To: The Ag Working Group  
From: Jim Greenwell  
Date: July 25, 2003  

Re: Hawaii Cattle Industry’s and Ranching’s Role in the Ag Land Discussion  

Considering there are over a million acres of land in Hawaii that are in “pasture” use, lands in grazing, ranching and pasture uses are a large part of the “Ag Land” discussion. Accordingly, there are a few points associated with our cattle industry that need to be well understood as the Ag Working Group moves closer toward developing its recommendations for the 2004 Legislature as to how best to fulfill the identification and protection mandates of the State Constitution.

1. THE FUTURE OF HAWAII’S CATTLE INDUSTRY.

   There has been a sense in some of our discussions that the local cattle industry is “on the ropes” and accordingly that the future of ranching in Hawaii, particularly on a larger scale, is bleak. The conclusion is that commercial ranching is little more than a vaguely disguised land banking strategy where rancher/landowners are staying in the business only to use the politically popular “protect agriculture” veil to protect and help carry their lands with low taxes until the land is ripe for development or sale. While Hawaii’s cattle industry has always faced many challenges, its future is neither hopeless nor are we without some viable and exciting opportunities. In fact, there are many reasons to be more optimistic about the future of Hawaii’s cattle industry today than in recent years. Consider, for example;

1. The development and increasing market demand for premium priced, locally grown, finished and branded “organic” and “natural” beef on all the major islands (i.e. Kauai’s Princeville Pride, Oahu’s North Shore Cattle Company, Maui Cattle Company, and the Big Island’s Kamuela Pride and Mountain Apple Brands);
2. The marketing concept being developed by the Hawaii Cattle Producer’s Co-op patterned after the highly successful “Oregon Country Beef” model to market a branded Hawaii-bred/mainland-fed “natural” beef;
3. The distinct advantages and premium value associated with Hawaii-sourced cattle, beef, and high value beef by-products such as collagen due partly to their being “Hawaiian” but more importantly due to their being naturally quarantined and free from disease threats such as BSE (Mad Cow Disease); and
4. Recent developments and future opportunities to develop locally produced livestock feeds on former sugar lands.
So while beef production is not the most lucrative agricultural use for land and many cattle operations in recent years have been marginal at best, it should be acknowledged that the cattle industry in Hawaii is legitimate, the prospects for increased profitability and future sustainability are clearly improving, and that using land for pasture is far more than just a land banking strategy.

2. THE NEED TO TAX AG LAND BASED ON ITS AG PRODUCTIVITY VALUE

While the prospects of continued large-scale pasture use are looking more encouraging, this is only true if public policy (including real property tax policy) continues to assess and tax ag land as a factor of production rather than as a developable real estate commodity.

_Perhaps the single most critical “tool” needed to keep ag land in ag use is the preservation of the policy to assess land that is in legitimate agricultural production based on its relative value as a factor of agricultural production._ The alternative, which several Counties have considered, is assessing ag land at some percentage of its fair market value as a real estate commodity.

While ag use assessment rates vary between the different Counties, they are unquestionably significantly lower than would be the fair market value assessment of the land as a real estate commodity; in fact there is no correlation between these two values. And since pasture rates are by far the lowest of the ag use valuation rates, the perception is that taxes on pastureland are inequitably low, even compared to other ag use rates.

In support of the current ag use assessment rates, the Hawaii Cattlemen’s Association recently developed data that is summarized on the attached schedule. Their study concludes that as a percentage of the potential gross revenue a rancher in Hawaii County might generate from an acre of pasture, he could pay in real property taxes from less than 1% to over 17% of his gross revenues with the average being about 10%. That is a very significant share of a business’s gross, especially considering the minimal level of County services which the taxed pasture land demands or receives in terms of such County services as police protection, waste disposal, parks and recreation, social services, roads and other public works functions.

The Hawaii Cattlemen’s Council therefore strongly supports;

1. Closing those real property tax loopholes which have allowed for abuse of the tax system whereby users of land in the Agricultural District that are not in a legitimate agricultural practice get the benefit of tax incentives which were only intended to support legitimate agriculture; and
2. Most importantly, preserving the historic practice of assessing land that is in a legitimate agricultural use based on its relative agricultural productivity value and not based on some function of its fair market value as a real estate commodity.

_____________________________________
James S. Greenwell
Attachment