

WRITTEN TESTIMONY

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON AGRICULTURE
ON
HOUSE BILL NO. 737

January 31, 2013

RELATING TO SPECIAL PURPOSE REVENUE BONDS TO ASSIST AGRICULTURAL ENTERPRISES.

House Bill No. 737, proposes to amend Chapter 39A, Hawaii Revised Statutes (HRS), by adding a new part to authorize the issuance of special purpose revenue bonds to assist agricultural enterprises in the State.

The Department offers the following comments:

The Department recommends including a definition for the term “agricultural enterprise” so as to be independent of similar terms used in other Hawaii laws, such as Section 163D-2, HRS, which defines “Agriculture” and “Enterprise” and Chapter 163D, HRS, which utilizes the term “agricultural enterprise”.

The Department also recommends the insertion of additional language at the end of line 21 on page 23 of the bill in order to be inclusive of tax credit and tax deferral programs. The insertion is as follows (new language underlined):

...may be included in gross income for federal income tax purposes, or which otherwise are tax-advantaged for purposes of federal income taxes.

Please note that there are significant procedural and compliance requirements that must be met before any special purpose revenue bonds (SPRB) could be structured for any SPRB transaction.

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



Hawaii Cattlemen's Council, Inc.

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HOUSE COMMITTEE ON AGRICULTURE
Thursday January 31, 2013 9:00 a.m. Room 312

HB 737 Relating to Special Purpose Revenue Bonds to Assist Agricultural Enterprises

Chair Wooley, Vice Chair Onishi and Members of the Committees:

My name is Alan Gottlieb, and I am the Government Affairs Chairperson of the Hawaii Cattlemen's Council. The Hawaii Cattlemen's Council, Inc. (HCC) is the Statewide umbrella organization comprised of the five county level Cattlemen's Associations. Our 130+ 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 approximately 25% of the State's total land mass.

The Hawaii Cattlemen's Council strongly supports HB 737.

Special Purpose revenue bonds provide the private sector access to the lower rates available in public finance capital markets. Agricultural projects do not easily qualify under the current definition, which needs to be amended. The capital markets are just beginning to create new funds for agriculture investments at national scale. The historically low rates make it important to act now.

We believe there are many projects that could qualify for SPRBs that would total more than \$150 MM in new investment. Here are some examples:

Agriculture SPRBs for Water Infrastructure: These can be made available to public-private partnerships that increase water supply from existing or new water systems, including new water storage systems.

Agriculture SPRBs for Farmer and Rancher Irrigation Systems: Irrigation systems require capital to install, and fencing for intensive grazing and crop security.

Agriculture SPRBs for Processing and Value Added – currently the production chain and processing capacity in Hawai'i is approximately 9,000 head a year. Even if 20 percent or 10,000 head of the 50,000 head of cattle shipped annually to the mainland were retained, Hawai'i's processing capacity would be overwhelmed. Thus, without increased processing capacity, the local livestock industry cannot expand.

In addition to the processing capacity, value-added processing is needed. The ability to produce increased value products (barbecue-ready cuts, cooked meats, hot dogs, etc.) adds greatly to the value of the cattle and keeps those dollars in our state economy. Similarly, fruit, vegetable, and aquaculture production should be coupled with value-added processing centers located in the centers of food production regions.

Special Purpose Revenue Bonds for pumped or in-line hydropower that is integrated with irrigation.

Special Purpose Revenue Bond for Feed Mills using Local Inputs. Biofuel crop by-products could be used for feed for cattle or other animals, thereby reducing overall costs for local ranchers.

We appreciate this opportunity to provide testimony on this matter.

onishi1-Jerry

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, January 30, 2013 8:26 AM
To: AGRtestimony
Cc: hawaiiifish@gmail.com
Subject: Submitted testimony for HB737 on Jan 31, 2013 09:00AM

HB737

Submitted on: 1/30/2013

Testimony for AGR on Jan 31, 2013 09:00AM in Conference Room 312

Submitted By	Organization	Testifier Position	Present at Hearing
Ron Weidenbach	Hawaii Aquaculture & Aquaponics Association	Support	No

