STATE OF HAWAII

HAWAII COMMUNITY-BASED ECONOMIC DEVELOPMENT TECHNICAL AND FINANCIAL ASSISTANCE PROGRAM

FY 2019
ANNUAL & FINANCIAL REPORTS TO THE 30th LEGISLATURE

As required by Section 201-10, Hawaii Revised Statutes and Section 201D-14, Hawaii Revised Statutes
EXECUTIVE SUMMARY

The Legislature created a Community-Based Economic Development (CBED) Program in 1991 in the Department of Business, Economic Development and Tourism (DBEDT) with Act 111, SLH 1991, codified as Chapter 210D, Hawaii Revised Statutes. As part of the statute, the CBED Advisory Council and the CBED Revolving Fund were also created.

The Council reviews CBED financing requests and makes recommendations on the awarding of loans and grants, subject to the final approval of the DBEDT director. The Council also advises the director on program implementation, and members represent their island in liaison with community-based organizations.

The Hawaii Community-Based Economic Development Revolving Fund (CBED Revolving Fund) was established to provide training and capacity-building opportunities and invest in community economic development projects that result in measurable economic impact. Sources of revenue include repayments of loan principal, loan interest, and interest from the department’s participation in the State’s investment pool. As of June 30, 2019, the CBED Revolving Fund had a balance of $448,087.

The CBED Revolving Fund may be used for loans, grants and technical assistance. The CBED Program has focused most of its recent efforts on 1) loans to small businesses that have expansion plans or projects with a community economic impact; and, 2) technical assistance that can grow small businesses and non-profits seeking to diversify their funding streams with recurring revenue-generating projects.

Through the CBED Revolving Fund, the CBED Program may assist eligible community-based organizations (CBOs) with financial and/or technical assistance. The CBED Program continues to support community efforts statewide. In FY 2019, the CBED Revolving Fund continued its partnership with the Department of Agriculture’s Micro-
Loan Program, servicing each of the five earlier agricultural business loans made in 2013 through 2017.

The recently passed Federal Tax Cuts and Jobs Act of 2017 authorized a community economic development program called the Opportunity Zones Program. The Opportunity Zones Program will be promoted through the Community-Based Economic Development (CBED) Program to enhance efforts to bring community economic development to those underserved and low-income sectors of the State. This initiative provides incentives for investors to re-invest realized capital gains into Opportunity Funds in exchange for temporary tax deferral and other benefits. The Opportunity Funds are then used to provide investment capital in certain low-income communities, i.e., Opportunity Zones.

DBEDT views the new Opportunity Zone Initiative as an economic development tool (tax shelter) that uses Federal tax incentives to direct investment capital to underserved, low income areas and targeted communities defined as Opportunity Zones. On October 4th, 2018 a half day seminar in Honolulu was held titled “Understanding Opportunity Zones in Hawaii.” The event was co-sponsored by DBEDT, Hawaii Community Reinvestment Corporation, and the Federal Reserve Bank of San Francisco. Almost 200 people attended the event and joined the conversation exploring possibilities for Opportunity Zones in Hawaii.

The total number of CBO’s, cooperatives, and small businesses assisted in FY 2019 numbered to more than 1,000 through the co-sponsorship of the annual Hawaii Small Business Fair and sponsorship of the Native Hawaiian Small Business Resources Fair held in conjunction with the Council for Native Hawaiian Advancement’s (CNHA) Annual Convention, plus other outreach initiatives on all major islands providing business training and informational workshops.

DBEDT co-hosted the “Launch Your Dreams into Reality” Hawaii Small Business Fair at the University of Hawaii’s Leeward Community College. More than 200 small business
owners, entrepreneurs, and community organizations attended the event. The free one-day event featured 26 business-related workshops and one-on-one business counseling sessions conducted by the Hawaii Small Business Development Center and Patsy T. Mink Center for Business & Leadership. Exhibits with 35 business resource exhibitors from federal, state and local agencies, private non-profit organizations and community development financial institutions (CDFIs) were also on-hand to assist and provide information to Hawaii’s small business sector and entrepreneurs.

The CNHA’s 17th Annual Convention at the Prince Waikiki on October 8-10, 2018 boasted more than 800 attendees, with over one dozen panels and workshops related to economic development, Native Hawaiian health, education, housing, intellectual property and more, a two-day marketplace and more than twenty Federal, State, County and private agencies and organizations to provide information for entrepreneurs and small business owners.

