

**Report on Non-General Fund Information**  
for Submittal to the 2018 Legislature

Department: Business Economic Development & Tourism  
 Prog ID(s): BED 100/SM  
 Name of Fund: Hawaii Community-Based Economic Development Revolving Fund  
 Legal Authority: Chapter 210D, HRS

Contact Name: Wayne Thom  
 Phone: (808) 587-2757  
 Fund type (MOF): W-Revolving  
 Appropriation Acct. No. S-344-B

Intended Purpose: To provide training & capacity-building opportunities, and invest in community economic development projects that result in economic impact.

Source of Revenues: Loan principal, loan interest, fees from workshops & conferences, & other program related activities.

Current Program Activities/Allowable Expenses: Loans, workshops & conferences that provide capacity-building training and technical assistance.

Purpose of Proposed Ceiling Adjustment (if applicable) N/A

Variations:

Financial Data							
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
	(actual)	(actual)	(actual)	(actual)	(actual)	(actual)	(estimated)
Appropriation Ceiling	721,915	721,915	721,915	721,915	721,915	721,915	721,915
Beginning Cash Balance	203,519	203,907	158,434	111,086	115,310	124,954	448,087
Revenues	6,090	7,786	14,077	5,667	19,480	460,003	20,000
Expenditures	25,702	73,259	61,425	36,443	9,836	136,870	150,000
Transfers							125,000
List each net transfer in/out/ or projection in/out; list each account number							
JV#:JM4392	3/14/2014	20,000					
JV#:JM4664	4/9/2015		20,000				
JV#:JM7644	6/30/2017			35,000			
Net Total Transfers	20,000	20,000	0	35,000	0	0	0
Ending Cash Balance	203,907	158,434	111,086	115,310	124,954	448,087	318,087
Encumbrances		70,000	10,000				
Unencumbered Cash Balance	203,907	88,434	101,086	115,310	124,954	448,087	318,087

Additional Information:

Amount Req. by Bond Covenants							
Amount from Bond Proceeds							
Amount Held in CODs, Escrow Accounts, or Other Investments							

## CBED/EZ /Census Outreach 2019

<u>EVENT/VENUE</u>	<u>DATE(S)</u>	<u>#OF PARTICIPANTS</u>
<b>Hawaii Small Business Fair</b> <ul style="list-style-type: none"> <li>• Leeward Community College</li> </ul>	5/4/2019	200
<b>Kauai County Farm Bureau Annual Meeting</b>	7/21/2019	170
<b>Hawaii Coffee Association's 24<sup>th</sup> Annual Conference</b> <ul style="list-style-type: none"> <li>• Ala Moana Hotel, Honolulu</li> </ul>	7/25-27/ 2019	150
<b>Whitmore Village Agricultural Business Workshop</b> <ul style="list-style-type: none"> <li>• Pineapple Crate, Wahiawa, Oahu</li> </ul>	7/31/2019	31
<b>Council for Native Hawaiian Advancement (CNHA) 18<sup>th</sup> Annual Native Hawaiian Convention</b> <ul style="list-style-type: none"> <li>• Hawaii Convention Center</li> </ul>	9/21-25/2019	1500
<b>Maui Farm Bureau Annual Meeting</b> <ul style="list-style-type: none"> <li>• Kula, Maui</li> </ul>	9/25/2019	150
<b>AG2019-Hawaii Agriculture Conference</b> <ul style="list-style-type: none"> <li>• Hawaii Convention Center</li> </ul>	10/15-16/2019	400
<b>Molokai Small Business Fair</b> <ul style="list-style-type: none"> <li>• Maui College-Molokai Campus</li> </ul>	10/18/2019	50
<b>Waianae Small Business Symposium</b> <ul style="list-style-type: none"> <li>• Waianae District Park</li> </ul>	10/19/2019	50
<b>Hawaii Farm Bureau: 72<sup>nd</sup> Annual Convention</b> <ul style="list-style-type: none"> <li>• The Royal Lahaina Resort, Maui</li> </ul>	10/29-30/2019	90
<b>Hawaii Cattlemen's Annual Meeting &amp; Convention</b> <ul style="list-style-type: none"> <li>• Waikoloa Beach Marriott Resort &amp; Spa, Kona, Hawaii</li> </ul>	11/15-16/2019	200



## DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

DAVID Y. IGE  
GOVERNOR

MIKE MCCARTNEY  
DIRECTOR

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DTS: 202004141627YA

April 14, 2020

To: Mike McCartney, Director  
Department of Business, Economic Development and Tourism

From: Mark Ritchie, Branch Chief  
Business Development and Support Division

Through: Dennis T. Ling, Administrator  
Business Development and Support Division

Subject: CBED Revolving Fund Micro-Loan Approval

Applicant: Hawaiian Agricultural Products, LLC  
Ken Hirata and Yumiko Hirata, Co-Borrowers  
520 Lunalilo Home Road, #7304  
Honolulu, Hawaii 96825

**Classification  
& Eligibility:**

Hawaiian Agricultural Products, LLC (HAP) meets the requirements of Chapter 210D of the Hawaii Revised Statutes as an eligible business for the purpose of financing acquisition of equipment, machinery, supplies, and materials. HAP and the Hiras request DBEDT Director's approval of a Community-Based Economic Development (CBED) Revolving Fund loan of \$60,000, to be matched with a \$60,000 loan from the State Department of Agriculture's Loan Division (SALD). CBED Revolving funds will be used primarily for the purchase and installation of additional brewing and holding equipment needed to expand production and distribution of shochu made at their distillery.

The loan will be well secured by the brewery equipment and personal real estate. The company's historic and projected cash flow is sufficient to service the proposed debt. The proposed loan will purchase brewery equipment to increase production and efficiency which will increase the operation's profitability and utilize more locally grown produce.

Ken Hirata is a Japan resident and the sole member of HAP, which is registered in Hawaii and will use Hawaii-grown ingredients in the manufacture of its premium shochu, a distilled alcoholic beverage.



The distillery will be located in Waialua, which is part of the North Shore Enterprise Zone. Ken is a shochu master and has completed a three-year apprenticeship under a master distiller at Manzen Shuzo Co. Ltd., a Japan distillery.

His wife, Yumiko, is also a Japan resident and will be his primary assistant. The borrowers have investor visas that will allow them to reside and work in the United States based upon their business investment.

Commodity: Hawaii Manufactured Distilled Spirits: Traditional Japanese Shochu produced from Hawaii grown sweet potato.

Credit History: SEE ATTACHED EXHIBIT A (CONFIDENTIAL)

Other State Loans: Hawaiian Agricultural Products LLC, Ken Hirata and Yumiko Hirata have the following loans with the State of Hawaii:

Loan No.	Approval Date	Amount	Balance	Status	Maturity
DEF-6310	11/2/11	\$25,000	\$5,732	Current	11/1/21
CEBD-1-11	12/17/11	\$25,000	\$6,633	Current	3/1/22
DEO-6322	6/14/12	\$125,000	\$21,882	Current	1/1/21
<b>Total:</b>			<b>\$34,247</b>		

\*Community Based Economic Development (CBED) is a program of the Department of Business Economic Development and Tourism.

In November 2011, State Agricultural Loan Division (SALD) loan DEF-6310 for \$25,000 was approved for operational working capital.

In December 2011, CBED program with the Department of Business Development and Tourism provided a loan CEBD-1-11 for \$25,000 that was approved for operational working capital.

In June 2012, SALD loan DEO-6322 for \$125,000 was approved for the purchase of brewing equipment to complete the distillery.

The total balance for state of Hawaii loans is \$34,247. All loans payments are current with HAP providing consistent payments since loan inception.

