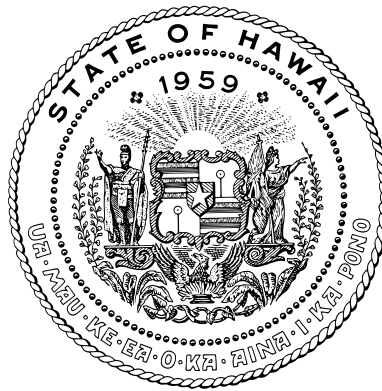


**State of Hawai'i
Office of the Governor**



**Annual Report on Purchases
of Fresh Local Agricultural Products and
Local Value-Added, Processed, Agricultural or
Food Products by the State**

Pursuant to Act 176, SLH 2021

For Calendar Year 2021

**Submitted to
The Thirty-First State Legislature
Regular Session of 2022**

Annual Report on Purchases of Fresh Local Agricultural Products and Local Value-Added, Processed, Agricultural or Food Products by the State

Introduction

Act 176, SLH 2021 was envisioned to support local businesses and to encourage the production and use of local agricultural products. To achieve this, the Act sets goals for principal state departments, beginning in 2025, to ensure that they meet certain benchmarks in the purchase of locally grown produce and products. It increases those benchmarks in subsequent years with an end goal of having principal state departments purchase 50% of their food products from vendors who provide locally sourced agricultural products. Meeting these goals, within applicable principal departments of the state, is critical for the measure's purpose of supporting local businesses that generate local produce and food products. The following report covers the food purchases by departments for calendar year 2021. This report contains the responses from 18 principal state departments.

Each principal state department was asked to provide the following information:

1. The amount of total produce purchased by the department during the calendar year preceding that regular session, as measured by the per cent of the total food cost;
2. The amount of fresh local agricultural products and local value-added, processed, agricultural, or food products purchased by the department during the calendar year preceding that regular session, as measured by the per cent of the total food cost;
3. The percentage of fresh local agricultural products and local value-added, processed, agricultural, or food products purchased by the department during the year preceding that regular session;
4. and if the department did not meet the relevant benchmark (C) described in subsection (a), an explanation of why the department did not meet that benchmark.

The following definitions, as outlined in Act 176, SLH 2021, was provided to assist departments in their reporting:

1. "Fresh local agricultural products" means fruits, vegetables, nuts, coffee, eggs, poultry, and poultry products, livestock, and livestock products, milk and milk products, aquacultural, and maricultural products, and horticultural products, one hundred per cent grown, raised, and harvested in Hawai'i."
2. "Local value-added, processed, agricultural, or food products" means at least fifty-one per cent of the product's primary agricultural product is grown, raised, and harvested in Hawai'i."
3. "Primary agricultural product" means the major agricultural product in a processed or value-added agricultural or food product."
4. "Produce" means fruits, vegetables, staple starches, nuts, coffee, eggs, poultry and poultry products, livestock and livestock products, milk and milk products, aquacultural and maricultural products, and horticultural products."

Departments with No Applicable Purchases

11 of 18 departments reported having no purchases of produce or local agricultural products as listed in Act 176, SLH 2021. While these departments may have purchased food in the form of prepared meals from third-party vendors, they do not engage in food production for service. The following is a list of principal departments that reported having no relevant purchases for the purpose of this report:

1. Department of Accounting and General Services (AGS)
2. Department of the Attorney General (ATG)
3. Department of Business, Economic Development, and Tourism (BED)
4. Department of Budget and Finance (BUF)
5. Department of Commerce and Consumer Affairs (CCA)
6. Department of Human Resources Development (HRD)
7. Department of Hawaiian Home Lands (HHL)
8. Department of Labor and Industrial Relations (LBR)
9. Department of Land and Natural Resources (LNR)
10. Department of Taxation (TAX)
11. Department of Transportation (TRN)

Departments with Applicable Purchases

Seven departments did report having purchases of fresh local agricultural products or local value-added, processed, agricultural or food products. The departments' responses to a request for information as related to Act 176, SLH 2021 are quoted in whole as follows (with minor edits for spelling and/or formatting):

1. Department of Public Safety (PSD)

A. The amount of total purchased produce by the department during the calendar year 2021

Based on Act 176's definition of produce which includes, "*fruits, vegetables, staple starches, nuts, coffee, eggs, poultry and poultry products, livestock and livestock products, milk and milk products, aquacultural and maricultural products, and horticultural products*", the Department of Public Safety (PSD) spent \$3,350,716.76 on "produce" in CY 2021. This is a very broad definition which includes most food purchased by the department.

