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ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY

TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON AGRICULTURE
ON
HOUSE BILL NO. 681

February 3, 2021
10:00 A.M.
Via Video Conference

RELATING TO MANAGEMENT OF STATE FUNDS

House Bill No. 681 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 state would commit up to \$5,000,000 for the creation of linked investments through agreements with eligible lending institutions to place certificates of deposit to provide capital for the loans.

The Department offers the following comments on the Bill:

1. Although the intent is to benefit farms by providing agricultural loans not otherwise available, there may be a lost opportunity for the state to invest in higher yielding instruments. This potential loss is mitigated by capping the program at \$5,000,000.
2. Availability of capital may not be the underlying issue for financial institutions to make these types of loans.

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.

DAVID Y. IGE
Governor

JOSH GREEN
Lt. Governor



PHYLLIS SHIMABUKURO-GEISER
Chairperson, Board of Agriculture

MORRIS M. ATTA
Deputy to the Chairperson

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TESTIMONY OF THE DEPARTMENT OF AGRICULTURE
BEFORE THE HOUSE COMMITTEE ON AGRICULTURE

FEBRUARY 3, 2021
11:00 A.M.
VIA VIDEOCONFERENCE
CONFERENCE ROOM 325

HOUSE BILL NO. 681
RELATING TO MANAGEMENT OF STATE FUNDS

Chairperson Hashem and Members of the Committee:

Thank you for the opportunity to present testimony on House Bill 681. 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 intent of the linked investment concept is to make more capital available to farmers during times of tight funding from commercial banks. Currently there is no shortage of affordable capital and commercial banks have more than sufficient funds. The Department supports the concept of making additional credit available for agriculture but feels that, currently, available capital is not an issue for financial institutions.

Thank you for the opportunity to testify on this measure.





LATE

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February 3, 2021

HEARING BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE

TESTIMONY ON HB 681
RELATING TO MANAGEMENT OF STATE FUNDS

Conference Room 325
10:00 AM

Aloha Chair Hashem, Vice Chair Perruso, 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 HB 681, which establishes linked investments to provide loan funds for agriculture and authorizes the State to invest in linked investments. Appropriates funds to the department of budget and finance to hire one position to administer the linked investment program.

Agriculture, like all businesses, requires capital investment. The cost of operating a farm or ranch in Hawaii can be significant. In many cases, agricultural operations require capital that our local farmers just don't have. Operating capital is not easy to obtain with the traditional methods of financing.

Linked Investments can provide an alternative loan program for farmers to increase their production. In order to meet our State goal to increase food production and become more self-sufficient, our farmers must have access to capital to increase their production capacity.

Thank you for the opportunity to comment on this measure.

LATE

Testimony of
Jon Okudara
on
H.B. No. 681
Relating to Management of State Funds
Committee on Agriculture
Wednesday, February 3, 2021, 10:00 a.m.

I strongly support H.B. No. 681, 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. 681, 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 the 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. 681 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 in 2019, clarifying amendments were made to H.B. 530, which was being considered at that time, and incorporated into H.B. 681, including:

1. Giving the director of finance discretion rather than requiring the consideration, acceptance, or rejection of a linked investment package.

2. Limiting the renewal of certificates of deposit to five additional one-year periods to conform to section 36-21(a), requiring approval of the director of finance for renewal, and clarify that certificate of deposit are not to be considered security for the linked investment.
3. Authorizing the director of finance to invest moneys in certificates of deposit for linked investments.

Linked investments will incentivize financial institutions to make loans to sound, viable agricultural projects, by encouraging those loans, while changing the form of funds for the linked investments in the treasury from cash to certificates of deposit.

For these reasons, I strongly support H.B. 681.

Thank You for the opportunity to provide these comments.