

JAN 28 2015

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# A BILL FOR AN ACT

RELATING TO AGRICULTURAL LOANS.

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

1           SECTION 1. Hawaii's livestock industry is both  
2 economically and culturally significant with its long paniolo  
3 history as well as providing whole hog carcasses for imus and  
4 Chinatown markets. Livestock operations are susceptible to the  
5 introduction of pests and diseases that can affect the health  
6 and welfare of the animals and in some cases may affect the  
7 health and well-being of people who come in contact with the  
8 animals or farm products. Installing biosecurity measures  
9 serves to protect the health of poultry and livestock from  
10 diseases, pests, and pathogens by reducing their introduction  
11 into farm operations as well as the spreading of the disease or  
12 pathogen to other farms and are increasingly being required by  
13 federal programs to ensure a safe food supply. While these  
14 measures help protect the farm and consumers, they often do not  
15 result in additional profits for the operation. To help install  
16 these vital measures, this Act establishes a low interest  
17 biosecurity loan program to assist the livestock industry.

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1 SECTION 2. Section 155-1, Hawaii Revised Statutes, is  
2 amended by adding a new definition to be appropriately inserted  
3 and to read as follows:

4 "Biosecurity" means a system that serves to protect the  
5 health of livestock, poultry, and humans from diseases, pests,  
6 and pathogens and measures that prevent disease causing agents  
7 from entering, spreading, or leaving the farm premises."

8 SECTION 3. Section 155-5, Hawaii Revised Statutes, is  
9 amended by amending subsection (b) to read as follows:

10 "(b) Loans insured under this section shall be limited by  
11 the provisions of sections 155-9 through 155-13 for purposes of  
12 class "A" through class [~~"F"~~] "I"; provided that class "E"  
13 loans to food manufacturers shall not be subject to section 155-  
14 10."

15 SECTION 4. Section 155-5.5, Hawaii Revised Statutes, is  
16 amended by amending subsection (b) to read as follows:

17 "(b) Loans guaranteed under this section shall be limited  
18 by the provisions of sections 155-9 through 155-13 for purposes  
19 of classes "A", "B", "C", [~~and "E"~~] "D", "E", "F", "G", "H",  
20 and "I"; provided that class "E" loans to food manufacturers  
21 shall not be subject to section 155-10. [~~No class "D" and "F"~~  
22 ~~loans shall be made under this section.]"~~

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1 SECTION 5. Section 155-6, Hawaii Revised Statutes, is  
2 amended by amending subsection (b) to read as follows:

3 "(b) Participating loans under this section shall be  
4 limited by sections 155-9 to 155-13 for purposes of class "A"  
5 through class [~~"F"~~] "I", the department's share not to exceed  
6 the maximum amounts specified therefor; provided that class "E"  
7 loans to food manufacturers shall not be subject to section 155-  
8 10."

9 SECTION 6. Section 155-8, Hawaii Revised Statutes, is  
10 amended by amending subsection (c) to read as follows:

11 "(c) Loans made under this section shall bear simple  
12 interest on the unpaid principal balance, charged on the actual  
13 amount disbursed to the borrower. The interest rate on loans of  
14 class "A", "B", "C", "E", and "G" shall be at a rate of one per  
15 cent below the prime rate or at a rate of seven and one-half per  
16 cent a year, whichever is less. For purposes of this  
17 subsection, the prime rate shall be determined on January 1 and  
18 July 1 of each year, and shall be the prime rate charged by the  
19 two largest banks in the State identified by the department of  
20 commerce and consumer affairs. If the prime rates of the two  
21 largest banks are different, the lower prime rate of the two  
22 shall apply. The interest rate of class "F" loans shall be at a

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1 rate of one and one-half per cent below the prime rate or at a  
2 rate of six per cent a year, whichever is less. The interest  
3 rate of class "H" and "I" loans shall be three per cent a year.  
4 If the money loaned is borrowed by the department, then the  
5 interest on loans of the classes shall be the rate as determined  
6 above or one per cent over the cost to the State of borrowing  
7 the money, whichever is greater. Interest on loans made under  
8 this chapter shall not be less than three per cent a year."

