In review of the survey results, the resource people, Bob Wagner, Jay Healy, Ellen Dayhoff were asked to discuss those incentives that had surfaced of interest to the group.

The process included the following:

Ground Rules:
- Please give one idea/thought at a time
- Please identify your perspective (community, landowner, farmer and speak from that perspective only)
- Only facilitator has authority to interrupt (for efficiency and to keep time)

Process:
1. Lists of incentives were posted on the wall, discussed.
2. Each incentive group was voted upon to see if it should be pursued further. (It was clarified that the designation of important agriculture lands may influence the type of incentives that would be targeted to that area.)
3. Each participant attending was given the option of voting for those specific incentives that they felt most important. The numbers next to those incentives are posted in the group notes. Priorities are highlighted.

Summary of Agreements:

1. Long-term tenure is important to ag viability and successful agriculture:
   a. General tax credit programs to landowners for long-term lease
   b. Property tax should be based on ag-use value
   c. Compensation to county – for tax loss (e.g. Williamson)
   d. Examine leasehold conversion law regarding protection against ag leases with residential uses on property
2. Ag district/enterprise zone concept should be pursued
3. Ag easements should be pursued
4. PDR enabling should be pursued
5. Encourage TDR/TDC in return for easements
   - In conjunction with comprehensive planning
   - State actions to facilitate
6. Pursue ag viability programs as outlined
7. Pursue ag tax incentives as outlined

Tool: Property Tax Incentives
- Current program with tighter enrollment standards -5
- Additional benefit for term commitment (Williamson Act)
- Additional benefit for long-term leases
- Additional benefit for permanent protection
• Breaks on other taxes or assessments – e.g. excise tax, etc. -1

Tool: Incentives for Long-Term Leases
• Tax credit to landowners to lease terms; base plus, depending on length of lease -13
  o Income tax credits -4
• Additional property tax benefits
• System of property tax based on ag-use value -7

Tool: Ag District Security
• Focus on ag viability -3
• Identification based on areas of ag activity
• **Provide sufficient tax credits and incentives that work for ag investments and improvements -12**
• Link additional tax incentives to long-term leases within district zones -6

Ag improvement district → bond
Economic zone

**Priority access to irrigation water allocation (framework for off-stream use support)-14**
• Needs to be linked to ag water use development plan being developed by State (State Water Commission)

Tool: Agriculture Easements (voluntary)
• Ensure that current statute will work for agriculture
• Offer tax credit of x with terms of y for donation or bargain sale in purchase program (refundable or not?) 2
• Provide capital gains exclusion on proceeds of easement sales-6
• Provide additional advantages in credit allowed and terms for retaining land in active ag use; legitimate standards
• Regulatory relief, permitting process condemnation for roads 2
  o fast tracking

Tool: Purchase of Development Rights
• Enable PDR at the state and county levels -9
• Establish a seed fund to cover transaction costs to stimulate (donated) ag easement transactions
• Tax incentives noted under ag easements -2
• **Authorize funding stream option for dedicated state and county funding sources -14**
• **Encourage transfer of development rights/credits program for landowners in return of easements -16**
  o In conjunction with comprehensive local planning
  o Local ordinance
Tool: Ag Viability Programs

- Create a farm viability program similar to Massachusetts program with business planning services and implementation grants tied to covenants - 13
  - Business planning – marketing
  - Related to business plan
  - Not applicable where owner operated
  - Tweaked
  - No debt reduction
  - Used for equipment legitimate farm infrastructure

- Develop “clearinghouse” for farmers to access info on all aspects of agriculture (Ag Feasibility Committee) - 3
- Creation of ag incubators for business planning/development assistance for farmers (Ag Feasibility Committee) - 1
- Development and training in ag business models that could be successful in Hawaii (Ag Feasibility Committee) - 7
- Fund and enable Department of Agriculture to convene ag service provider and stakeholders to identify gaps (fill service and support), aimed at increasing ag business viability (Ag Feasibility Committee) - 1
- Improve financing options and lending practices
  - Loan guarantee
  - Equity funding
- Cooperatives, other business models