Loan Request &  
Purpose:

<u>Amount</u>	<u>Class</u>
\$60,000	E – Food Manufacturer Facility Loan (SALD)
<u>\$60,000</u>	<u>CBED Facility Loan</u>
<b>\$120,000</b>	<b>Total Request</b>


Loan Purpose

\$5,732	Payoff DEF-6310
\$6,633	Payoff CBED-1-11
\$21,882	Payoff DEO-6332
\$25,000	Stainless Steel Still
\$25,000	Stainless Steel Steamer
\$10,000	Shipping from Japan
<u>\$25,753</u>	<u>Operational Funds</u>
<b>\$120,000</b>	<b>Total</b>

Companion loan requests by SALD and CBED will finance the purchase, shipping from Japan and installation of a new stainless-steel still and stainless-steel steamer.

Terms:

CBED Micro-Loan

Amount: \$60,000  
Period: 10 Years  
Interest Rate: 3.00% per annum   
Repayment: Monthly principal and interest payments of \$580.00 until maturity.

Class E – Food Manufacturer (SALD)

Amount: \$60,000  
Period: 10 Years  
Interest Rate: 3.75%  
Repayment: Monthly principal and interest payments of \$601 until maturity.

Security:

The SALD Class-E loan and CBED Facility loans will be secured as follows:

Primary security:

- A specific security interest will be taken on the equipment (Still and Steamer) to be purchased. A first position blanket security interest in crops, accounts receivable, inventory, furniture, fixtures, equipment, deposits, general intangibles,

trademarks and licenses. The existing equipment includes a still, holding tanks and vats, steamer and boiler with an appraised value of \$100,000 as of 11/21/2019. The total value of equipment with the new still and steamer is \$150,000.

Additional security:

- First position mortgage on a fee-simple Waikiki residential condominium known as “Waipuna” and identified as TMK (1) 2-6-013-002-0326. The 2bdrm, 2bath condo is 948 sq.ft. and is located on Ena Road in Waikiki and is jointly owned Ken Hirata and his mother, Haruko Hirata. Ms. Hirata is willing to provide an accommodation mortgage as security for the proposed loan. The property has a 2020 tax assessed value of \$680,100.

The loan-to-value (LTV) ratio of the proposed loans is calculated as follows:

$$\frac{\$120,000: \text{This Request}}{\$150,000 \text{ (equipment)} + \$680,100 \text{ (TAV)}} = 14.46\% \text{ LTV}$$

The loan will be fully secured by the equipment to be purchased and existing equipment. The loan will be further secured with the real estate offered.

Guarantors: None

Financial Condition: SEE ATTACHED EXHIBIT A (CONFIDENTIAL)

Repayment Ability: SEE ATTACHED EXHIBIT A (CONFIDENTIAL)

Insurance: Condominium Insurance including hazard and liability. HAP to maintain commercial general aggregate liability coverage.

Background / Management Ability: Hawaiian Agricultural Products LLC, dba Hawaiian Shochu Company is a limited liability company established in March 2010 by Ken Hirata, its sole owner/member. The company was created to develop and produce shochu, a distilled alcoholic beverage that is native to Japan and made primarily from sweet potatoes and rice.



Mr. Hirata is a Japan resident living and working in Hawaii through a USA investment work visa. Mr. Hirata graduated with a bachelor's degree in Business Administration from Lewis & Clark College of Portland, Oregon. After graduation in 1995, Ken returned to Japan to work as an international money market broker before becoming a managing director for a design company in 1998. In 2003, Ken temporarily moved to Australia before returning to Japan in 2005 to oversee "koji" yeast production and shochu waste recycling at a shochu and sake distillery. This experience led him in 2006 to begin a three-year shochu apprenticeship with the founding brewmaster at Manzen Shuzo Co Ltd. located in Kagoshima, Japan. This distillery produces only premium shochu made with traditional recipes and methods. During his apprenticeship, Ken learned both the art of making shochu and the business skills of operating a distillery. Ken indicated that his brewmaster is one of the top six shochu masters in Kagoshima, an area known for sweet potato shochu production.

