



**Department of Business, Economic
Development & Tourism
Business Development & Support Division**

**HAWAII COMMUNITY-BASED ECONOMIC DEVELOPMENT
TECHNICAL AND FINANCIAL ASSISTANCE PROGRAM**

FY 2020 ANNUAL & FINANCIAL REPORTS TO THE 31st LEGISLATURE

CBED Program Annual Report 2020

As required by Section 201-10, Hawai'i Revised Statutes and
Section 201D-14, Hawai'i Revised Statutes



INTRODUCTION:

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, 2020, the CBED Revolving Fund had a balance of \$603,690.06.

CBED MISSION:

Through loans, grants and technical assistance the CBED program provides training and capacity building opportunities to promote, support, and invest in community-based development projects that result in measurable economic impact.

WHAT WE DO:

- ***Loans to help businesses***
CBED offers micro-loans usually up to \$50,000, to eligible small businesses that support economic development in their communities. We strive to help small businesses to develop viable, sustainable business ventures that serve local needs

and are compatible with the vision, character and cultural values of their communities. The CBED loan program supports a broad range of businesses, including agricultural producers, manufacturing businesses, health/organic food stores, and hydroponics and aquaculture businesses. CBED currently works with the Hawaii Department of Agriculture (HDOA) to execute and service loans, and has just signed an MOU with Feed the Hunger to collaborate on participation loans. We will soon have other Community Development Financial Institutions (CDFI) to support us throughout Hawaii.

- ***Technical assistance & business resource information***

CBED partners with various organizations to target “hard to reach” sectors of Hawaii’s business community to present information on business resources and educate community-based organizations on how to strengthen their economic development capabilities or further sustain their revenue generation initiatives. As an example of this, the CBED Program in collaboration and partnership with the Hawaii Farm Bureau provided \$10,000 in revolving funds for co-sponsorship and exhibitions for nine (9) separate statewide events covering Hawaii’s four counties, and lasting one to two days each, with a combined total attendance of more than 1000 attendees in order to reach more small, rural agricultural producers and processors and to develop a more comprehensive outreach program to promote CBED’s financial (low interest loan) assistance and other DBEDT programs in all four of Hawaii’s counties.

In September 2019, the CBED Program partnered with the Council for Native Hawaiian Advancement (CNHA) to sponsor a one-day event – the Small Business Resource Fair - at CNHA’s 18th Annual CNHA Convention held at the Hawaii Convention Center on Oahu. More than 1500 attendees for the CNHA Convention attended the resource fair and received valuable business resource information from CBED.

In October 2019, in collaboration with the Waianae Economic Development Council, the CBED staff conducted a workshop at the Kamehameha Schools Community Learning Center on the Waianae Coast, presenting information for the CBED low interest business loan program, Hawaii's Enterprise Zone (EZ) Program, and other DBEDT programs such as the HiSTEP and Opportunity Zone Programs. Attending were 100 small business owners and entrepreneurs from the Leeward Oahu Coast.

October 2019 also found the CBED Program as an exhibitor for the two-day "Ag 2019 – Hawaii Agriculture Conference" held at the Hawaii Convention Center. Information on all DBEDT and CBED Programs were distributed to more than 200 attendees.

In response to the COVID-19 pandemic, from April through June, 2020 the CBED Program assisted the Small Business Administration (SBA) with promoting and advising businesses on the Paycheck Protection Program (PPP) and the Economic Injury Disaster Loans (EIDL). CBED also re-directed a current contract with the Hawaii Community Reinvestment Corporation (HCRC) to provide technical assistance to nonprofits to access SBA EIDL and PPP loans. HCRC consulted with nonprofits to understand their immediate (three to six months out) cash flow needs and the Federal resources available. In addition, HCRC held several periodic webinars to reach a broader audience.

The total number of CBO's, cooperatives, and small businesses assisted in FY 2020 numbered to more than 2,500 through the collaborative outreach efforts between the CBED Program staff and community-based organizations such as the Waianae Economic Development Council, Hawaii (Statewide) Farm Bureau and individual county farm bureaus, and the Council for Native Hawaiian Advancement (CNHA). Co-sponsorship of the annual Native Hawaiian Small Business Resources Fair held in conjunction with the Council for Native Hawaiian Advancement's (CNHA)

Annual Convention at the Hawaii Convention Center on Oahu, provided business training, informational workshops and one-on-one assistance between more than 20 business resource agencies and 1000 small business owners and entrepreneurs.

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.

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.

HOW WE DO OUR WORK:

The CBED Program is guided by an Advisory Council comprised of community leaders from around the State (<https://invest.hawaii.gov/business/cbed/advisory-council-members/>). An annual meeting is held to discuss results, decide on current activities and to adjust strategy as needed.

