Testimony of Murray Clay, President of the Ulupono Initiative

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U.S. SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP FIELD HEARING
"Promoting a Resilient Economy for Hawaiʻi Farm Businesses"
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Examination of Federal Programs and their Relationship to Farm Businesses

Dear Senator Hirono and Committee Members:

My name is Murray Clay, and I am the President of the Ulupono Initiative. We are a Hawaiʻi-focused impact investment firm that strives to improve the quality of life throughout the islands by helping our communities become more resilient and self-sufficient through locally produced food, renewable energy and clean transportation choices, and better management of freshwater resources.

We appreciate the opportunity to address this committee specifically to highlight our work with local producers and their experience with available federal programs. Our team has done extensive work over the past several years to leverage federal dollars to support local producers across the state and would like to provide this testimony to the committee in hopes of supporting the future success of our local agricultural businesses.

COVID-19 Pandemic

During the height of the pandemic, Ulupono looked for various ways to support local farmers and ranchers who had lost many of their markets due to restaurant and hospitality industry closures. One of the ways Ulupono supported the agricultural industry during those tough times was to connect federal monies with local needs. We worked closely with the State and counties to find solutions to keep farmers and ranchers afloat.

One particular example is the work to develop and fund the "farm to food bank" program where government, private and philanthropic funds were leveraged to purchase locally grown food for food banks to distribute to those in need in our community. This program was critical in 1) keeping local farmers afloat with a new market opportunity, 2) supporting local food banks who struggled to stock shelf stable food due to supply chain disruptions and food hoarding, and 3) feeding the thousands of needy within the community who had lost their jobs and were struggling to put food on the table for their families.

Federal Grant Writing

From 2012 to 2022, Ulupono funded three general ag/food grant writers, including a few one-off grant writers for large federal grants (>$20 million), to support local farmers and ranchers with federal program funding. With $1.5 million in Ulupono funding provided over these 10+ years, the total federal funding return to local producers and other food system stakeholders was $133 million, roughly 88 times the initial investment.

With the help of partners at the Kohala Center, Oʻahu Agriculture and Conservation Association, and the Hawaiʻi Farm Bureau, Ulupono has seen how technical assistance and grant writing support can help to leverage federal dollars available to Hawaiʻi's farm businesses. According to the 2017 USDA National Agricultural Statistics Service (NASS) Census of Agriculture, of Hawaiʻi's 7,328 farms statewide, 66%, or 4,868 farms, are between 1 and 9 acres and 78%, or 5,701 farms, produce less than $25,000 in sales. Hawaiʻi's agricultural producer majority is small farmers.

Through many of our conversations across the state, we know that not all small farmers have the time nor the wherewithal to seek out and apply for federal grant opportunities. Having a dedicated resource to support producers in need has proven quite successful over the last several years.

<u>2023 Farm Bill</u>

From August to October 2021, Ulupono engaged with several government agencies and key agricultural stakeholders in Hawaiʻi to further understand the local needs of farmers and ranchers in an effort to identify useful federal programs. Local partners identified various issues and points of interest for federal resource support through the upcoming 2023 Farm Bill, including equipment, shipping and transportation, fencing, processing capacity, food safety compliance, drought mitigation, and soil health. They also shared that some federal program requirements do not allow for certain uses or have strict limits, reducing the overall usefulness that would make the program worthwhile to Hawaiʻi producers.

In these conversations with partners regarding the upcoming 2023 Farm Bill, we sought to gain insights into which federal programs support agricultural production in Hawaiʻi most effectively and which of these programs, if adjusted, have maximum potential to better serve our local agricultural community. We identified 21 federal programs through our conversations with local farmers, ranchers, and government agencies. While each of these programs is significant and we would appreciate any support given to the overall list during the congressional development of the 2023 Farm Bill, we further identified six priority programs critical to local producers. Where applicable, we provided specific recommendations for language changes and funding support.

<u>Top Federal Programs with Recommendations</u>

1. **Reimbursement Cost Transportation Program:** a USDA Farm Service Agency (FSA) program for geographically disadvantaged farmers and livestock producers to reimburse producers for a portion of the cost to transport agricultural commodities or inputs used to produce an agricultural commodity.

RECOMMENDATIONS:

- Maintain this program.
    - Only farm operations in Hawaiʻi, Alaska, and U.S. territories are eligible for this program.
    - This program is extremely popular in Hawaiʻi. On an annual basis, the local Farm Service Agency (FSA) office receives between 200 and 300 applicants, and program demand far exceeds available funding.
    - This program was established through the 2008 Farm Bill and reauthorized without an expiration date through the 2014 Farm Bill.
- Increase the funding for this program via designating the program funding as mandatory or through the annual appropriations process.
    - The program funding for Hawaiʻi is fully subscribed every year.
    - Until recently, the program received approximately $2 million each year, of which Hawaiʻi receives a portion. As of this year, $4 million is appropriated to the program. Under the 2008 Farm Bill, this program has annual discretionary funding of $15 million. Given the

overwhelming popularity of this program, we recommend securing at least $5 million, if not more, per year for this program to meet program demand.

- In tandem with increasing program funding, increase the cap on the annual payment amount per producer from $8,000 to $16,000 per producer per year.

2. **Rural Energy for America Program:** a USDA Rural Development (RD) program that provides guaranteed loan financing and grant funding to agricultural producers and rural small businesses for renewable energy systems or to make energy efficiency improvements.