B. The amount of fresh local agricultural products and local value-added, processed, agricultural, or food products purchased by the department during the calendar year 2021, as measured by the per cent of the total food cost.

Based on Act 176's definition of local agricultural products which includes the above but with the additional stipulation that it be "*one hundred per cent grown, raised, and harvested in Hawai'i*", PSD estimates that it spent on \$206,114.26 (see attached table) on local "produce" in CY 2021.

C. The percentage of fresh local agricultural products and local value-added, processed, agricultural, or food products purchased by the department during the calendar year 2021.

PSD’s percentage of local “produce” purchased in CY 2021 is therefore 6.15%.

D. What challenges do you anticipate in implementing this policy?

Local produce is generally more expensive (sometimes several times more) than imported produce and it will be difficult for PSD to reach the requisite 10% by January 1, 2025 without additional funding.

Other concerns include:

- Local farmers may not be able to meet the supply needs of departments.
- Will departments be held to the benchmarks in the event of a natural disaster or other similar event?
- Basic common produce such as apples, oranges, carrots, celery, and potatoes account for a large percentage of PSD’s purchases. Most of these items are not grown in Hawai’i and will need to be imported.
- Some of the produce PSD uses is grown by inmates at various state correctional facilities. This produce is not purchased from the facilities; however, the department does provide supplies for the inmate farm program. Will this produce count towards PSD meeting its benchmark?
- What department will monitor the progress, and will that department have the resources to track each department’s purchases?
- Who and how will produce distributors be monitored to make sure that non-locally grown produce is not mixed in with locally grown produce?
- Will waste due to a shorter shelf life of locally grown produce be a consideration?
- In 2021, PSD purchased 195,000 pounds of beef (ground and beef clods), 135,841 pounds of boneless pork butt, and 479,575 pounds of chicken (chicken thighs and ground chicken). Are local farmers able to support this demand? Local farmers may not be able to meet the supply needs of departments.
- Instant coffee is currently used. Will we purchase a 50% Kona blend?

PSD (CY 2021)

Items	Total Purchases	Total Local Purchases	Percent Local
Fruits & Vegetables	\$ 963,977.80	\$ 206,114.26	21.38%
Coffee	\$ 30,620.24	\$ -	0.00%
Staple Starches	\$ 258,472.10		0.00%
Eggs	\$ 215,055.85	\$ -	0.00%
Poultry & Poultry Products	\$ 626,149.70	\$ -	0.00%
Livestock (Beef)	\$ 648,211.09	\$ -	0.00%
Livestock (Pork)	\$ 276,063.79		0.00%
Milk & Milk Products	\$ 332,166.19	\$ -	0.00%
TOTAL	\$ 3,350,716.76	\$ 206,114.26	6.15%

2. Department of Health (HTH)

The Department of Health submitted separate data for the Hawai'i State Hospital and Kalaupapa, as follows:

ACT 176, SLH 2021 REPORT DATA FOR HAWAI'I STATE HOSPITAL

Dairy/juice contract is with Meadow Gold Dairies located in Hilo, Hawai'i.

A. The amount of total purchased produce by the department during the calendar year 2021.

Calendar year 2021 total produce purchased: \$76,474.88

Calendar year 2021 total dairy/juice purchased: \$100,345.51

B. The amount of fresh local agricultural products and local value-added, processed, agricultural, or food products purchased by the department during the calendar year 2021, as measured by the percent of total food cost.

Calendar year 2021 total amount of fresh local agricultural products and local value-added, process, agricultural, or food products: \$23,865.29

Calendar year 2021 total dairy/juice fresh local products and local value added, processed, agricultural, or food products purchases: \$82,020.38

C. The percentage of fresh local agricultural products and local value-added, processed, agricultural, or food products purchased by the department during the calendar year 2021.

Calendar year 2021 percentage of fresh local agricultural products and local value-added, processed, agricultural, or food products purchases: 31%

Calendar year 2021 percentage of fresh local dairy/juice purchases: 81.7%

D. What challenges do you anticipate in implementing this policy?

Implementing this policy is made very difficult by the rules governing state purchasing via the State Procurement Office. Bids are awarded to the lowest bidder. Our vendors report that some of the local produce is sold at a premium price which makes it unaffordable. We don't have any control over where the produce comes from, we just receive the produce that we ask for in our solicitation. Asking the vendors to provide the source of products on their invoice will increase the cost of the products. Weather and supply of produce also affects pricing. As a state facility, with a budget, we are tasked with providing nutritious food for the patients at a reasonable price.