Comments: The HAAA strongly supports this measure which would lead to the availability of low-interest financing sources for the construction of critical agricultural and aquacultural infrastructure to support increased local food production.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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Email: communications@uluponoinitiative.com

HOUSE COMMITTEE ON AGRICULTURE
Thursday, January 30, 2013 — 9:00 a.m. — Room 312

Ulupono Initiative Strongly Supports HB 487, Relating to Agriculture

Dear Chair Wooley, Vice Chair Onishi and Members of the Committee:

My name is Kyle Datta and I am General Partner of the Ulupono Initiative, a Hawai'i-based impact investment firm that strives to improve the quality of life for the people of Hawai'i by working toward solutions that create more locally grown food, increase renewable energy, and reduce/recycle waste. Ulupono invests in projects that have the potential to create large-scale, innovative change.

Ulupono is testifying strongly in favor of HB 487, which would extend the livestock feed subsidy to help Hawai'i farms hit hard by the recent drought in Hawai'i and the Midwest. The bill would disburse up to \$200,000 or 15 percent of anticipated feed costs for sheep, goat, cattle, dairy, hog, poultry, fish, and crustacean farms. The subsidy is needed for Hawai'i's livestock producers to break even due to much higher-than-normal feed costs resulting from the devastating Midwest drought, which increased prices another 20 percent since last year.

Feed costs for livestock production in Hawai'i can comprise 70 percent of production cost, and our concern is that we need to keep our livestock producers in business. Although this is the second year of support, we anticipate that if other policy changes are made to reform water rates, that the agricultural sector will be able to affordably produce its own feed with one to two years. As a society, we can afford this measure by a modest shift in the barrel tax allocation, what we cannot afford is to lose our people – our ranchers, aquaculture and poultry farmers.

Ulupono has joined with a diverse group of organizations who have come together for the first time as the Local Food Coalition to support proposals designed to help grow more local food. The coalition brings together farmers, ranchers, livestock producers, investors and other organizations. The idea is that putting more local food on local plates can best be accomplished by bringing people and organizations together who can work on the entire food value chain in a systematic way.

We believe that by working together, we can help produce more local food, and support an economically strong homegrown agriculture industry, which strengthens our community with fresh, healthy food. Thank you for this opportunity to testify.

Respectfully,

Kyle Datta
General Partner

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HB 737

**RELATING TO SPECIAL PURPOSE REVENUE BONDS TO ASSIST
AGRICULTURAL ENTERPRISES**

**JOEL K. MATSUNAGA
CHIEF OPERATING OFFICER & EXECUTIVE VP
HAWAII BIOENERGY, LLC**

JANUARY 31, 2013

Chair Wooley and Members of the House Committee on Agriculture:

I am Joel Matsunaga, testifying on behalf of Hawaii BioEnergy, LLC, in support of HB 737, "Relating to Special Purpose Revenue Bonds to Assist Agricultural Enterprises."

SUMMARY

Hawaii BioEnergy, LLC ("HBE") supports HB 737, which assists agricultural enterprises in the State by authorizing the State to issue special purpose revenue bonds for their benefit, contingent upon the ratification of a constitutional amendment authorizing the State to issue special purpose revenue bonds and use the proceeds from the bonds to assist agricultural enterprises. However, HBE proposes that the measure explicitly include 'bioenergy feedstock production and cultivation' in the definition of 'agricultural enterprise.' The measure, with the proposed amendment, could help to reduce financing costs and the associated risks, which have, to date, limited the development Hawaii's nascent bio-based economy. Special purpose revenue bonds issued for agricultural activities would support the public good as they would help to stimulate needed investment in the agricultural sector and foster the development of Hawaii's budding biofuel industry.

HAWAII BENEFITS FROM LOCAL BIOFUELS PRODUCTION

Hawaii BioEnergy is a local company dedicated to strengthening the state's energy future through sustainable biofuel production from locally grown feedstocks. Among its partners are three of the larger landowners in Hawaii. HBE and its partners

would like to use significant portions of our land to address Hawaii's existing and growing energy needs.

