

**State of Hawai'i
Department of Agriculture
Agricultural Loan Division**

October 22, 2024

**Board of Agriculture
Honolulu, Hawai'i**

SUBJECT: Loan Guaranty Presentation

APPLICANT: Hawai'i 'Ulu Producers Cooperative
79-1017 E. Honalo
Kailua Kona, HI 96740

**CLASSIFICATION
& ELIGIBILITY:** Agricultural Cooperative
Hawai'i 'Ulu Producers Cooperative (HUPC) filed with the
Hawai'i Department of Commerce and Consumer Affairs
on 8/10/16 organized under Chapter 421 Hawai'i Revised
Statutes (HRS) as an Agricultural Cooperative Association.
The applicant meets the eligibility requirements of Chapter
155-1 of the HRS as a "Cooperative". The officers and
directors of the cooperative are Kyle Datta (President),
Andrew Trump (Vice-President), Gordon Inouye
(Treasurer) and Lani Eubank (Secretary). Noa Lincoln,
Troy Keolanui, and Duane Lammers also serve as directors.

The Participating Lenders; Feed The Hunger Fund (FTHF)
and Mission Driven Finance (MDF) meet the definition of
a "Private lender" as outlined in Chapter 155-1 (HRS)

COMMODITY: 'Ulu (breadfruit), 'Uala (sweet potato), Kalo (taro), Pala'ai
(pumpkin)

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CREDIT HISTORY:

SEE EXHIBIT A (CONFIDENTIAL)

**LOAN REQUEST
& PURPOSE:**

<u>Loan Amount</u>	<u>Guaranty Amt</u>	<u>Class E –Cooperative</u>
\$600,000	\$500,000	Facility Guaranty
\$400,000	\$300,000	Operating Guaranty
\$1,000,000	\$800,000	Total Request Guaranty

The Request is for 80% guaranty on \$1,000,000 loan between participating lenders Feed the Hunger (FTHF) and Mission Driven Finance (MDF). The loan will be led by FTHF that will contribute \$500,000 and the participating lender MDF will contribute the other \$500,000 from their Aina Aloha Economy Fund. Facility loan funds will be used for construction of a building intended for crop intake, installation of wash water septic tank and a temperature-controlled packing room. Operating funds will be used for general working capital. The proposed expansion will allow annual manufacturing capacity to increase from 400,000 pounds to 1 million pounds to meet increasing ulu production due to maturing of the member’s ‘ulu orchards.

TERMS:

Terms being offered by the lenders

Amount: \$600,000 Class E- Facility
\$400,000 Class E- Operating

Term: Seven (7) Years

Interest Rate: 5.34%, blended fixed interest rate

Repayment: Monthly interest-only payments, with six principal payments of \$25,000 each, occurring in the first and second quarters of each year from 2026 through 2028. FTHF will provide a grant of \$50,000 towards principal payments so at maturity, a balloon payment of \$800,000 will be due.

The State will be charging a one-time 2% fee for the loan guaranty which will total \$16,000 for the proposed loan.

SECURITY:

The loans will be secured by a first position leasehold mortgage on the Honalo facility in Kona. The Honalo Marshalling Yard is a Hawai'i Department of Agriculture (HDOA) Facility with a lease that expires in 2043. The 1.91-acre site is located at 79-1017 E Honalo Road and is identified as TMK: 3/7-9-016-018-0000. The leasehold contains a 4,800 sq. ft. facility built in 1990. HUPC obtained the lease in 2018 and has constructed a 300 sq. ft. commercial kitchen within the existing building. The facility serves as the primary processing facility for HUPC and since 2019 over \$2 million in HUPC/State improvements have gone into the facility. The intake building construction estimate of \$400,000 along with \$268,801 in infrastructure improvements adds to the value of the leasehold.

The loans will be furthered secured by a Junior Financing Statement on all business assets including accounts, equipment and inventory. The priority positions on the Financing Statement are held by Hawai'i Green Infrastructure Authority (solar system \$101,054) and SBA EIDL (\$55,680). Takeuchi Financial Services has a specific interest in 2 skids steers valued at \$100,882. HUPC's balance sheet revealed bank accounts totaling \$133,665, accounts receivable totaling \$238,335 inventory valued at \$327,722, machinery and equipment totaling \$383,714 and freezers/storage at \$454,019.