ACT 176, SLH 2021 REPORT DATA FOR KALAUPAPA

The DOH Kalaupapa Settlement is unable to report the amount of total produce purchased in the previous calendar year due to a lack of an accounting object code that identifies produce and “local” produce. There are currently only two object codes that are used for food supplies, 3310 which is Provisions (Not for Resale), and 8710 Store Purchases for Resale or Reissue (includes non-food items). This issue prevents the program’s ability to record the amount and percentage of fresh local agricultural products and local value-added, processed, agricultural, or food products purchased by them during the previous calendar year.

Kalaupapa purchases its food from local wholesalers and retailers. Due to the small quantities purchased, only a very limited number of companies are willing to sell to Kalaupapa, thereby limiting their choices of where the food is sourced. There are also the additional challenges of being able to identify what items are grown locally versus shipped from out of state to the distributor or store. Many items are received unlabeled with the point of origin.

Please be aware that food is purchased for patient meals and also to supply the Kalaupapa store, which supplies the entire Kalaupapa community. By law, the store cannot sell supplies at a higher cost than what we pay for it, e.g., there are no shipping or handling fees, so that any increased costs to purchase local produce or agricultural products will be paid by Kalaupapa patients and employees who purchase items at the store.

3. University of Hawai‘i (UOH)

A. The amount of total purchased produce by the department during the calendar year 2021.

The UH campuses do not currently account for (or track) its purchases of food and produce in a way that breaks out agricultural purchases per the definition in the Act. The object codes in the university’s financial accounting system (Kuali Financial System) for food purchases during FY 2021 use the following recordation codes:

- a. 3300 Food Supplies, Other
- b. 3305 Food Supplies, Non-Resale
- c. 3310 Food Supplies, Emp Meal-NComp

None of these codes break out produce as a category of food purchases, and food suppliers do not itemize bulk purchases between locally-sourced or imported food items. Please note response below.

B. The amount of fresh local agricultural products and local value-added, processed, agricultural, or food products purchased by the department during the calendar year 2021, as measured by the per cent of the total food cost.

Questions 2 and 3 cannot be answered as stated above, however beginning January 1, 2022, there will be two new object codes to choose from when purchasing these types of products:

- a. 3320 Agricultural Products – Local
- b. 3321 Agricultural Products – Non-Local

C. The percentage of fresh local agricultural products and local value-added, processed, agricultural, or food products purchased by the department during the calendar year 2021.

See response to Question B.

D. What challenges do you anticipate in implementing this policy?

UH contracts with private third-party contractors to serve food on its campuses, as vendor contracts. Under the assumption that vendor contracts are excluded from this statutory requirement, the vast majority of the remaining instances of UH's food purchases are therefore small purchases made by individual campus units for specific events or activities. It will be difficult to determine whether small purchases of value-added/processed items are 51% or more local (such as bakery items, juices, and prepared deli items purchased at local stores).

Clarification would be needed with regards to the purchasing and consumption of agricultural products outside the State of Hawai'i. For example, both the UH Hilo and UH Manoa athletic departments purchase food while athletic teams are traveling out of state.

UH believes that adhering to a strict requirement where the majority of foodstuffs purchased will need to be locally sourced or produced will increase departmental costs for foodstuffs. UH also does not know if there is enough locally produced items in order for all state departments to purchase 51% of their food needs as locally-sourced items. Is there enough produce and other agricultural products produced in Hawai'i to satisfy more than half of all the demand within the State of Hawai'i departments?

Act 176 includes "staple starches" in the definition of "produce," but "staple starches" are not included in the definition of "fresh local agricultural products."

The agriculture distributors and suppliers to the university and state government departments will need to itemize or separate invoices to identify the locally grown produce vs the non-local produce. Inquiry should be made to these private entities if they are prepared or able to track and identify which of their products are "locally-grown" or "local value added."

4. Department of Defense (DEF)

A. The amount of total purchased produce by the department during the calendar year 2021.

The Youth Challenge Academy provides meals to their residential students. Students are provided breakfast, lunch, and dinner. The total meal cost, not including reimbursements from the National School Lunch Program, for FY 21 was around \$630,000.