The CBED Program staff and CBED Advisory Council Members continue to develop program strategy and partnerships that helps revitalize the CBED Program’s loan, grant and technical assistance initiatives that support DBEDT’s goals, community revitalization and cultural and community values. Entrepreneurial small businesses and community-based economic development initiatives to be funded by the CBED Program and Revolving Fund are anticipated to support a broad range of agricultural-related and urban businesses and projects such as small business manufacturing enterprises, food security, and agricultural enterprises, including value-added business development and manufacturing.

On Saturday, April 27, 2019, CBED staff conducted a workshop to provide information and answer question regarding the CBED Loan Program, technical assistance, and other DBEDT programs such as the Hawaii Enterprise Zone Program and the Hawaii State Trade Expansion Program (HiSTEP) to help companies who seek export opportunities. CBED staff also staffed an exhibitor table to distribute DBEDT program brochures and flyers for future workshops and 2020 Census materials to one hundred and twelve (112) Waianae Small Business Symposium attendees.
The Waianae Small Business Symposium is sponsored by the Waianae Economic Development Council, a 501 (c) (3), community development corporation with a mission to expand economic opportunities for Waianae Coast community residents. Initiatives include supporting start-up and existing businesses in need of development services and/or financing. Quarterly symposiums offer general information, exhibits, presentations, workshops and other services focused on the needs of small business owners in the Waianae community.

The revolving fund, technical assistance, and capacity-building program initiatives will continue to be a crucial resource for Hawaii’s entrepreneurs and community-based organizations to create jobs, implement or expand their businesses, and develop sustainable revenue generating initiatives. Community-based economic development is a bottom-up approach and can play an important role in the State’s larger economic development strategy. As the assistance from the CBED Program helps rejuvenate the entrepreneurial and community economic development sectors, the CBED Program itself will also be rejuvenated.
COMMUNITY-BASED ECONOMIC DEVELOPMENT PROGRAM

CBED: Revolving Fund

The Hawaii Alliance for Community-Based Economic Development (HACBED) was established in 1989 by a group of community development practitioners. HACBED formulated strategies for the state government to support community-based organizations (CBOs) that wanted to create economic development initiatives. These efforts resulted in program legislation to provide financial and technical assistance to local groups. The Legislature created a Community-Based Economic Development (CBED) Program in the Department of Business, Economic Development and Tourism (DBEDT) with Act 111, SLH 1991, codified as Chapter 210D, Hawaii Revised Statutes. The legislation created the CBED Advisory Council and the CBED Revolving Fund with an appropriation of $900,000, in 1991. Today, more than ever, Hawaii must move toward a new economy. The forces of globalization and economic transition have created great challenges in the world economy. Hawaii’s isolation and dependence on tourism and fossil fuel energy have made the islands more susceptible to these effects.

CBED strategies and practices can play a valuable part in an overall economic development strategy for Hawaii. Specifically, CBED is a bottom-up economic development initiative that can supplement more centralized or top-down approaches. This bottom-up approach begins by sourcing economic development opportunities from local communities themselves, which can be “demographic communities” or “communities of interest.” These opportunities, which usually become projects, not only have community-backing, but usually have some form of community control. The CBED approach can help build new infrastructure for a more sustainable Hawaii economy, based on decentralization, partnerships, human resource development, and innovation.

The foundation created by community-based economic development leads to long-term capacity-building for local communities and residents and provides backward linkages to
ancillary firms to sustain and expand the main sectors of the economy. Hawaii’s economy is in need of true diversification. CBED is a practical way to achieve a true restructuring of Hawaii’s economy. As the old economic engines become obsolete, the state must look for new alternatives. CBED is a key strategy for not leaving behind the lower income urban and rural communities in the State of Hawaii.

The Hawaii CBED Revolving Fund was established to provide training and capacity-building opportunities and invest in community economic development projects that result in measurable economic impact. Sources of revenue include repayments of loan principal, loan interest, “Transfers” of revenue collections from other closed DBEDT loan programs (i.e., Capital Loan Program, Small & Large Fishing Vessel Loan Programs), and fees from community conferences and other events sponsored through the CBED Program.

<table>
<thead>
<tr>
<th>CBED Revolving Fund Account</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning balance as of July 1, 2018</td>
<td>$124,954</td>
</tr>
<tr>
<td>Revenues for fiscal year:</td>
<td></td>
</tr>
<tr>
<td>Loan Interest Payments</td>
<td>$1,585</td>
</tr>
<tr>
<td>Loan Principal Payments</td>
<td>$13,525</td>
</tr>
<tr>
<td>Investment Pool Earnings</td>
<td></td>
</tr>
<tr>
<td>Transfers</td>
<td>$444,893</td>
</tr>
<tr>
<td>Expenditures for fiscal year</td>
<td>($136,870)</td>
</tr>
<tr>
<td>Encumbrances</td>
<td></td>
</tr>
<tr>
<td>Balance as of June 30, 2019</td>
<td>$448,087</td>
</tr>
</tbody>
</table>

The CBED Revolving Fund may be used for loans, grants and technical assistance. The CBED Program focused most its efforts in FY19 on outreach and technical assistance that can help grow small businesses and non-profits seeking to diversify their funding streams with recurring revenue-generating projects.