He chose to locate his new distillery in Waialua on the Island of Oahu on 11.95-acres of land leased from B. P. Bishop Trust Estate for 30-years and located in the North Shore Economic Development Zone. He chose this location since it shares a similar climate and soil as the birthplace of shochu in the city of Kagoshima, Japan. Ken and Yumiko work with two other HAP employees to produce the shochu. The process uses exclusively Hawaii grown sweet potatoes to produce its premium shochu. Ken is hoping to work with local farmers in the future to grow sweet potatoes on their 11.95-acre-site to supplement the distillery.

Summary:

The Hiratas are hard workers, good managers and have invested significant time, money and knowledge to make Hawaii Agricultural Products a successful venture. Loans with SALD and CBED have been paid as agreed and the company's financial statements have shown consistent profits and strong net worth.

The company has been unable to keep up with demand for their shochu and the purchase of the new stainless-steel still will increase HAP's brewing capacity. The new stainless-steel steamer is ergonomically efficient and alleviates much of the back breaking physical demands of the current steamer. The new equipment will give HAP greater and more efficient production as well as allowing the development new products.

The loan will be well secured by the brewery equipment and personal real estate. The company's historic and projected cash

flow is sufficient to service the proposed debt. The proposed loan will purchase brewery equipment to increase production and efficiency which will increase the operation's profitability and utilize more locally grown produce.

**Turndowns:**

The borrowers have been denied credit from American Savings Bank and Bank of Hawaii for insufficient repayment income for the following:

- Loan request does not meet minimum business scoring parameters
- Average age of personal revolving accounts
- Ratio of balance to limit too high on revolving accounts
- Time since most recent account opening is too short
- Too many inquires last 12 months

**Recommendations:** This loan is recommended for approval based on the Hirata's excellent credit histories, their management and manufacturing experience, the distillery's historical and projected repayment ability and the collateral offered.

**Attachment**

**Date**

Recommended by:

Apr 14, 2020

*Mark Ritchie*

Mark J. Ritchie, BSB Branch Chief

**Date**

Concurrence on recommendation:

Apr 15, 2020

*Dennis T. Ling*

Dennis T. Ling, BDS Administrator

**Date**

Approved / Disapproved:

Apr 17, 2020

*Mike McCartney*

Mike McCartney, DBEDT Director



## LOAN SERVICING AGREEMENT

Loan No. (s): CBED 006 - 18

Borrower: Hawaiian Agricultural Products, LLC

Ken Hirata, Yumiko Hirata

This Loan Servicing Agreement is made this 11<sup>th</sup> day of April 2020, by and between the Community Based Economic Development Technical and Financial Assistance Program of the Department of Business, Economic Development, and Tourism (hereinafter "CBED"), and the Agricultural Loan Division of the Department of Agriculture (hereinafter "ALD"). The parties agree as follows:

1. Scope. CBED retains ALD as CBED's agent to employ commercially reasonable and prudent practices to disburse loan funds, collect all scheduled payments and service the Loan identified above, including protection of the security for the Loan. ALD will consult with CBED on all other non-routine servicing and collection matters.
2. Term and Termination. This Agreement shall commence when the Loan is approved by the Director of Department of the Business, Economic Development, and Tourism. It shall terminate when any of the following events occur:
  - (a) payment in full of the Loan is received, lien documents, if any, are released and transmitted by ALD to the borrower, and all satisfaction and release documents are transmitted by ALD to CBED ;
  - (b) written notice of intent to terminate this Agreement, transmitted no sooner than 90 days prior to the anticipated date of termination, is transmitted by either party and received by the other party, effective on the selected date of termination; or
  - (c) legal action such as foreclosure, bankruptcy, or other action affecting or involving the Loan is commenced by either party or the borrower.

Prior to any termination, ALD shall remit to CBED any principal and interest collected accompanied by an appropriate accounting and all necessary documentation. At termination, CBED shall reimburse ALD for any outstanding fees owed or advances made on account of the Loan.