9 SECTION 7. Section 155-9, Hawaii Revised Statutes, is  
10 amended to read as follows:

11 **"§155-9 Classes of loans; purposes, terms, eligibility.**

12 (a) Loans made under this chapter shall be for the purposes and  
13 in accordance with the terms specified in classes "A" through  
14 "I" in this section and shall be made only to applicants who  
15 meet the eligibility requirements specified therein and except  
16 as to class "B" loans to associations and class "E" loans, the  
17 eligibility requirements specified in section 155-10. The  
18 maximum amount of a loan for class "A", "C", "D", and "F" loans  
19 to an individual applicant shall also apply to any loan  
20 application submitted by a partnership, corporation, or other  
21 entity, and for the purpose of determining whether the maximum  
22 loan amount to any individual will be exceeded, outstanding

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1 loans to any partnership, corporation, or other entity that the  
2 individual has a legal or equitable interest in excess of twenty  
3 per cent shall be taken into account.

4 (b) Class A: Farm ownership and improvement loans shall  
5 provide for:

6 (1) The purchase or improvement of farm land;

7 (2) The purchase, construction, or improvement of adequate  
8 farm dwellings, and other essential farm buildings;

9 and

10 (3) The liquidation of indebtedness incurred for any of  
11 the foregoing purposes.

12 The loans shall be for an amount not to exceed \$800,000 and  
13 for a term not to exceed forty years. To be eligible, the  
14 applicant shall (A) derive, or present an acceptable plan to  
15 derive, a major portion of the applicant's income from and  
16 devote, or intend to devote, most of the applicant's time to  
17 farming operations; and (B) have or be able to obtain the  
18 operating capital, including livestock and equipment, needed to  
19 successfully operate the applicant's farm.

20 (c) Class B: Soil and water conservation loans shall  
21 provide for:

22 (1) Soil conservation practices;

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- 1           (2) Water development, conservation, and use;  
2           (3) Drainage; and  
3           (4) The liquidation of indebtedness incurred for any of  
4           the foregoing purposes.

5           The loans shall be for an amount not to exceed \$35,000 to  
6 an individual or \$200,000 to an association and shall be for a  
7 term not to exceed twenty years for a loan to an individual and  
8 forty years to an association. To be eligible, an individual  
9 applicant shall have sufficient farm and other income to pay for  
10 farm operating and living expenses and to meet payments on  
11 applicant's existing debts, including the proposed soil and  
12 water conservation loan. An association, to be eligible, shall  
13 be a nonprofit organization primarily engaged in extending  
14 services directly related to the purposes of the loan to its  
15 members, and at least sixty per cent of its membership shall  
16 meet the eligibility requirements specified in section 155-10.

17           (d) Class C: Farm operating loans shall be for the  
18 purpose of carrying on and improving a farming operation,  
19 including:

- 20           (1) The purchase of farm equipment and livestock;  
21           (2) The payment of production and marketing expenses,  
22           including materials, labor, and services;

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1 (3) The payment of living expenses;

2 (4) The liquidation of indebtedness incurred for any of  
3 the foregoing purposes; and

4 (5) The exportation of crops and livestock.

5 The loans shall be for an amount not to exceed \$800,000 and  
6 for a term not to exceed ten years. To be eligible, an  
7 applicant shall derive, or present an acceptable plan to derive,  
8 a major portion of the applicant's income from and devote, or  
9 intend to devote, most of the applicant's time to farming  
10 operations.

11 Qualified farmers affected by state eradication programs  
12 may also be eligible for loans under this subsection. Loans  
13 made for rehabilitation from eradication programs shall be  
14 subject to the terms of class "C" loans; provided that the  
15 interest rate shall be three per cent a year and the  
16 requirements in section 155-3 shall be waived and paragraph (4)  
17 shall not apply.

18 (e) Class D: Emergency loans shall be for the purpose of  
19 providing relief and rehabilitation to qualified farmers without  
20 limit as to purpose:

21 (1) In areas stricken by extraordinary rainstorms,  
22 windstorms, droughts, tidal waves, earthquakes,

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- 1 volcanic eruptions, and other natural catastrophes;
- 2 (2) On farms stricken by livestock disease epidemics and
- 3 crop blights;
- 4 (3) On farms seriously affected by prolonged shipping and
- 5 dock strikes;
- 6 (4) During economic emergencies caused by overproduction,
- 7 excessive imports, and the like; and
- 8 (5) During other emergencies as determined by the board of
- 9 agriculture.

