

SB 3156

LINDA LINGLE
Governor



SANDRA LEE KUNIMOTO
Chairperson, Board of Agriculture

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State of Hawaii
DEPARTMENT OF AGRICULTURE
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TESTIMONY OF SANDRA LEE KUNIMOTO
CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE SENATE COMMITTEE
ON
AGRICULTURE AND HAWAIIAN AFFAIRS

FEBRUARY 7, 2008, 2:45 P.M.

SENATE BILL NO. 3156
RELATING TO DROUGHT MITIGATION TAX CREDIT

Chairperson Tokuda and Members of the Committee:

Thank you for the opportunity to comment on Senate Bill No. 3156. The purpose of this bill is to give taxpayers a 50% income tax credit for building a new water storage facility, or reconstructing an existing one. Water storage facilities are a simple and important way for farmers to mitigate periods of drought, which can be devastating to agricultural operations. The department supports the intent of this bill provided it does not adversely impact the priorities in our Executive Biennium Budget, and defers to the department of taxation as to the financial impact of this measure.



STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT
P.O. BOX 621
HONOLULU, HAWAII 96809

**TESTIMONY OF THE CHAIRPERSON
OF THE COMMISSION ON WATER RESOURCE MANAGEMENT
DEPARTMENT OF LAND AND NATURAL RESOURCES**

on Senate Bill 3156 – Relating to Drought Mitigation Tax Credit

**BEFORE THE SENATE COMMITTEE ON
AGRICULTURE AND HAWAIIAN AFFAIRS**

February 7, 2008

The purpose of Senate Bill 3156 is to provide an income tax credit for the construction of drought mitigation water storage facilities. While the Department of Land and Natural Resources (Department) supports the intent of this measure, as it would provide an incentive to farmers and ranchers to increase their water storage capacity and help to mitigate the impacts of drought, the Department is nonetheless concerned with fiscal implications this bill may have. As such, the Department defers to the Department of Taxation on any impacts this specific tax credit will have on the State Multi-Year Financial Plan.

Droughts have severely affected Hawaii in the past, and as part of a natural climate cycle, droughts will impact the State in the future. The agriculture and livestock industries are particularly vulnerable to the impacts of droughts. Drought-induced agricultural and livestock losses negatively affect our State's economy. The Hawaii Drought Plan and County Drought Mitigation Strategies recognize the need for additional water storage during times of drought in order to lessen the impacts of reduced precipitation and water supply.

Thank you for the opportunity to testify on this measure.

HAWAII FARM BUREAU FEDERATION
2343 ROSE STREET
HONOLULU, HI 96819

FEBRUARY 7, 2008

HEARING BEFORE THE
SENATE COMMITTEE ON AGRICULTURE & HAWAIIAN AFFAIRS

TESTIMONY ON SB 3156
RELATING TO DROUGHT MITIGATION

Chairs Tokuda and committee members:

My name is Alan Takemoto, Executive Director, of the Hawaii Farm Bureau Federation, which is the largest non-profit general agriculture organization representing approximately 1,600 farm and ranch family members statewide.

The Hawaii Farm Bureau Federation supports SB 3156.

Drought is one the most debilitating factors that continues to face farmers and ranchers statewide. When drought occurs, farmers and ranchers are the first segments of the community to be asked or required to cut back on water usage. Without adequate water, farmers and ranchers income and production will be dramatically affected beyond the drought period as it will take time for normal production levels to begin.

In 2000, legislation was enacted for a 4 percent tax credit and it expired in 2005 as utilization was low due to only obtaining a 4 percent tax credit. We had urged and continue to urge that the tax credit for this issue that impacts the entire agricultural industry be increase to a substantial amount as list in this bill at 50 percent.

We need to make sure that sufficient tax incentives are at the level to truly encourage farmers and ranchers to make substantial investments in drought mitigation facilities.

We respectfully ask that you support the passage of this measure.

Thank you.



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Re: SB3156, Drought Mitigation Tax Credit

Hearing Date: Feb. 7, 2008 2:45 pm, Room 224

Position: Support

Senator Jill Tokuda
Senate Committee on Agriculture and Hawaiian Affairs

Chair Tokuda, and Members of the Committees on AHW:

We represent 631 agriculturally related members and producers on the Island of Hawaii. The Big Island Farm Bureau is comprised of the 4 individual farm bureau chapters on the Big Island (Hilo, Hamakua, Kohala, Kona); we currently represent 631 members; 1/3 third of the Hawaii Farm Bureau Federation membership statewide.

In order for a Hawaii agricultural producer to stay productive they must have adequate water available during times of drought. This bill and incentives like this tax credit will assist farmers & ranchers to build ag water storage facilities. If Hawaii is to actually achieve measurable improvements to our "Sustainability" and reduce our dependence on imports we must support this bill and continue to be proactive in supporting Hawaii's agricultural producers.

In 2000, a 4% tax credit was provided but few farmers took advantage of it because it was not enough incentive.

A larger tax credit, the 50% credit, is requested to encourage farmers and ranchers to apply and to build ag water storage facilities.

We respectfully ask for your support. Thank you for the opportunity to present testimony.

Respectfully,
Lorie Farrell

Lorie Farrell, Administrator
Big Island Farm Bureau



Maui County Farm Bureau

*An Affiliate of the American Farm Bureau Federation and Hawaii Farm Bureau Federation
Serving Maui's Farmers and Ranchers*

LATE

TESTIMONY

SB 3156 RELATING TO DROUGHT MITIGATION.