Tool: Ag Tax Incentives (from Ag Feasibility Committee)

- Tax credits for capital seed capital for business incubators
- Tax credit for R&D/ag development investments - 4
- Ag infrastructure investment tax credit - 23
  - Irrigation
- Sale of unused ag net operating loss carryover, not taxable income
- Royalties derived from ag patents, copyrights, or trade secrets, excluding from gross, adjusted and taxable income
- Employees Retired System investment encouraged and allowed in ag development ventures
- Agribusiness Development Investment Program in the Agribusiness Development Corporation (ADC) – Encouraged - 1
- Labeling and consumer education – funding to implement
Discussion

What incentives to LANDOWNER would best preserve and support agriculture viability?
What is objective of ag incentive program? All ends should be integrated

- **Property Tax**
  - Property tax is generally paid by the farmer/tenants/lessee, so not a good incentive to landowners
  - Each county has its own property tax rate. Landowner has existing rate/valuation from each county. Hawaii county is waiting for outcome from State
  - Landowners fear leasehold conversion reform or changes as it affects ag land
    - Leasehold conversion and not property tax is issue for farmer on Kamehameha Schools land
    - Farm Bureau relates that Kamehameha School didn’t want to stand the risk of giving lease greater than 19 years to ag lot with house (Leasehold Conversion Law should be examined)
  - Real property tax is an issue. Let’s put it into the bin and move on.
  - One million acres of ag district is in grazing. Those landowners own the land and pay the property tax. Big issue for cattle industry
  - Real property tax should be based on use versus valuation (market)
  - There is a bunch of tools. Some work for lessees and not landowners. Group should not get too narrow in our analysis
  - Legislative resolution might initiate broader discussion. Should be encouraged. Counties should be educated.
  - This would require amendment of State constitution regarding property tax administered by County only now
  - Williamson Act – State returns money (for lost revenue) to counties (something to consider)
  - Property tax is at county level. State analysis/discussion should look at other taxes.
  - Rollback
    - Rollback when land is sold. How to compensate counties for loss of property tax.
  - Ag Use Value Assessment
    - Should we develop state mandate for ag use value assessment? Counties would be responsible for living with this overall mandate

- **Corporate tax**
  - Corporate tax incentives concept should be examined carefully. There is a perceived benefit

- **Ag Tax**
  - Agriculture tax on use is a huge issue. Land values are high in Hawaii. How could we tax high and expect ag use?
- Meaningful tax incentives is needed for landowners
- Let’s not get bogged down in mechanics
- Give landowner credit on capital gain tax

- **Long Term Leases**
  - Long-term lease do not afford landowners flexibility
  - Long-term leases can be continued as illegal subdivision. This should be addressed for ag lands. This will remove barriers to long-term leases
  - Trees/other planted crops require 40-50 year cycle. 10-15 year lease is a problem

- **Urban Growth Boundaries**
  - Enforcement of urban growth boundaries could take away flexibility from landowners. Is this a possibility?
- **Conservation easement might not just apply to active ag land.**
- **Transfer of Development Rights**
  - Incentives to support transfer of ag land from landowner to farmer
- **Ag Enterprise Zones have not been adopted in other states.**
  - What is the problem?
  - Ties to increasing annual employment is problematic.
  - It might be better to establish newer/better ag enterprise program instead of basing on model which isn’t specific to ag
  - If farmers qualify, they should get incentives, should not be tied to zone!

- **Ag Security Zone** might be that new program customized to agriculture. Critical mass exists.
  - Some benefits (7-year property tax benefits) exist with existing Enterprise Zone law. Federal mandates may apply and should be researched
  - All ag districts in State could qualify for enterprise zone programs (per Bob Wagner)
  - Package of incentives should be offered as a tool to deliver. Enterprise Zone as it relates to infrastructure should be explored.
  - Enterprise Zone can cross into ag or rural lands. Can deliver benefits to farmers wherever they are
  - Enterprise Zone offers one stop process for verifying farmer eligibility to access to program services
  - Enterprise Zones allows county to put forth a package of services to a specific area to farmers. Other incentives can also be offered too.
  - Enterprise Zones might create planning and funding focus for ag supports, ag infrastructure investments
  - How would the enterprise zone affect someone in the zone who isn’t in agriculture?
  - Ag improvement district might be way to focus support for infrastructure improvement
  - Energy should be given to working models
  - Working district models exist. Incentives could be worked in model.
  - Farming patterns in state might fit into district zones.
Once incentive program is identified, then IAL should be identified to see if incentives and IAL fit