Understanding the urgency of these needs and anticipating growing demand, HBE has dedicated the last several years to feedstock trials, extensive technology evaluation and detail financial modeling of various production pathways in an effort to ensure HBE's ultimate production is as productive, efficient and sustainable as possible. HBE's own research, development and demonstration (RD&D) efforts have been accelerated by funding from the US government's Defense Advanced Research Projects Agency (DARPA), Office of Naval Research, as well as a Congressional Appropriation administered through the Air Force Research Laboratory. Collectively, this analysis has enabled HBE to clearly understand the production potential and challenges associated with Hawaii's unique natural resource base, geography, climate, market and infrastructure.

While Hawaii holds tremendous potential to produce a range of advanced, high-density biofuels from locally produced feedstocks and innovative next generation technologies, the industry is still in its infancy and faces a myriad of cost and development challenges including project financing. Many of these challenges are attributed to the fact that Hawaii's agricultural and otherwise productive lands are relatively small, non-contiguous parcels with varying microclimates and other conditions which limit scale and increase operational costs. Such limitations and cost impacts are particularly pronounced in Hawaii where the cost of doing business is already disproportionately high relative to the mainland. These challenges, as well as the economic climate generally, have dimmed prospects for agricultural enterprises to secure cost-competitive financing. Authorizing the issuance of special purpose revenue bonds for agricultural enterprises, including those dedicated to bioenergy feedstock production and cultivation, could carry manifold benefits including: helping to offset the

financing costs, improving the competitiveness of production, and attracting investment to the agriculture, while diversifying the state's energy resources and helping the state achieve its goals under the Renewable Energy Initiative.

HBE recognizes that there may, however, be limitations under the Internal Revenue Code on the amount of tax-exempt financing that can be used for agricultural projects, as is the case with industrial projects. HBE respectfully requests that the Committee, along with the Department of Budget and Finance, clarify the qualification requirements for and restrictions to / limitations on the use of special purpose revenue bonds issued for agricultural projects.

CONCLUDING REMARKS

HBE is moving forward with advanced, bio-based energy projects from locally grown feedstocks that will help provide a local, renewable source of energy for Hawaii. HBE believes that HB 737, with an explicit provision for feedstock production and cultivation, will help to reinvigorate the state's agricultural sector and stimulate Hawaii's bio-based renewable energy economy. Based on the aforementioned, Hawaii BioEnergy respectfully requests your support for HB 737, with the proposed amendment.

Thank you for the opportunity to testify.



January 29, 2013

Representative Jessica Wooley, Chair
Representative Richard H.K. Onishi, Vice Chair
House Committee on Agriculture

Testimony in Support of HB 737, Relating to Special Purpose Revenue Bonds; Agricultural Enterprises (Assist s agricultural enterprises by authorizing the State to issue special purpose revenue bonds for their benefit.)

Thursday, January 31, 2013, 9:00 a.m., in Conference Room 312

The Land Use Research Foundation of Hawaii (LURF) is a private, non-profit research and trade association whose members include major Hawaii landowners, developers and a utility company. One of LURF's missions is to advocate for reasonable, rational and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources and public health and safety.

LURF appreciates the opportunity to provide testimony in **support of HB 737**, and to offer comments.

HB 737. The purpose of this bill is to assist agricultural enterprises in the State by authorizing the issuance of special purpose revenue bonds for their benefit.

LURF's Position. LURF members include private property owners, farmers and ranchers who own, maintain, and engage in agricultural enterprises, and who consider such projects and ventures critical to the conduct of their operations and to help sustain their businesses. These land owners and agricultural stakeholders believe HB 737 will greatly assist with costs which must be incurred in connection with establishing new agricultural projects and activities; expanding and improving their growing and processing facilities, including bringing them to current safety standards as may be required; and with costs which must be incurred for maintenance and upgrade of existing structures and equipment.

As this Committee may already be aware, the unsustainable costs cast upon land owners and agricultural stakeholders by various safety and security standards, programs and regulations are another serious concern, as the enactment of onerous regulations relating to maintenance and operation of water systems, infrastructure, as well as growing and processing machinery and facilities are proving to be potentially counterproductive to the long-term objective of sustainable agriculture.

As potential issues relating to public health, and food safety and security continue to be an important goal, LURF and its members appreciate this measure being taken to assist agricultural stakeholders.

For the reasons stated above, LURF is in **support of HB 737**, and respectfully urges your favorable consideration of this bill.