HEARING BEFORE THE SENATE COMMITTEE ON AGRICULTURE AND HAWAIIAN AFFAIRS

Chair Tokuda and Committee Members:

My name is Warren Watanabe, Executive Director of the Maui County Farm Bureau, a non-profit general agriculture organization and an affiliate of the Hawaii Farm Bureau Federation.

MCFB on behalf of our member farmers, ranchers and agricultural organizations, **STRONGLY SUPPORT** SB 3156, providing a tax credit for the construction of drought mitigation storage facilities and repair or reconstruction of existing facilities.

Droughts have plagued our farmers and ranchers for the past decade. Located in rainfall dependent areas, the ability to withstand droughts is dependent upon storage of water during drought events. Capital investment in such infrastructure without assistance is beyond the financial ability of most of our members. This measure will provide an incentive to our farmers and ranchers to undertake providing their own storage units.

This bill is an important addition to Drought Mitigation projects identified by the various County Drought Councils. It is by whittling away, project by project that we can increase Hawaii's ability to withstand drought periods. Drought mitigation projects must be undertaken ahead of a drought. When the drought comes, it is too late.

We respectfully request passage of this measure to increase Hawaii's ability to withstand droughts.

2/5/08

**Hawaii
Crop
Improvement
Association**

Paul Koehler, Past-President, Board Member
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Kihei Hawaii 96853
Phone: 808-879-4074 Fax: 808-879-0499

Testimony by: Paul Koehler
SB 3156, Relating to Drought Mitigation Tax Credit
Senate AHW Committee
Thursday, Feb. 7, 2008
Room 224: 2:45 pm

Position: Strong Support

Chair Tokuda, and Members of the Senate AHW Committee:

My name is Paul Koehler. I am a Maui resident, Past-President and sitting Board Member of HCIA. The HCIA represents seed production and research facilities operating in Hawaii. The HCIA is comprised of five member companies that farm an estimated 8,000 acres on four islands, valued at \$97.6 million in operating budget (2006/2007 HASS). We are proud members of Hawaii's diversified agriculture and life sciences industries.

In this rainy season, it is sometimes difficult to remember that Hawaii is still recovering from about a decade of drought. Drought mitigation storage facilities are very much needed in these rainy seasons to help us when rain is not as plentiful.

This measure, which proposes a 50% credit, is an incentive for farmers and ranchers to apply and build agriculture water storage facilities. We understand that in 2000, a 4% tax credit was approved but because it was minimal, few farmers and ranchers made use of it.

Your support of this request is appreciated. Thank you for the opportunity to present testimony.

L E G I S L A T I V E

TAXBILLSERVICE LATE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Credit for drought mitigating water storage facility

BILL NUMBER: SB 3156; HB 2822 (Identical)

INTRODUCED BY: SB by Hanabusa by request; HB by Karamatsu

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers to claim a tax credit of 50% of the cost of constructing a new water storage facility or repairing or reconstructing an existing water storage facility necessary for drought mitigation purposes provided that the tax credit per taxpayer shall not exceed \$_____. Defines "water storage facility" as a water storage facility and associated infrastructure that is part of a conservation plan approved by the local soil and water conservation district.

Credits in excess of tax liability shall be refunded provided such amount is over \$1. Requires claims, including any amended claims, to be filed on or before the end of the twelfth month following the taxable year for which the credit may be claimed. Allows the director of taxation to adopt necessary rules and forms pursuant to HRS chapter 91 to carry out this section.

This act shall be repealed on December 31, 2015.

EFFECTIVE DATE: Tax years beginning after December 31, 2009

STAFF COMMENTS: The legislature by Act 293, SLH 2001, enacted a drought mitigating water storage facility income tax credit of 4% which sunsetted on December 31, 2005. This measure proposes to reestablish an income tax credit of 50% of the cost of a drought mitigating water storage facilities and associated infrastructure.

While this measure proposes an income tax credit for a water storage facility, it would grant preferential tax treatment to a select group of taxpayers and do so without the taxpayer's need for tax relief. Inasmuch as the taxpayer is the beneficiary of the qualified improvement, the question is what is the public purpose for rewarding a public subsidy for the installation of the water storage facility? As such, a public purpose does not exist for persons who construct a water storage facility. Thus, the subsidy benefits a select group of taxpayers at the expense of all taxpayers.

Tax credits generally are designed to alleviate an undue burden on those who are unable to carry that burden, largely the poor and low income. An example is the 4% general excise tax food credit for purchases made by the poor. Inasmuch as there is absolutely no relationship between the cost of an agricultural water storage facility and the taxpayer's tax burden, there is little justification for granting this tax preference.

Although one might argue that the earlier credit enacted by the adoption of Act 293, SLH 2001, at the rate of 4% was designed to offset the imposition of the 4% general excise tax on the construction

SB 3156; HB 2822 - Continued

or repair of such water storage facilities, this proposal is an outright subsidy up to half of the cost of the storage facility. If this were an appropriation would the taxpaying public support the idea that their tax dollars were going to pay for half of the cost of an improvement that would then belong to the owners of the facility? It makes about as much sense as proposing that in order to encourage the use of hybrid vehicles that taxpayers pay for half of the cost of those vehicles that will then belong to the person who pays for the other half of the cost.

The use of a tax credit in this manner amounts to nothing more than a back door means of appropriating taxpayer dollars for a private facility. Given the overall high tax burden borne by all taxpayers in Hawaii, there is little justification for selecting a small group of taxpayers for tax relief while all other taxpayers not so favored must continue to pay for the operations of state government. If lawmakers believe this activity is of a public purpose and should be subsidized with public dollars, then an appropriation of funds would be more appropriate and much more accountable. Taxpayers could then judge if the amount of money spent is a justifiable expense of their hard-earned tax dollars.

Digested 2/06/08