualified and cumulative expenses that the board certifies; and certify the amount of the tax credit for each taxpayer for each taxable year and the cumulative amount of the tax credit. The BOA will then issue a certificate to the taxpayer verifying the preceding criteria.

The Taxpayer is to file the certificate with their tax return with the Department of Taxation to claim the tax credit. The director of taxation is required to: (1) prepare any forms that may be necessary to claim a tax credit; (2) may require the taxpayer to furnish reasonable information to ascertain the validity of the claim for the tax credit; and (3) may adopt rules under Chapter 91 necessary to effectuate the purposes of claiming the tax credit.

Regarding establishing and implementing meat processing industry standards, and standards certifying eating qualities of meat, the Department respectfully notes that extensive processing and grading standards are currently established under federal Acts. Further, the BOA previously adopted federal meat grading standards. Currently, the USDA Agriculture Marketing Service (AMS) provides meat grading programs under Grading, Certification and Standards 7 U.S.C. 1621–1627. The USDA AMS grading is accepted and respected globally. Similarly, the USDA Food Safety and Inspection Service (FSIS) conducts meat processing inspection under established standards in the Meat Inspection Act 21 U.S. Code § 601 - 695; Poultry Products Inspection Act 21 U.S. Code § 451 – 472; and Humane Methods of Livestock Slaughter 7 U.S. Code Sec. 1901 – 1907. The benefits of adding additional state standards may be beneficial to the

industry if the objective is to establish local grass-finished beef grading standards because grass finished beef takes longer to produce and is typically leaner resulting in lower grades under current USDA AMS standards that are based on higher fat marbled beef receiving higher grades. The department will need to contract with the University of Hawaii, College of Tropical Agriculture and Human Resources (UH CTAHR), or another entity to conduct a study on the technical and procedural methods for a viable grading system.

The Department appreciates that the bill allows for assistance from the UH CTAHR or other appropriate entity to provide expertise and assist with the survey on slaughterhouse operations. The Department would address this deliverable by contract to access expertise in these types of processing operations, designing, and conducting surveys soliciting and compiling input, and reports. Alternatively, this portion of the bill could be issued as grant funding to an industry organization to conduct. The Department could provide previous studies conducted and participate in discussions.

The Department has reservations with Part II of the measure regarding the BOA receiving and maintaining records; evaluating, verifying, and qualifying claimed expenses; certifying, and issuing a certificate to the taxpayer verifying information submitted to the Board of Agriculture, amounts of qualified expenses, the tax credit amount certified for the taxpayer, and computing the cumulative amount of tax credits certified. The definition of "qualified expenses" is broad and subject to interpretation. The Department will defer to the Department of Taxation. Although the remainder of the bill amending Chapter 235, PART II section (g) directs actions to be taken by the Director of Taxation, with (h)-(i) adding the application of tax credit and definitions, the requirements placed on the BOA and Department programs exceeds expertise and capacity.

The Department would like to note that while it intends to comply with the provisions of this measure if adopted, implementing Part II on 7/1/2024 may be challenging due to the multiple agencies, contracts, and processes involved. Thank you for the opportunity to testify on this measure.

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



GARY S. SUGANUMA
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**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

S.B. No. 2813, Relating to Meat Processing.

BEFORE THE:

Senate Committees on Agriculture and Environment and Health and Human Services

DATE: Friday, February 9, 2024

TIME: 1:00 p.m.

LOCATION: State Capitol, Room 224

Chairs Gabbard and San Buenaventura, Vice-Chairs Richards and Aquino, and Members of the Committees:

The Department of Taxation ("Department") offers the following comments regarding S.B. 2813 for your consideration.

Section 5 of S.B 2813 adds a new section to chapter 235, Hawaii Revised Statutes (HRS), to create an income tax credit based on a qualified taxpayer's costs incurred for the inspection of meat. The term "qualified taxpayer" is defined as any person who engages in the business of slaughtering, custom slaughtering, or preparing any cattle, deer, sheep, swine, goats, horses, mules, or other equines, or preparing, freezing, packaging, or labeling any carcasses, or parts or products of carcasses, of any animals, for use as human food or animal food.

The credit amount would be equal to the taxpayer's qualified expenses up to an unspecified cap; there is also an unspecified annual aggregate cap. The Board of Agriculture is charged with certifying this new credit and administering its caps. S.B. 2813 also requires the Department of Agriculture to establish industry standards for processing meat and conduct a survey on slaughterhouse operations.

The new tax credit would apply to taxable years beginning after December 31, 2023.

The Department defers to the Board of Agriculture regarding its ability to certify this credit as drafted, but requests that this certification provision be maintained. The Department does not have the necessary subject-matter expertise to properly administer this new credit, or the administrative ability to track its aggregate caps.

