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# A BILL FOR AN ACT

RELATING TO IMPORTANT AGRICULTURAL LANDS LOAN GUARANTY.

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

1           SECTION 1. In 1978, voters approved Article XI, section 3,  
2 of the Constitution of the State of Hawaii. This section laid  
3 out the framework for state policies to promote agriculture and  
4 conserve productive agricultural lands in the state. Article  
5 XI, section 3, reads as follows:

6           "The State shall conserve and protect  
7 agricultural lands, promote diversified agriculture,  
8 increase agricultural self-sufficiency and assure the  
9 availability of agriculturally suitable lands. The  
10 legislature shall provide standards and criteria to  
11 accomplish the foregoing.

12           Lands identified by the State as important  
13 agricultural lands needed to fulfill the purposes  
14 above shall not be reclassified by the State or  
15 rezoned by its political subdivisions without meeting  
16 the standards and criteria established by the  
17 legislature and approved by a two-thirds vote of the



1 body responsible for the reclassification or rezoning  
2 action."

3 To address the issue of important agricultural lands, Act  
4 183, Session Laws of Hawaii 2005 (Act 183), was enacted. Act  
5 183 establishes standards, criteria, and mechanisms to identify  
6 important agricultural lands and implement the intent and  
7 purpose of Article XI, section 3, of the State Constitution.

8 Act 183 also recognized that while maintaining the supply  
9 of lands suitable for agriculture is critical, the long-term  
10 viability of agriculture depends on other factors as well.

11 These factors include:

- 12 (1) Commodity prices;
- 13 (2) Availability of water and irrigation;
- 14 (3) Agricultural research and outreach;
- 15 (4) Application of production technologies;
- 16 (5) Marketing; and
- 17 (6) Availability and cost of transportation services.

18 Financing is a critical component of the long-term  
19 viability of agriculture on important agricultural lands in the  
20 state. The legislature finds that it is in the public interest  
21 to assist agricultural producers in meeting their financing



1 needs for projects that are located on important agricultural  
2 lands.

3 The purpose of this Act is to further the implementation of  
4 Act 183 by:

5 (1) Authorizing the director of finance to guarantee loans  
6 relating to agricultural projects located on important  
7 agricultural lands; and

8 (2) Declaring that the substance of this Act establishes  
9 incentives and protections for important agricultural  
10 lands as contemplated by section 9 of Act 183, which  
11 effectuates the land use commission's authorization to  
12 designate lands as important agricultural lands and  
13 adopt maps therefor pursuant to section 205-49(d),  
14 Hawaii Revised Statutes.

15 SECTION 2. Chapter 36, Hawaii Revised Statutes, is amended  
16 by adding a new section to be appropriately designated and to  
17 read as follows:

18 "§36- \_\_\_\_\_ Loan guaranty; important agricultural lands;  
19 agricultural and aquacultural loans. (a) The director of  
20 finance may guarantee loans made by commercial lenders,  
21 authorized to do business in this state, to agricultural  
22 producers for the purpose of developing and implementing



1 agricultural projects; provided that the director of finance  
2 determines that:

3       (1) The agricultural projects are located on lands  
4       designated as important agricultural lands pursuant to  
5       part III of chapter 205;

6       (2) The commercial lender has completed its due diligence  
7       in approving the loan, including ensuring adequate  
8       collateral; and

9       (3) The State possesses sufficient funds with which to  
10       provide an appropriate reserve for the loan guaranty  
11       and which, in the director's judgment, exceed the  
12       amounts necessary for meeting the immediate  
13       requirements of the State and will not impede or  
14       hamper the fulfillment of the financial obligations of  
15       the State.

16 The director of finance may impose other conditions as are  
17 deemed reasonable to implement the loan guaranty.

18       (b) In addition to the conditions that the director of  
19 finance may impose under subsection (a), any loan guaranty made  
20 pursuant to this section shall meet the following conditions:

21       (1) For a loan that finances operating costs, the maximum  
22       term of the loan shall be ten years;



- 1        (2) For a loan that finances capital improvement costs,  
2            the maximum term of the loan shall be twenty years;
- 3        (3) The interest rate charged on the loan shall be one per  
4            cent below the commercial lender's prime rate for as  
5            long as the loan guaranty is in effect;
- 6        (4) The amount of each loan shall be no greater than  
7            \$2,500,000; and
- 8        (5) The loan guaranty may be up to eighty-five per cent of  
9            the principal amount of the loan, but shall not  
10           include any fees or accrued interest associated with  
11           the loan or its collection.
- 12        (c) Subject to chapter 91, the director of finance shall  
13        adopt rules to effectuate the purposes of this section.
- 14        (d) As used in this section:
- 15        "Agricultural producer" means a farmer, cooperative,  
16        association, or landowner who derives at least fifty per cent of  
17        its gross income from agricultural or aquacultural activities.
- 18        "Agricultural projects" means projects relating to  
19        agricultural or aquacultural operations or capital  
20        improvements."
- 21        SECTION 3. New statutory material is underscored.



1 SECTION 4. This Act shall take effect upon its approval.



**Report Title:**

Loan Guaranty for Agriculture; Important Agricultural Lands

**Description:**

Allows the Director of Finance to guarantee loans made to agricultural producers for agricultural projects on important agricultural lands (HB401 HD1).