The proposed loan will be well secured with first position leasehold mortgage on the real estate and HUPC's equity in equipment, chattels and accounts.

GUARANTORS:

None

**FINANCIAL
CONDITION:**

SEE EXHIBIT A (CONFIDENTIAL)

**REPAYMENT
ABILITY:**

SEE EXHIBIT A (CONFIDENTIAL)

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**BACKGROUND/
MANAGEMENT
ABILITY:**

Hawai'i 'Ulu Producers Cooperative was formed to coordinate resources to create a larger and more stable market for 'Ulu growers. In 2016 the cooperative started with 9 members on Big Island and has grown to over 160 farmers across 4 islands with a total of 219-acres planted. Annual Breadfruit production volumes during this period have increased from less than 20,000 pounds in the HUPC's first year of operation (FY17) to nearly 140,000 pounds of 'ulu in FY23. In FY19, additional crops (i.e. 'uala, kalo, pala'ai) grown together with 'ulu in diversified agricultural systems were added to increase market opportunities for farmers and HUPC and to provide year-round employment for workers. Within two years, the "other crops" have surpassed 'ulu in combined production volumes and now make up between 64%-74% of total raw crop aggregated. In FY23, HUPC handled a record of over 501,098 pounds of local produce, of which 101,105 pounds (20%) was sold fresh and the remaining 399,993 pounds were processed into steamed/frozen product or further processed into ready-to-eat products or dried and milled into 'ulu flour. As the 'ulu orchards mature and more trees are planted the yields are expected to increase 4-fold by 2030, at this time 'ulu should represent around 40% of total raw crop aggregated.

One of the major challenges for HUPC has been the growth to other islands. In FY22, they formally started aggregating and processing fruit on Maui and Oahu through partnerships with members located on those islands as well as community partners such University of Hawai'i Maui College. In FY23 a Kauai aggregation and processing partnership was formed with Aina Ho'okupu o Kilauea. The ability to partner with local individuals and organizations has made this expansion possible. HUPC staff must continually assess the performance of each location to determine if the operations are feasible and can justify the expenditure of limited staff time and resources. The Honalo facility along with the Alae (Hilo) facility remain the primary locations for HUPC and will need to be upgraded and expanded to accommodate the increasing supply of fruit projected from Hawai'i Island farmer-members. These facilities allow farmers to concentrate on

growing crops while HUPC takes care of processing and marketing.

HUPC has been extremely successful in developing the 'ulu industry and providing new markets for traditional crops. HUPC has used a mixture of grants and loans along with the cooperation/assistance of HDOA including the lease of the Agricultural Resource Management Division's Honalo facility, use of HDOA's marketing and agricultural loan programs to start and expand operations. The cooperative operates out of the Honalo Marshaling Facility in Kona and a Hilo (Alae) warehouse for 90% of their production. Management has been impressive in making use of resources and taking advantage of government programs and grants. The cooperative is overseen by board of directors with Kyle Datta serving as its President. The cooperative is managed by Dana Shapiro, who also farms 'ulu with her husband. Mrs. Shapiro graduated from Cornell with a degree from the Natural Resources Department and a Master's of Science in cooperative business development from Ben Gurion University.

SUMMARY:

The proposed loan is a collaboration between two mission driven lenders that generally provide funding for smaller operations. The State's guaranty is being required as the proposed loan is above their normal loan limits and due to the increased perceived risks with HUPC's limited track record of profitability, the need for additional funding, the need to gain markets for the increased 'ulu production as well as the inherent volatility in crop production.

The benefit for providing the guaranty to the State is that no state funds will need to be expended, the cooperative will be able to complete expansion on a timely basis, farmers will be able to market their expanded production and the State's leasehold property will be improved. The proposed loan will also have a more favorable interest rate than the state program can offer and there will be a \$50,000 principal reduction grant from FTHF.


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RECOMMENDATIONS: Approval of this loan guaranty is recommended based on the strength of the collateral, demonstrated growth including the ability to develop new markets and products, and the impact to Hawai'i's smaller farmers and consumers.

Date

Recommended by:

10/2/24




Jillian C. Scheibe
Agricultural Loan Officer IV

Date

Reviewed and concurred by:

10/2/24




Dean M. Matsukawa
Agricultural Loan Division Administrator

Date

Approved for submission:

10/3/24



Sharon Hurd
Chairperson, Board of Agriculture