The Department notes, however, that the bill does not specify how the credit should be allocated in instances where the amounts claimed in the certified statements submitted to the Board of Agriculture exceed the aggregate cap. If the intent is that the credits will be certified on a first-come, first-serve basis, as opposed to being prorated among all qualified taxpayers who submit a certified statement, the Department suggests the following language be added to subsection (d) on page 4:

When the total amount of certified credits reaches _____, the board of agriculture shall immediately discontinue certifying credits and notify the department of taxation. In no instance shall the total amount of certificates issued exceed _____ for each taxable year.

The Department also requests that the effective date of the bill be amended so that section 5 shall apply to taxable years beginning after December 31, 2024. This will provide sufficient time to make the necessary Form, Instruction, and computer system changes, while providing taxpayer education about this new credit.

Thank you for the opportunity to provide comments on this measure.

JOSH GREEN, M.D.
Governor

SYLVIA LUKE
Lt. Governor



WENDY L. GADY
Executive Director

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**TESTIMONY OF WENDY L. GADY
EXECUTIVE DIRECTOR
AGRIBUSINESS DEVELOPMENT CORPORATION**

**BEFORE THE SENATE COMMITTEES ON AGRICULTURE AND
ENVIRONMENT & HEALTH AND HUMAN SERVICES**

Friday, February 9, 2024
1:00 p.m.
Conference Room 224 & Videoconference

**SENATE BILL NO. 2813
RELATING TO MEAT PROCESSING**

Chairpersons Gabbard and Buenaventura, Vice Chair Richards and Aquino, and Members of the joint Committees:

Thank you for the opportunity to testify in support of Senate Bill No. 2813, which requires the Department of Agriculture to establish industry standards for processing meat and conduct a survey on slaughterhouse operations and establishes a tax credit for processing meat.

The COVID-19 pandemic has demonstrated both the resilience and fragility of the food supply. In Hawaii, where we import almost 90% of the food we consume, we are vulnerable to food insecurity when shutdowns occur and supply chains breakdown. With that being said, it could be important to have smaller automated meat processing facilities throughout the state to minimize the risks of disruption.

ADC supports the establishment of industry standards for processing meat, which are crucial in ensuring food safety standards and regulatory adherence within the industry. We also support conducting a survey on slaughterhouse operations because it can help the state highlight any need for policy and infrastructure changes in our food supply chain that promote and streamline the farm-to-table process.

Thank you for your consideration of our testimony.



Hawaii Cattlemen's Council, Inc.

COMMITTEE ON AGRICULTURE AND
ENVIRONMENT

Senator Mike Gabbard, Chair
Senator Herbert M. "Tim" Richards, III, Vice Chair

COMMITTEE ON HEALTH AND HUMAN SERVICES

Senator Joy A. San Buenaventura, Chair
Senator Henry J.C. Aquino, Vice Chair

SB2813

RELATING TO MEAT PROCESSING

Friday, February 9, 2024, 1:00 PM
Conference Room 224 & Videoconference

Chairs Gabbard and San Buenaventura, Vice Chairs Richards and Aquino, and Members of the Committees,

The Hawaii Cattlemen's Council **offers comments SB2813** which requires the Department of Agriculture to establish industry standards for processing meat and conduct a survey on slaughterhouse operations and establishes a tax credit for processing meat.

Industry Standards

With the appropriate funding and resources, the Department of Agriculture is set up to establish these industry standards which will in turn help to improve the marketability of local beef. In 2019, DOA funded as Hawaii Grass-fed Beef Quality Standards to determine an initial framework for the quality standards to protect the integrity of Hawaii pasture-raised. There is opportunity to expand on this.

Survey

Gaps in data hinder the agricultural industry from achieving proper growth – with better data on harvest facility operations, we can better understand where we need more services both for cattle as well as other small livestock. The processing industry is complex and there is opportunity for improvement in practices that could provide even more value to the community, such as high quality compost.

We respectfully ask that the reference to horses and other equine animals be removed from page 7, lines 13 and 18, as this is an old reference and no longer pertinent to today's practices.

Tax Credit

The Hawaii Cattlemen's Council represents Hawaii's cattle producers. While tax credits to the processor may be expected to "trickle down," we prefer for the credits to be provided directly to the producer so they are not at the whim of trying to obtain better prices from further up the supply chain.



It is important for us to ensure the longevity of beef production in Hawaii. Beef production can both provide a high-quality protein (Hawaii's locally grown beef provides 10 essential nutrients in a single 3 oz. serving), while also ensuring lands are stewarded and providing ecosystem services – services like invasive species removal, carbon sequestration, and fire fuel load reduction that benefits the surrounding communities beyond the ranch.

Thank you for the opportunity to testify. The Hawaii Cattlemen's Council (HCC) is the Statewide umbrella organization comprised of the four county-level Cattlemen's Associations. Our member ranchers represent over 60,000 head of beef cows; more than 75% of all the beef cows in the State. Ranchers are the stewards of over 750 thousand acres of land in Hawaii, or 20% of the State's total land mass. We represent the interests of Hawaii's cattle producers.

Nicole Galase
Hawaii Cattlemen's Council
Managing Director