RECOMMENDATIONS:

- Amend the program's state allocation formula to reflect "supplemental poverty level" as opposed to "poverty level."
    - Hawai'i's supplemental poverty measures are significantly higher than traditional poverty measures, because cost of living is taken into account in supplemental poverty measures.
    - This change will address the issue of Hawai'i's highest or near-highest cost of living in the nation.
- Amend the allocation formula weight factors to be equal to 33% across each of the three criteria (1. State's percentage of national rural population; 2. State's percentage of national rural population with incomes below the poverty level; and, 3. State's percentage of energy cost).
    - Increasing the weight factor of "3. State's percentage of energy cost" from 25% to 33% should increase Hawai'i's allocation, since Hawai'i has the highest energy costs in the nation.
- For the national competitive applications outside of state allotments, amend scoring categories to:
    - Increase the "(f) Simple payback" from 15 to 20 points.
        - This category incorporates energy costs into the calculation and allows Hawai'i to benefit with more potential points.
        - Decrease "(b) Energy generated, replaced, or saved" from 25 to 20 due to raising the simple payback category.
    - Create a new category "High energy cost state" to be defined as a state with 1.5–2 times the national energy cost average). This category can hold 5–10 points.
        - Adjust other categories accordingly to account for new category (i.e. "(b) Energy generated, replaced, or saved").
- Increase funding for program for both restricted and unrestricted grants.
- Increase the percentage of grant project costs from 25% to 50%.

3. **Specialty Crop Block Grant**: a USDA Agricultural Marketing Service (AMS) grant to state departments of agriculture dedicated to enhance the competitiveness of specialty crops.

RECOMMENDATION:

- Amend program to allow each state department of agriculture to be eligible to receive a base grant of $500,000.
    - This program's estimated base grant appropriation for each state department of agriculture is approximately $243,001.17.
    - The Specialty Crop Block Grant Program in Hawai'i is highly utilized by the local agricultural industry as specialty crops comprise a substantial percentage of crops grown within the State. Each year the State of Hawai'i Department of Agriculture posts a request for proposal to which applications clearly exceed the local need. With this base funding adjustment, Hawai'i will be able to better serve its producers with important federal resources.
    - This funding can continue to support producers that seek to increase specialty crop operation scale and entrepreneurship, to develop and implement applied specialty crop research, and to secure other large federal grant opportunities (i.e., Small Business Innovation Research).

4. **Noninsured Crop Disaster Assistance Program**: a USDA FSA program that provides financial assistance to producers of noninsurable crops when low yields, loss of inventory, or prevented planting occur due to natural disasters.

RECOMMENDATIONS:

- Amend "Subpart F — Determining Coverage in the Tropical Region" to allow for loss determination based on farm input expenses.
    - This program determines loss based on a 50% threshold, annual yield and expected production. This methodology is not suitable for Hawai'i producers as it does not take into account Hawai'i's year-round planting season, and producers' use of just-in-time planting of multiple types of crops. The program seems tailored to the needs of large-scale monocrop farmers on the U.S. Mainland. Given the year-round planting and harvesting of different types of crops, it is challenging for Hawai'i producers to participate in the program and qualify for losses.
    - Therefore, the use of farm input expenses can serve as the basis for determining potential cost recovery after an eligible cause of loss occurs. This change will make this program accessible to more Hawai'i producers and closely aligns with the producers' standard operating procedures of keeping track of and reporting on farm input expenses.
- Reintroduce the Crop Disaster Program (2007).
    - This benefit coverage allows producers with the opportunity to qualify for "after the fact" assistance.
        - Farmers would not have to report plantings, production, and establish yields for all plantings in the crop year. They could apply for benefits after the disaster event, and only need to report plantings that were affected by the disaster.

5. **Livestock Forage Disaster Program**: a USDA FSA program that provides compensation to eligible livestock producers who have suffered grazing losses for covered livestock and who are also producers of grazed forage crop acreage of native and improved pastureland with permanent vegetative cover or acreage planted specifically for grazing, losses of which must occur on land physically located in a county experiencing a qualifying drought during the normal grazing period for the county.

RECOMMENDATION:

- Maintain this program and its current funding.
    - Hawai'i agricultural operations receive an estimated $2.9 million from this program annually.
    - This program provides important resources to our local ranching industry in times of disaster and drought.
    - This program is critical as local ranching industry relies heavily on pasture and forage grazing.
    - Current eligibility requirements are favorable for Hawai'i producers.

6. **Micro-Grants for Food Security Program**: a USDA AMS program that assists agricultural agencies or departments in eligible states and territories to increase the quantity and quality of locally grown food in food insecure communities through small-scale gardening, herding, and livestock operations in food insecure communities in areas of the United States that have significant levels of food insecurity and import a significant quantity of foods.

RECOMMENDATION:

- Maintain this program and its current funding.
    - Only agricultural operations in Hawaiʻi, Alaska, and U.S. territories are eligible for this program.
    - This program has proven to be an effective support mechanism for small producers across the state.
    - This program provides important start-up or gap funding for small producers.

With additional funding to provide increased resources to hard working local farmers and ranchers, we hope that Hawaiʻi's producers will be better positioned to draw on these important federal resources that are made available by Hawaiʻi's Congressional Delegation. We hope that these programs identified are adjusted to increase producer participation and funding availability.

Thank you for the opportunity to testify.

Respectfully,

Murray Clay
President