3. Conditions for Loan Disbursement. Loan proceeds shall be disbursed by ALD subject to the terms and conditions set forth in the CBED's Loan Approval Conditions and all amendments and modifications made thereto and sent to ALD prior to the date of

the first disbursement. Prior to the first disbursement, ALD will make every reasonable effort to ensure that all required loan documents are properly executed and recorded at the Bureau of Conveyances or deposited with any other appropriate government office, that all required insurance coverages are in effect and have been properly adjusted to add CBED as an additional insured or additional notice recipient, as appropriate, and that there has been no significant adverse change in the opinion of ALD to warrant the withholding of disbursement of the loan proceeds.

4. Specific Loan Servicing Functions. ALD shall:
- (a) issue loan coupons to the borrower directing loan repayment to ALD,
  - (b) issue payoff demands, and mortgage ratings,
  - (c) demand, receive, and collect all loan payments, and forward loan payments to CBED on a quarterly basis,
  - (d) issue annual income tax statements to the borrower,
  - (e) answer borrower inquiries, demands, and requests;
  - (f) apply its expertise in lending and loan collection to grant appropriate payment deferrals and minor extensions which do not significantly affect the maturity date of the Loan, and to negotiate short-term, temporary workout agreements upon a showing of need by the borrower, subject to the limitations on loan modifications, extensions, substitutions, assignments, or assumptions set forth in subsections (i) and (j), below,
  - (g) monitor and use best efforts to secure borrower compliance with required insurance coverages,
  - (h) make field inspections on regular basis to monitor operations and to inspect collateral,
  - (i) review and analyze borrower requests for major or otherwise significant substitutions and/or releases of collateral and forward requests and recommendations to CBED as appropriate,
  - (j) review and analyze borrower requests for major or otherwise significant loan modifications, extensions, , or assumptions and forward requests and recommendations to CBED as appropriate, and
  - (k) provide monthly reports on loan status and communicate to CBED any significant factors that could detrimentally affect the Loan.

ALD will have custody of loan documentation as agent for the Loan until termination. However, ALD will provide full copies of loan documentation to CBED upon request.

LOAN SERVICING AGREEMENT  
Loan No(s).    CBED 006 - 18

5. Protective Advances. ALD shall make such advances necessary and prudent to protect and preserve CBED's interest in the Loan only with the prior approval in writing by CBED.
  
6. Compensation. For its services, ALD shall be paid: a servicing fee equal to 2% of the outstanding CBED principal balance of the loan on an annual basis payable semi-annually. The principal balance of the loan is determined based on the outstanding balance as of January 1 and July 1 of the year. Loans closed in the interim shall be billed at monthly rate of 1/12 of 2% of the approved loan amount until the next full semi-annual period. Loans paid in full during the semi-annual period shall be billed monthly rate of 1/12 of 2% of the outstanding principal balance at the start of the current semi-annual period through the month of payoff. Payments are due when billed and is not contingent on any loan payments being collected by ALD.
  
7. Amendments. This Agreement may be renegotiated, amended, extended, or modified only by written amendment that is mutually agreed to by both parties.
  
8. Notices. In order to be effective, all communications required to be made herein may be sent via email to the parties at the following respective addresses:

CBED:


mark.j.ritchie@hawaii.gov

ALD:

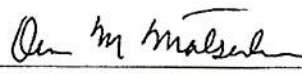
dean.m.matsukawa@hawaii.gov

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

COMMUNITY BASED ECONOMIC  
DEVELOPMENT,  
DEPARTMENT OF BUSINESS,  
ECONOMIC DEVELOPMENT, AND  
TOURISM

By:   
\_\_\_\_\_  
Mark Ritchie  
Its: Branch Chief

AGRICULTURAL LOAN DIVISION,  
DEPARTMENT OF AGRICULTURE

By:   
\_\_\_\_\_  
Dean M. Matsukawa  
Its: Administrator