10 The maximum amounts and period for the loans shall be

11 determined by the board of agriculture; provided that the board

12 shall require that any settlement or moneys received by

13 qualified farmers as a result of an emergency declared under

14 this section shall first be applied to the repayment of an

15 emergency loan made under this chapter.

16 (f) Class E: Loans to farmers' cooperatives,

17 corporations, and food manufacturers shall provide credit to

18 entities engaged in marketing, purchasing, and processing, and

19 providing farm business services, including:

- 20 (1) Facility loans to purchase or improve land, building,
- 21 and equipment for an amount not to exceed \$500,000 and
- 22 a term not to exceed twenty years;



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1           (2) Operating loans to finance inventories of supplies and  
2           materials, warehousing, and shipping commodities,  
3           extension of consumer credit to justified farmer-  
4           members, and other normal operating expenses for an  
5           amount not to exceed \$300,000 and a term not to exceed  
6           seven years; and

7           (3) The exportation of crops and livestock.

8           To be eligible, a farmers' cooperative or corporation shall  
9           have a majority of its board of directors and a majority of its  
10          membership as shareholders who meet the eligibility requirements  
11          of section 155-10 and who devote most of their time to farming  
12          operations, and such facility loans shall be for an amount not  
13          to exceed \$500,000 or eighty per cent of the cost of the  
14          project, whichever is less.

15          To be eligible, a food manufacturer shall be licensed to do  
16          business in the State, and the controlling interest of the  
17          entity shall possess a minimum of two years of relevant  
18          processing or manufacturing experience as acceptable to the  
19          department of agriculture. The entity shall process Hawaii-  
20          grown agricultural products or use Hawaii-grown agricultural  
21          products as an ingredient in the manufacturing process.

22          Facility loans shall be for an amount not to exceed \$500,000 or

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1 eighty per cent of the cost of the project, whichever is less.

2 The requirements in section 155-10 shall be waived for food

3 manufacturing loans; however, the entity shall be a sound credit

4 risk with the ability to repay the money borrowed.

5 (g) Class F: New farmer and farm innovation loan programs  
6 shall provide for:

7 (1) New farmer loans made under this class shall be for  
8 purposes and in accordance with the terms specified in  
9 class "A" and "C" only, and shall be made only for  
10 full-time farming. The loans shall be made for an  
11 amount not to exceed \$250,000 or eighty-five per cent  
12 of the cost of the project, whichever is less. Farm  
13 trainees and recent graduates with a degree in  
14 agriculture with smaller projects requiring loans of  
15 \$100,000 or less shall have a minimum five per cent  
16 equity contribution towards the cost of the project;

17 (2) Farm innovation loans made under this class shall be  
18 for qualified farmers to perform practical research in  
19 crop development, innovative production techniques,  
20 new technologies, and production of new crops that are  
21 not typically grown in the State. Farm innovation  
22 loans shall be limited to a maximum of \$75,000;

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1           (3) Any subsequent loan shall be made from classes "A" to  
2           "D", respectively, depending upon the purpose for  
3           which the loan funds are used; and

4           (4) Borrowers shall comply with special term loan  
5           agreements as may be required by the department and  
6           shall take special training courses as the department  
7           deems necessary.

8           (h) Class G: Loans to part-time farmers shall be for farm  
9           improvement and operating purposes for carrying on and improving  
10          farming operations, including loans for:

11           (1) The purchase, construction, and improvement of farm  
12           production and growing structures;

13           (2) The purchase of farm equipment or livestock; and

14           (3) The payment of production and marketing expenses,  
15           including materials, labor, and services.

16          The liquidation of indebtedness incurred for any of the  
17          purposes under this subsection and for living expenses shall not  
18          be authorized purposes. Each loan shall be for an amount not to  
19          exceed \$25,000 and for a term not to exceed ten years.