NEW LOANS IN FY 2020:

In March and April of 2020, the CBED Advisory Council recommended approval for a second CBED co-loan with the HDOA's Loan Division (ALD) of \$60,000 to Hawaiian Agricultural Products, LLC, dba Hawaiian Shochu Company. An initial CBED loan of \$25,000 matched by an additional \$25,000 of ALD funds to purchase a new USA manufactured boiler was paid in full prior to the approval of the second CBED loan of \$60,000. Hawaiian Agricultural Products' first CBED loan balance was paid for by the ALD. In April 2020, the DBEDT Director approved a Community-Based Economic Development Revolving Fund second loan of \$60,000 to Hawaiian Agricultural Products LLC, dba Hawaiian Shochu Company, to be matched by an additional \$60,000 loan from ALD. CBED Revolving loan funds were used primarily for the purchase and installation of additional brewing and holding equipment needed to expand production and distribution of shochu made at the company's distillery.

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.

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.

CBED Revolving Fund Account	
Beginning balance as of July 1, 2019	\$448,087
Revenues for fiscal year:	
Loan Interest Payments	\$ 1,273
Loan Principal Payments	\$20,874
Investment Pool Earnings	
Transfers	\$327,814
Expenditures for fiscal year	(\$134,100)
Encumbrances	(\$35,129)
Balance as of June 30, 2020	\$628,819

The CBED Revolving Fund may be used for loans, grants and technical assistance. The CBED Program focused most its efforts in FY20 on outreach and technical assistance grants to help grow small businesses and non-profits seeking to diversify their funding streams with recurring revenue-generating projects, providing assistance for accessing Federal financial assistance for COVID-19, and outreach to promote services and financial assistance available through DBEDT.

CBED 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. It is hoped that this program will lead to neighborhood and business

district re-vitalization as well as encourage entrepreneurship in the Opportunity Zones. The benefits to communities and investors include:

Benefits to Communities

- New or upgraded workforce and affordable housing
- New or expanded businesses employing more workers at livable wages
- New or expanded services in disadvantaged neighborhoods

Benefits to Investors

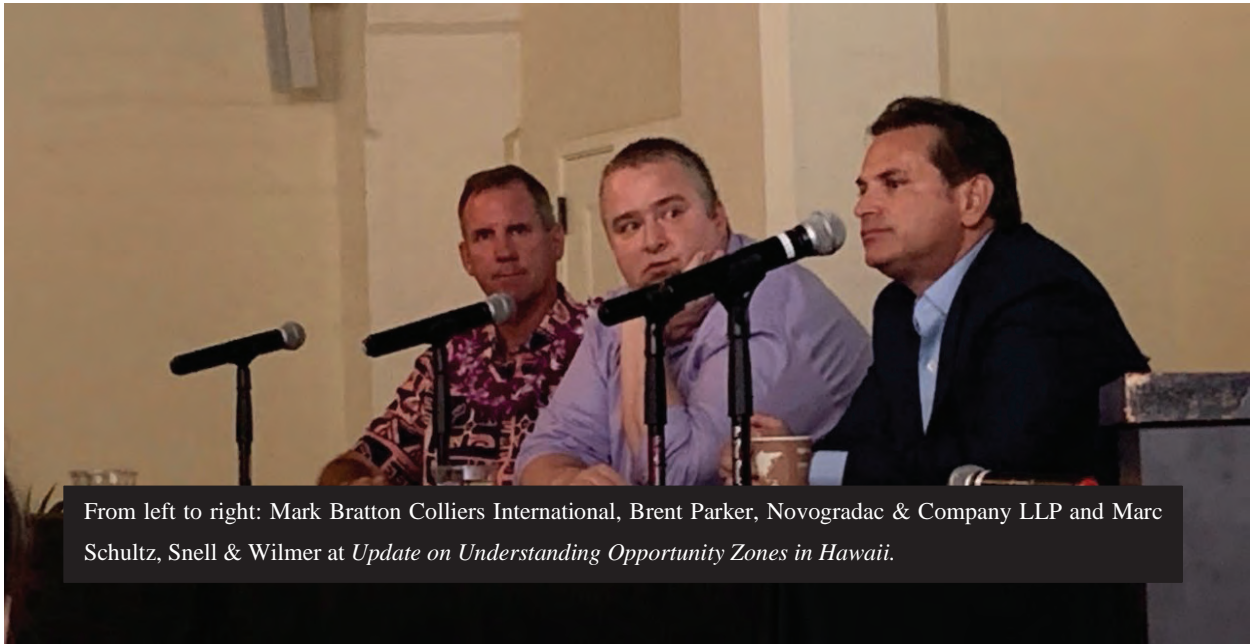
- A temporary tax deferral for capital gains reinvested in an Opportunity Fund. The deferred gain must be recognized on the earlier of the date on which the Opportunity Zone investment is sold or December 31, 2026.
- A step-up in basis for capital gains reinvested in an Opportunity Fund. The basis of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



From left to right: Mark Bratton Colliers International, Brent Parker, Novogradac & Company LLP and Marc Schultz, Snell & Wilmer at *Update on Understanding Opportunity Zones in Hawaii*.