**CBED Revolving Loan Report**

In 2017 the CBED Revolving Fund approved a loan to Kohala Meats & Deli, LLC for $25,000.00, matched by an additional $25,000.00 from the State Department of
Agriculture’s Micro-Loan Program. These funds provided capital to complete renovations of a 1,592 square foot store space located in Kohala, Hawaii.

The intention of the business owners is to develop a business that sells butchered meat, deli/processed foods, as well as hot prepared foods. The business also provides training in cooperation with Hawaii Community College for local youth to earn a certificate in butchering as well as an opportunity to learn business management. And, area residents will have an opportunity to purchase locally grown, high quality meats and produce at reasonable prices. This loan is performing well and payments are current.

In 2015, CBED loan funds provided capital to the Chandara Farm to purchase farm supplies and working capital needed to expand crop production. In November 2015, CBED staff members were informed by the Department of Agriculture’s Loan Division that Mr. Chandara had sold his farm and equipment to another farmer. In January 2016, due to the inability to contact Mr. Chandara, the case was referred to an investigator with the Department of the Attorney General for assistance in tracking the debtor.

In 2015, CBED loan funds provided capital to the Luangrath Farm to purchase farm supplies to expand farm production to an adjacent 8-acre parcel. Mr. Luangrath was successfully able to put the 8-acre parcel into production with a variety of crops such as sweet peppers, tomatoes, long beans, string beans, eggplant, and cucumbers. This loan is performing well and payments are current.

In 2013, CBED loan funds provided capital to relocate the Chanthabouasith Farm to a larger 14-acre parcel located in Kahuku. The new farm is operating well and is very productive with a wide variety of crops such as sequa, eggplant, sweet potato, long beans, chili pepper, okra, bittermelon, jackfruit, bananas, cucumber, taro and long squash. This loan is performing well and payments are current.
In 2011, CBED loan funds provided capital to Hawaiian Agricultural Products, LLC and business owners, Mr. and Mrs. Ken Hirata, to finance the purchase and installation of a steam boiler for a shochu distillery. The distillery began production of shochu in 2013. It is currently producing at its capacity of approximately 6,500 bottles per year. This loan is performing well and payments are current.

**CBED: Technical Assistance Activities**

**OPPORTUNITY ZONES PROGRAM**

The recently passed Federal Tax Cuts and Jobs Act of 2017 authorized a community economic development program called the Opportunity Zones Program. This initiative provides incentives for investors to re-invest realized capital gains into Opportunity Funds in exchange for temporary tax deferral and other benefits. The Opportunity Funds are then used to provide investment capital in certain low-income communities, i.e., Opportunity Zones.

**Benefits to Investors**

- A temporary tax deferral for capital gains reinvested in an Opportunity Fund. The deferred gain must be recognized on the earlier of the date on which the Opportunity Zone investment is sold or December 31, 2026.

- A step-up in basis for capital gains reinvested in an Opportunity Fund. The basis of the original investment is increased by 10% if the investment in the qualified Opportunity Zone fund is held by the taxpayer for at least 5 years, and by an additional 5% if held for at least 7 years, excluding up to 15% of the original gain from taxation.

- A permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in a qualified Opportunity Zone Fund if the investment is held for at least 10 years. (Note: this exclusion applies to the gains accrued from an investment in an Opportunity Fund, not the original gains).
Additional Incentives
All the Opportunity Zones in Hawaii overlay with other economic development initiatives such as New Market Tax Credits, Enterprise Zones and Transit Orient Development (TOD) Zones. There are also many other non-census tract-based programs that can be applied such as Low-Income Housing Tax Credits (LIHTC). Additionally, there may be synergies between investors and their missions and the major property holders and businesses in an Opportunity Zone.

25 Census Tracts Designated as Opportunity Zones
Hawaii designated 25 census tracts as Opportunity Zones as part of the new federal community development program established by Congress in the Tax Cuts and Jobs Act of 2017 to encourage long-term investments in low-income urban and rural communities nationwide. Its stated purpose is to encourage entrepreneurship and expansion capital for economically distressed areas of the country.