20           (i) Class H: Farm sustainable project loans shall provide  
21          for:

22           (1) The purchase, construction, or improvement of

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1           essential farm buildings, including the improvement of  
2           existing farm buildings related to the project;

3           (2) The improvement of land that may be required by the  
4           project;

5           (3) The purchase of equipment and payment of any related  
6           expenses, including materials, labor, and services;

7           (4) Operating expenses associated with the project; or

8           (5) The liquidation of indebtedness incurred for any of  
9           the foregoing purposes.

10          The loans shall be for an amount not to exceed \$1,500,000  
11          or eighty-five per cent of the project cost, whichever is less,  
12          and for a term not to exceed forty years.

13          To be eligible, the applicant shall be a qualified farmer  
14          of sound credit rating with the ability to repay the money  
15          borrowed, as determined by the department. Income from the  
16          applicant's farming activities and any supplemental income that  
17          may be generated from the project shall be the sole criterion  
18          for the department's determination of the applicant's ability to  
19          repay the money borrowed. The department's determination may be  
20          based on projections of income and expenses.

21          (j) Class I: Biosecurity project loans shall provide for:

22          (1) The purchase, construction, or improvement of

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1           essential farm buildings, including the improvement of  
2           existing farm buildings related to the project;

3           (2) The improvement of land that may be required by the  
4           project;

5           (3) The purchase of equipment and payment of any related  
6           expenses, including materials, labor, signage,  
7           training, and services;

8           (4) Operating expenses associated with the project; or

9           (5) The liquidation of indebtedness incurred for any of  
10           the foregoing purposes.

11           The loans shall be for an amount not to exceed \$1,000,000  
12           or eighty-five per cent of the project cost, whichever is less,  
13           and for a term not to exceed twenty-five years.

14           To be eligible, the applicant shall be a qualified farmer  
15           of sound credit rating with the ability to repay the money  
16           borrowed, as determined by the department. Income from the  
17           applicant's farming activities and any supplemental income that  
18           may be generated from the project shall be the sole criterion  
19           for the department's determination of the applicant's ability to  
20           repay the money borrowed. The department's determination may be  
21           based on projections of income and expenses."

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1 SECTION 8. Statutory material to be repealed is bracketed  
2 and stricken. New statutory material is underscored.

3 SECTION 9. This Act shall take effect upon its approval.

4

5

INTRODUCED BY: James Merenda K

6

BY REQUEST

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**Report Title:**

Agricultural Loan; Biosecurity Loans

**Description:**

Allows for agricultural loans to be administered for livestock biosecurity projects.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

## JUSTIFICATION SHEET

DEPARTMENT: Agriculture

TITLE: A BILL FOR AN ACT RELATING TO AGRICULTURAL LOANS.

PURPOSE: Allows the department of agriculture to provide agricultural loans for livestock biosecurity projects.

MEANS: Amend sections 155-1, 155-5(b), 155-5.5(b), 155-6(b), 155-8(c), and 155-9, Hawaii Revised Statutes.

JUSTIFICATION: Recently, federal programs have been trending towards increasing the infrastructure requirements for livestock and poultry operations. The goal of increasing these requirements is to prevent the spread of livestock diseases to other animals, herds, and humans and to increase the safety of the food supply. However, these increased requirements can result in an increased burden on livestock and poultry operations that are already struggling to make a profit.

The department wishes to help these operations by having the ability to provide low interest loans through a biosecurity loan program that would help livestock and poultry operations to mitigate the costs associated with installing biosecurity measures as required by federal programs. The availability of this funding avenue will assist our livestock and poultry industry in remaining solvent.

Impact on the public: This bill would provide low interest loans to livestock and poultry operations facing increased biosecurity requirements from federal programs and would provide support to ensure



local livestock and poultry operations remain solvent, which would benefit the public by helping to ensure fresh local eggs, beef, and pork remain available.

Impact on the department and other agencies:  
This bill would require the department to create a new class of loans within the agricultural loan division.

GENERAL FUND: None.

OTHER FUNDS: None.

PPBS PROGRAM  
DESIGNATION: AGR 101.

OTHER AFFECTED  
AGENCIES: None.

EFFECTIVE DATE: Upon approval.