Update on Understanding Opportunity Zones in Hawaii Seminar

DBEDT views the 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 Oct 17, 2019 the CBED Program hosted an event, *Update on Understanding Opportunity Zones*, co-sponsored by the Hawaii Society of Certified Public Accountants (HSCPA) and the Hawaii Community Reinvestment Corporation (HCRC). Around 150 people attended the event, which featured keynote speakers, Brent Parker, Principal, Novogradac & Company LLP and Marc Schultz, Partner,

Snell & Wilmer. Follow up Opportunity Zone workshops were also organized on Oahu as well as Kauai, Maui and Hawaii Island. More information on Hawaii's Opportunity Zones is available at: <https://invest.hawaii.gov/oz/>.

CBED OUTREACH 2019:

<u>Event/Venue</u>	<u>Date(s)</u>	<u>Participants</u>
Kauai County Farm Bureau Annual Meeting	7/21/2019	170
Hawaii Coffee Association's 24th Annual Conference Ala Moana Hotel, Honolulu	7/25-27/ 2019	150
Whitmore Village Agricultural Business Workshop Pineapple Crate, Wahiawa, Oahu	7/31/2019	31
Council for Native Hawaiian Advancement (CNHA) 18th Annual Native Hawaiian Convention Hawaii Convention Center	9/21-25/2019	1500
Maui Farm Bureau Annual Meeting Kula, Maui	9/25/2019	150
AG2019-Hawaii Agriculture Conference Hawaii Convention Center	10/15-16/2019	400
Molokai Small Business Fair Maui College-Molokai Campus	10/18/2019	50
Waianae Small Business Symposium Waianae District Park	10/19/2019	50
Hawaii Farm Bureau: 72nd Annual Convention The Royal Lahaina Resort, Maui	10/29-30/2019	90
Hawaii Cattlemen's Annual Meeting & Convention Waikoloa Beach Marriott Resort & Spa, Kona, Hawaii	11/15-16/2019	200

CBED Outreach Events

CBED sponsored the Small Business Fair at the Council for Native Hawaiian Advancement's 18th Annual Convention. Pictured from left to right: Mary Dale (SBA), Leslie Kawamoto (DBED/CBED), Shirley Heatherly (USDA-Rural Development). The convention hosted more than 1500 attendees over the 5-day event at the Hawaii Convention Center.



Brian Miyamoto, Executive Director for the Hawaii Farm Bureau address the attendees at the Hawaii Farm Bureau's 72nd Annual Convention held at the Royal Lahina Resort, Maui, Hawaii.



More than 150 cattle ranchers at the Hawaii Cattlemen's Council Annual Convention 2019 in Kona, on Hawaii Island, listen and watch a Powerpoint presentation from a representative from one of the many supply companies to Hawaii's cattle ranchers.



CBED staff distributed CBED brochures and other DBEDT program information to more than 150 attendees at the Hawaii Coffee Association Meeting at the Ala Moana Hotel. Pictured are attendees during a Powerpoint presentation of the Hawaii Brewers Cup & Barista Championship Competitions held in 2019.



More than 200 attendees at the Council for Native Hawaiian Advancement's 18th Annual CNHA Convention attended one of many workshops in the amphitheater in the Hawaii Convention Center.

HAWAII SMALL BUSINESS FAIRS:

Due to the COVID-19 pandemic, the Hawaii Small Business Fair originally scheduled to be held at the UH's Leeward Community College, for the first quarter of 2020 was canceled. The CBED Program hopes to restart this very successful event later in 2021. Prior annual "Small Business Fairs" have provided financial and informational resources to more than 1000 community-based organizations, cooperatives, and small businesses. Co-sponsorship of the Hawaii Small Business Fair with and at the University of Hawaii's Leeward Community College has proven a successful partnership.

In September 2019, the CBED Program sponsored and organized the Business Resource One-Day Fair at the Hawaii Convention Center in conjunction with the Council for Native Hawaiian Advancement's 17th Annual Convention attended by 1500 convention participants. The CNHA Convention is Hawaii's largest Native Hawaiian event with workshops, speakers and attendees from international, national, and state regions.

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 up to 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 provide 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 more than 25 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 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;
- 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

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.

Council members bring a myriad of skills sets to the Department and the CBED Program. Skill sets of current CBED Advisory Council Members include, but are not limited to: Strategic Communications, Program Management, Community Outreach, Project Management, Government, Strategic Planning, Public Speaking, Nonprofits, Leadership, Business Strategy/Business Analytics, Financial Modeling, Process Improvement, Finance, Risk Management, Public Policy, Grants, Public Administration, Customer Service, Legislative Relations, and Policy Analysis.

During strategic planning sessions, the Council has 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 and 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.

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)



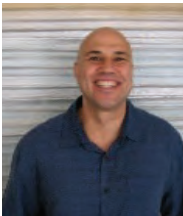
Mr. Dennis T. Ling, Representative for Director Mike McCartney
Department of Business, Economic Development & Tourism (DBEDT)



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)



Mr. Mark J. Ritchie, DBEDT
Branch Chief – Business Support Branch
CBED Staff



Mr. Wayne Thom, DBEDT
Community Economic Development (CED) Manager
CBED Staff

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:

<https://invest.hawaii.gov/business/cbed/> .