B. The amount of fresh local agricultural products and local value-added, processed, agricultural, or food products purchased by the department during the calendar year 2021, as measured by the per cent of the total food cost.

The exact dollar amount is unknown. The formal documentation of the extent of purchases of local produce/products was not mandated in the current State of Hawai'i contract with Program meal vendors. Though the contracted meal vendors stated that utilization/purchase of estimated local produce/products to be around 90% (\$567,000), the Program, in reference to previous conversations and correspondence with said meal vendors, is unable to confirm that the aforementioned statement is entirely correct or actual – vendor may or may not understand the definition of the term “local” as presented in Act 176. Therefore, the Program’s meal vendors are currently unable to provide a comprehensive per cent cost of local produce/products they have purchased from their vendors.

C. The percentage of fresh local agricultural products and local value-added, processed, agricultural, or food products purchased by the department during the calendar year 2021.

The exact percentage is unknown. The formal documentation of the extent of purchases of local produce/products was not mandated in the current State of Hawai'i contract with Program meal vendors. Though the contracted meal vendors stated that estimated utilization/purchase of local produce/products to be around 90%, the Program, in reference to previous conversations and correspondence with said meal vendors, is unable to confirm that the aforementioned statement is entirely correct or actual – vendor may or may not understand the definition of the term “local” as presented in Act 176. Therefore, the Program’s meal vendors are currently unable to provide an accurate percentage cost of local produce/products they have purchased from their vendors.

D. What challenges do you anticipate in implementing this policy?

As the Youth Challenge Program is 75% funded by a federal National Guard Bureau grant, there is a stringent requirement regarding the meal/food budget as stated in the National Guard Youth Challenge Program Cooperative agreement. Meal/food purchases for the year has a federal budget cap of \$25/day per each cadet. As the Program is already nearing the top of that threshold, a State mandate, such as Act 176, requiring the Program to purchase more “local” produce/products will leave the State liable for covering the difference of the meal/food costs over the allowable \$25/day limit. Additionally, the Program greatly benefits from the National School Lunch Program (NSLP) reimbursements. To receive these reimbursements, the contracted meal

vendors are required to follow strict food preparing guidelines as to the meals provided to the students. Further mandates, along with the NSLP requirements, may make it difficult for the Program to retain a meal vendor who is willing or is able to provide such restricted services. The Program itself does not directly purchase "local" produce/products from any wholesale food vendors. Therefore, reporting the compliance with Act 176, when having to go through a vendor/third party, will be a substantial challenge without the proper mandated State processes set in place. A new system of food/produce purchase reporting would need to be created so that any State of Hawai'i contracted vendor, like the Program's meal vendors, will be required to participate in the proper processes to document the needed information so such information can be easily audited and relayed to the correlating authority.

5. Department of Education (EDN)

A. The amount of total produce purchased by the Hawai'i State Department of Education (Department) during the calendar year 2021

For the period of January 1, 2021 to December 7, 2021	
A. Total Produce Purchase Amount through Fresh Fruits and Vegetables Order Receipt System (FFAVORS)	\$4,637,744
B. Total Produce Purchase Amount through Contract	\$1,843,781 \$1,540,136 (Vendor 1) \$270,000 (Vendor 2) \$33,645 (Vendor 3)
Total Produce Purchased (A + B)	\$6,481,525

B. The amount of fresh local agricultural products and local value-added, processed, agricultural, or food products purchased by the Department during the calendar year 2021, as measured by the per cent of the total food cost

For the period of January 1, 2021 to December 7, 2021	
A. Total LOCAL Produce Purchase Amount through FFAVORS	\$615,871
B. Total LOCAL Produce Purchase Amount through Contract	\$262,000 (Vendor 1) \$150,579 (Vendor 2)
C. Total Other LOCAL Purchased through Contract	\$285,156 (Vendor 4) \$790,147 (Vendor 5)
D. Total Local Produce Purchased (A + B + C)	\$2,103,753
E. Total cost of purchased food during (7/01/2020 to 6/30/2021)	\$21,464,736
F. Percent of LOCAL vs total food cost (D / E)	10%

Total cost of food used during FY2021 (July 1, 2020 to June 30, 2021): \$21,828,377 (includes beginning inventory (\$2,171,038) plus purchases (\$21,464,736) minus ending inventory (\$1,807,397)).