UNDERSTANDING OPPORTUNITY ZONES IN HAWAII SEMINAR
On October 4th, 2018 a half day seminar in Honolulu was held titled “Understanding Opportunity Zones in Hawaii.” The event was co-sponsored by DBEDT, Hawaii Community Reinvestment Corporation, and the Federal Reserve Bank of San Francisco. Almost 200 people attended the event and joined the conversation exploring possibilities for Opportunity Zones in Hawaii. Local and national experts (including Maurice Jones of LISC and a Brent Parker from Novogradac & Company) spoke and focused on what we know so far about how this new tax incentive can be used and the roles regional stakeholders can play to ensure the benefits of this investment vehicle are broadly shared.
HI OZ INVESTMENT READY WORKSHOPS

DBEDT is organizing workshops for owners of Businesses or developers of Business Real Estate Projects located in OZs and are interested in receiving an investment from an OZ Fund. The workshops will help the participants understand what it takes to become “investment ready” for an OZ Fund Investment. Qualified businesses and projects will have the option to participate in the HI OZ Investment Ready Program. DBEDT is particularly interested in projects that have positive community economic benefits.

More information on DBEDT’s role in the Opportunity Zones can be found at: https://invest.hawaii.gov/oz/
CBED sponsors Hawaii Small Business Fairs and Opportunity Zone Seminars

**HAWAII SMALL BUSINESS FAIR**

The number of community-based organizations, cooperatives, and small businesses assisted numbered more than 1,000 through the co-sponsorship of the Hawaii Small Business Fair at University of Hawaii’s Leeward Community College, Council for Native Hawaiian Advancement’s 17th Annual Convention – Business Resource Fair, and other outreach initiatives on all major islands to provide business information and training workshops.

Attendees of the fairs and workshops are offered valuable information on a wide range of business topics that included, but not limited to: Copyrights, Patents & Trademarks, Financing Your Business, Professional Networking, and Tax Tips for Small Business, and much more. Members of the Hawaii Small Business Development Center, Patsy T. Mink Center for Business & Leadership and other professionals are on hand to provide small business owners and entrepreneurs with free one-on-one business counseling. A wide-
range of thirty-five (35) Federal, State and private agencies, including major Hawaii financial institutions are also on hand to provide business resources and information.

Comments provided by attendees are consistently positive:

- “I was impressed with the turnout and the quality of the guest speakers. I really learned a lot from all three workshops I attended.”
- “Great service for the community.”
- “Excellent workshops, excellent vendors. Thank you!!”
- “Very valuable information.”
- “It was great! I look forward to the next fair.”

These free workshops and exhibits provided an opportunity for small business owners and future business owners to learn to grow or start their own business.

**CBED: A Continuing Strategy**

Community-based economic development is specifically a strategy for addressing the needs of low-income communities. CBED has been implemented in the United States for more than 40 years, and in Hawaii for 20 years. As the dialogue about incorporating community vision and values into present day Hawaii continues, CBED stands out as an effective strategy to achieve those goals by empowering the community, increasing capacity, and conserving local resources. CBED is a proven strategy that differs from traditional economic development because it emphasizes community reinvestment and local economic opportunities. It is a complete process that addresses a community’s economic and social needs. CBED strategies help maintain Hawaii’s cherished *quality of life* for its residents over the long term, while Community-Based Organizations (CBOs) provide social services and ecosystem services that make a locality attractive to new, appropriate investment and economic development. In the spirit of creating “Public-Private Partnerships,” the CBED Program has focused on partnering with other state, federal and private agencies to help build the capacity of small businesses, entrepreneurs, and CBOs through training workshops, conferences, conventions, and other events.
CBED ADVISORY COUNCIL

The CBED Advisory Council now consists of 10 members. The Director of DBEDT, the Chairperson of the Board of Agriculture, and the Chairperson of the Office of Hawaiian Affairs, or their respective designees, are ex-officio members. The Governor appoints the remaining seven members, representing all counties plus one member who has specific commercial finance experience.

The Council reviews CBED financing requests and makes recommendations on the awarding of loans and grants, subject to the final approval of the DBEDT director. The Council also advises the director on program implementation, and members represent their island in liaison with community-based organizations.


In 2016, during a strategic planning session, the Council voiced its agreement and understanding of the importance of partnerships and emphasized the need to leverage and obtain additional CBED funding and seek loan servicing services to address the fact that DBEDT does not have a loan officer to service loans made through the CBED Revolving Fund.