How will incentives be coupled with IAL?
  - Should we consider tying ag enterprise zone to IAL?
  - We should prioritize incentives to enable group to focus
  - Incentives should not be limited to just IAL
  - A menu of incentives might afford needed flexibility to effect a comprehensive strategy/solution
  - Tax credits might also be available to non-ag but should be explicit for ag
  - Federal tax deduction easement requires that it is a permanent easement

- Term Easement
  - A term easement could be linked to other tax credit/incentive program
  - Term easements being converted to permanent easements in Pennsylvania have problems related to valuation of remainder of easement

- Ag conservation easements
  - Ag conservation easement should explicitly allow or support continued ag activity. Conservation label could create misunderstanding as to real purpose
  - Does tax credit require legislation or amending administrative rule. Thought is that enabling legislation is needed
  - Mechanism to ensure enforcement and clarity in establishing ag easement program is desirable
  - Is it appropriate for tax credit program to indirectly subsidize future purchase of the land by individuals?
  - It should be clear in any easement program whether the PDR requires active agriculture, no development, or other. What has the State/PDR program bought? [productive ag/availability for ag/open space]
  - Typically ag easements are for active ag or suitability to become active ag and are voluntary
  - Are tax credits refundable? This must be determined in the proposal. (Refundable is problematic)
  - Regulatory relief, permit processing, condemnation, fast-tracking for roads needed to be built into proposal

- Purchase of Development Rights
  - Legislation to do private PDR isn’t needed. Only if we use State money do we need legislation
  - A permanent or dedicated funding stream for PDR is needed at state and county level
  - Is there an additional benefit to be had for those who donate a PDR? Bargain sale situation are eligible for tax credit and potential exclusion from capital gain tax
  - PDR proceeds should be exempt from capital gains tax where there is an exchange of money
  - Recommend cap on tax credit or refund for PDR transaction costs ($5,000?)

Any government (State/County) participation in a PDR program requires enabling legislation.

**Transfer of Development Rights**

- Idea – How about TDR? Or transfer of development credit to a large landowner. This may be way to “privatize” funding of TDR program? a guarantee of zoning for ag easement.
- Senator Inouye – no support if zoning transfer is for same parcel. County master planning and clarity is essential.
- Should State provide inducement of county to establish some sort of TDR program?
- TDR program requires clearly identifying IAL. TDR upzoning should not involve any IAL.
- Unfortunately, IAL lands are also likely candidates for urban expansion.
- County planning should happen first because it can trump IAL.
- TDR is a revenue neutral program and should be encouraged.
- Proposal should build in commitment on part of landowner or farmer to agriculture. A tie-in is needed. Benefits to public good should be clear.

**Ag Viability Program**

- CTAHR – focus on techniques, agribusiness students incubator program targets potential commercialization projects for both existing/new farmers.
- Massachusetts’s program might need to be “tweaked: to apply to Hawaii. It is a voluntary program. Payments to farmers could not be used for debt reduction. It’s a self-selecting program with sweat equity by farmer to develop business plan and then seeking bank financing. May need to find other way to link grants to easement on farmer’s land.
- Farm Bureau would support tax credit program for investment in Ag infrastructure (irrigation system). Landowners and farmers receive incentive (potentially).
- Labeling should be included in ag viability program. Where is the money to fund them?
- Incentives/tax credit programs should be targeted, focus to ensure that objectives are met
- Should ag “branding” (“buy local”) legislation be included in incentive package?
- SARE – Sustainable Ag Research and Education grants/seed money program.
- Equity Fund – (MMV?) instead of export possible program.
Ag Working Group 10/17/03

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