C. The percentage of fresh local agricultural products and local value-added, processed, agricultural, or food products purchased by the Department during the calendar year 2021

10% as noted in Question 2

D. What challenges do you anticipate in implementing this policy?

CONSISTENCY OF SUPPLY	Will local farmers or food hubs have the quantity to support the Department's usage?
FORCE MAJEURE	Will local farmers have other avenues to move product(s) in the event of school closures due to the following reasons (including, but not limited to) pandemics, natural disasters, inclement weather, tainted water supply? Would they survive this loss?
PRICE POINT	<p>Local farmers have challenges competing against mainland farmers as they have competitive advantages and lower operating costs. Local farmers face higher packaging material costs, labor costs, fertilizer costs, etc.</p> <p>Many state institutions are pressured to buy mainly on lowest price levels due to budgetary constraints.</p> <p>Wholesale vendors are under different jurisdiction (United States Food and Drug Administration) versus others such as restaurants and retail markets as these institutions are under the Hawai'i State Department of Health. Federal jurisdiction has different food safety requirements and generally more "tedious" documentation. Thus, local farmers have previously expressed they make higher incomes selling through other avenues (i.e. farmers market to the public, or direct to restaurants and supermarkets) as they require less "work and documentation" and are less pressured by pricing compared to wholesalers.</p>

6. Department of Human Services (HMS)

A. The amount of total purchased produce by the department during the calendar year 2021

\$20,306.80

B. The amount of fresh local agricultural products and local value-added, processed, agricultural, or food products purchased by the department during the calendar year 2021, as measured by the per cent of the total food cost.

\$11,633.80

C. The percentage of fresh local agricultural products and local value-added, processed, agricultural, or food products purchased by the department during the calendar year 2021

9%

D. What challenges do you anticipate in implementing this policy?

Local products are traditionally higher priced than imported products. Securing local products based on current procurement methods will be difficult as we award product to lowest bidding vendor. Not all vendors have local products available.

7. Department of Agriculture (AGR)

A. The amount of total purchased produce by the division/branch during the calendar year 2021.

298 lbs. of total produce at \$936

B. The amount of fresh local agricultural products and local value-added, processed, agricultural, or food products purchased by the division/branch during the calendar year 2021, as measured by the per cent of the total food cost:

78.5%

C. The percentage of fresh local agricultural products and local value-added, processed, agricultural, or food products purchased by the division/branch during the calendar year 2021:

79.8%

D. What challenges do you anticipate in implementing this policy?

Certain produce is not commonly or consistently locally/commercially available – for example apples, russet potatoes, and carrots.

Considerations

Although each department faced their own challenges in this first year of reporting, there were several areas of commonality in the issues they faced. These challenges lay in the following areas:

1. The ability of vendors to track and identify local vs. non local produce as defined by Act 176;
2. The ability, in the procurement process, to code local/nonlocal produce;
3. The interaction between the requirements of Act 176 and federal guidelines in areas of National School Lunch Programs and/or the Food Safety Modernization Act (FSMA); and
4. The capacity of local food producers to meet the demand of departments for produce at a price point within state procurement guidelines.

In addressing challenge (1) and (4), a letter to vendors, who provide produce to state departments, will be sent to request their assistance and expertise in understanding how best to gather the data required by Act 176 and to inquire about the capacity for local agricultural producers to provide produce in the quantities needed by departments.

Departments were also confronted with the issue of object/procurement codes that could not differentiate between local/nonlocal produce, challenge (2). To address this, UOH has created object codes in their purchasing system to differentiate between local and non-local agricultural products. Additionally, steps have been taken with Department of Accounting and General Services (AGS) to work on creating procurement object codes that departments may use to determine their produce purchases in alignment with Act 176. DAGS indicated that it could work with the six departments with produce purchases to find ways to more easily parse out the data needed for this report.

Finally, with regards to challenge (3), the FSMA regulates the way that food is grown, harvested, and processed to prevent the spread of foodborne illnesses. The Food and Drug Administration (FDA) through this law implemented seven major rules, in December 2021, that correlate to different points in the food supply chain to ensure safe food handling and processing. Foods regulated by the FDA are subject to these rules and it could disincentivize local farmers from participating in food production or distribution programs that are subject to federal guidelines.

Conclusion

Act 176, SLH 2021 is visionary in its goal to support local business and encourage the production and use of local agricultural products. This initial report is intended to create a baseline from which state departments can work to accomplish the benchmarks set forth. Moving forward, departments hope to address the challenges encountered and make real progress towards supporting local farmers and ranchers, providing fresh and healthy products to our community and keeping state money here in Hawai'i.