The CBED Advisory Council listed the following as desired program goals:
Create jobs & opportunities (such as new businesses) in economically disadvantaged areas and empower communities to control their own economic destiny by:
Targeting communities in disadvantaged areas of the state such as those located in enterprise zones (EZ);

1) Supporting start-ups, business expansions, social enterprises, co-ops, and entrepreneurship;
2) Considering youth training and mentorship/apprentice programs in projects;
3) Facilitating sustainability among communities and organizations so they can continue operating;
4) Including multiple communities – by demographic, by island;
5) Leveraging program funds through partnerships;
6) Dovetailing CBED program with EZ and other state, county, federal, private programs;
7) Seeking ways CBED can uniquely impact, not replicate, what others are doing.

The Council also noted that while specific industries should not be targeted or given preference, the CBED program should consider which industries will create the most jobs and jobs requiring skilled workers.

**CBED Tools/Resources/Strategies/Program Activities**

In implementing the CBED program, chapter 210D, Hawaii Revised Statutes, allows DBEDT to make grants, loans and offer technical assistance.

The Council’s guidance on how to use these tools were as follows:

Grants should be used for:

- Non-profit organizations determined to be exempt from federal income tax by the IRS;
- Technical Assistance for grant writing – “Grantsmanship Center” and other resource centers for grant writing;
- Train-the-trainer programs – i.e., HANO; Hawaii Community Foundation; Hawaii County;
- Capacity-building – building a community’s financial expertise;
- Development of business mentorship programs;
- The Council suggested that grants be 10% of the CBED budget with 90% for loans and technical assistance, e.g. $500,000 budget would allocate $50,000 to grants.

**Loans:**

- CBED could use EZ program as “filter” for guidance – geographic target areas such as Enterprise Zones;
- Consider start-ups/business growth/entrepreneurship/youth training;
- Targets for loans may include for-profits, social enterprises and cooperatives that produce and/or utilize community resources/products;
- Consideration towards partnerships to leverage CBED funds:
  - Department of Agriculture
  - Small Business Administration (SBA)
  - Maui Economic Opportunity (MEO)
  - Pacific Gateway
  - Office of Hawaiian Affairs (OHA)
  - Contact counties to identify other organizations providing micro-loans;
- Council agreed that loans should on average be $25,000 but can go as high as $100,000 depending on the project and partner(s).

**Technical Assistance:**

For consideration:

- One Stop Centers/CBED Resources;
- Web portal site for Hawaii community-based economic development;
- Financial Information/Training;

*CBED Program Annual Report 2019*
- Business Resource Centers – i.e., SBDC, UH & Community Colleges; Innovation Centers
- Accelerators – Designed to assist community-based non-profits that have an economic impact mission. Seek to diversify non-profits’ funding streams through the development of projects that generate recurring unrestricted revenue.

**Outcomes/metrics-Measuring Success**

The Advisory Council agreed on the following tracking metrics that could be used to measure success:

- Jobs created
- Jobs retained
- Earnings
- Training hours
- Revenue increases
- Local sourcing of inputs (multiplier effect)
- Satisfaction by program
- Social impact – use same metrics as partner non-profit organization
- New businesses created

**Current CBED Advisory Council Members**

Mr. Matthew K. Loke, Representative for Chair Phyllis Shimabukuro-Geiser Department of Agriculture (DOA)
Mr. James Patterson, Representative for Chair Colette Y. Machado
Office of Hawaiian Affairs (OHA)

Mr. Dennis T. Ling, Representative for Director Mike McCartney
Department of Business, Economic Development & Tourism (DBEDT)

Ms. Rachel James, Chair - CBED Advisory Council (Oahu)

Ms. Elvira Lo, CBED Advisory Council Member (Oahu)

Mr. Kaleokalani Kuroda, CBED Advisory Council Member (Oahu-Financial)
Ms. JoAnn Inamasu, CBED Advisory Council Member (Maui)

Ms. Jane Horike, CBED Advisory Council Member (Hawaii Island)

Mr. Ernest Matsumura, CBED Advisory Council Member (Hawaii Island)

VACANT, CBED Advisory Council Member (Maui)

VACANT, CBED Advisory Council Member (Kauai)
CONCLUSION

Traditional top-down economic development is focused on business and profit, but many of Hawaii’s rural and disadvantaged urban communities and residents do not reap the benefits or resist a centralized approach to economic development. CBED is a positive program that empowers the community, strengthens the knowledge base and provides access to the resources to expand economic and social development. CBED supplies the infrastructure for long-term self-sufficiency, entrepreneurial opportunities, jobs, and revenue for Hawaii’s local communities. CBED is a bottom-up approach and plays an important role in the State’s overall economic development strategy. An expanded fund commitment to the Statewide CBED Program serves to make Hawaii stronger by empowering communities and increasing self-sufficiency and economic diversification.

For more information on DBEDT’s CBED Program go to: