

DAVID Y. IGE
Governor

SHAN S. TSUTSUI
Lt. Governor



State of Hawaii
DEPARTMENT OF AGRICULTURE
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SCOTT E. ENRIGHT
Chairperson, Board of Agriculture

PHYLLIS SHIMABUKURO-GEISER
Deputy to the Chairperson

LATE

TESTIMONY OF SCOTT E. ENRIGHT
CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE HOUSE COMMITTEE ON AGRICULTURE

FEBRUARY 8, 2017
8:30 A.M.
CONFERENCE ROOM 312

HOUSE BILL NO. 518
RELATING TO IRRIGATION

Chairperson Creagan and Members of the Committee:

Thank you for the opportunity to testify on House Bill No. 518 relating to irrigation. This bill establishes an income tax credit for farmers who purchase water at higher rates from county water boards rather than at lower state irrigation system rates. It establishes the amount of the credit as the difference between the amount charged by state irrigation systems and the amount the state irrigation systems should charge in order to sustain operations and deducts the cost of the tax credit from the irrigation system revolving fund. It would apply to taxable years beginning after 12/31/2017. The department respectfully opposes this bill and asks that it be held.

The department supports affordable irrigation water for all farmers. Unfortunately, this bill puts an undue burden on those who pay irrigation water delivery fees for the state systems as these fees represent approximately 65% of the revenue that enter this fund. This fund manages to remain relatively level in cash reserves, balancing income and expenditures. The fund is used to operate and maintain these systems and any additional draws on the funds will lead to its eventual insolvency. Currently, there is a balance of approximately \$2,900,000 million in this fund. We are unable to guess what the impact of this credit would be as we do not know the volume



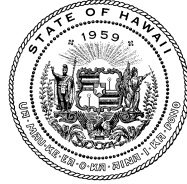
of agricultural water use outside of our systems. However, if it is assumed that non-state use is at least equal to state use, the annual volume is approximately 1,500,000,000 gallons per year. If the tax credit is calculated at \$1.00 per 1,000 gallons, the total would be an approximate annual credit of \$1,500,000, bankrupting the fund in less than two years. If the annual volume is higher, and/or the credit difference is higher, that timeline drops accordingly. We do not believe either number is lower.

We respectfully suggest that if a tax credit is desired for non-state irrigation water users, the tax credit be borne by the general fund and not jeopardize the solvency of the state systems.

Thank you for the opportunity to testify on this measure.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
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MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

To: The Honorable Richard P. Creagan, Chair
and Members of the House Committee on Agriculture

Date: Wednesday, February 8, 2017
Time: 8:30 A.M.
Place: Conference Room 312, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 518, Relating to Taxation

The Department of Taxation (Department) appreciates the intent of H.B. 518 and provides the following comments for your consideration.

H.B. 518 creates a refundable farmers irrigation income tax credit for farmers who purchase water from a county board of water supply and lack access to state irrigation projects. The amount of the credit is equal to the difference between the amount charged for water by state irrigation projects and the amount that should be charged by state irrigation projects in order to sustain the irrigation projects. The bill is effective upon approval and applies to taxable years beginning after December 31, 2017.

First, the Department suggests amending this bill so that the credit is non-refundable, as refundable tax credits create the potential for wrongful claims and abuse.

Second, the Department notes that the amount of the credit is ambiguous. It is unclear whether the amount of the credit will be tied to the amount of water actually used and paid for by the taxpayer, or if all taxpayers who qualify for the credit will receive the same amount. Additionally, the Department understands that there are a number of state irrigation systems throughout the State. If different rates are imposed by the different irrigation systems, it is unclear whether the "amount charged for water by state irrigation projects" and the "amount that should be charged by state irrigation projects" refer to a specific state irrigation system or the aggregate of all systems combined. The Department suggests amending subsection (b) to clarify these issues.

Third, the Department requests that the bill is amended to require certification of the credit by another agency, as the Department lacks the expertise to determine whether a taxpayer lacks access to state irrigation projects and the amount that should be charged by state irrigation

projects in order to sustain the irrigation projects.

Finally, the Department notes that this bill will require instruction, form, and system modifications. The Department should be able to implement the necessary changes for tax years beginning after December 31, 2017.

Thank you for the opportunity to provide comments.

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 6, 2017 1:37 PM
To: AGRtestimony
Cc: mendezj@hawaii.edu
Subject: *Submitted testimony for HB518 on Feb 8, 2017 08:30AM*

HB518

Submitted on: 2/6/2017

Testimony for AGR on Feb 8, 2017 08:30AM in Conference Room 312

Submitted By	Organization	Testifier Position	Present at Hearing
Javier Mendez-Alvarez	Individual	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax Credit for Buying County Water for Irrigation

BILL NUMBER: HB 518

INTRODUCED BY: YAMASHITA, CREAGAN, TAKAYAMA, Choy, DeCoite, Gates, Ing, LoPresti

EXECUTIVE SUMMARY: Provides a refundable tax credit to farmers who buy irrigation water from county water systems, because the price charged by the state water systems is below market. Shouldn't the solution be to have the state charge market rates comparable to those of the counties?

BRIEF SUMMARY: Amends HRS chapter 235 to add a credit for a taxpayer who files an individual or corporate income tax return for a taxable year and who is not claimed, or is not otherwise eligible to be claimed, as a dependent by another taxpayer for Hawaii state individual income tax purposes may claim a farmers irrigation tax credit against the taxpayer's individual or corporate income tax liability for the taxable year in which the income tax return is being filed; provided that the taxpayer: (1) derives at least fifty per cent of the taxpayer's gross income from farming; (2) purchases water from a county board of water supply; and (3) lacks access to state irrigation projects under chapter 167.

The amount of the credit shall be equal to the difference between: (1) the amount charged for water by state irrigation projects under chapter 167; and (2) the amount that should be charged by state irrigation projects under chapter 167 in order to sustain the irrigation projects.

The credit is refundable.

Provides that all claims for this credit, including any amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credits may be claimed. Failure to do so shall constitute a waiver of the right to claim the credit.

EFFECTIVE DATE: Upon approval, applies to taxable years beginning after December 31, 2017.

STAFF COMMENTS: What lawmakers and administrators have learned in these past few years is that unbridled tax incentives, where there is no accountability or limits on how much in credits can be claimed, are irresponsible as the cost of these credits goes far beyond what was ever intended.

Instead, lawmakers should consider an appropriation of a specific number of taxpayer dollars. At least it would: (1) provide some accountability for the taxpayers' funds being utilized to support this effort; and (2) not be a blank check.

The policy rationale for this credit is questionable. The bill recites that some farmers can buy water from the State's water program under HRS chapter 167. The price paid is alleged to be below cost, which amounts to a subsidy of the farmers taking advantage of the program. So the tax credit proposes to equalize the treatment for all by providing a subsidy for the farmers that did not take advantage of the program. But when fiscal times are tough and the State among others is clawing and scratching for whatever pennies it can find, shouldn't a better solution be for the state water program to charge market rates? Fairness is achieved, more money comes in the door, and the problem is solved – right?

Digested 2/6/2017



Maui County

February 8, 2017

HEARING BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE

TESTIMONY ON
HB518: RELATING TO IRRIGATION

Room 312
8:30 AM

Aloha Chair Creagan, Vice Chair DeCoite, and Members of the Committee:

I am Warren Watanabe, Executive Director of Maui County Farm Bureau. We are a County Chapter of the Hawaii Farm Bureau, representing 200 farm families and organizations on the island. Our mission seeks to protect and increase the viability of farms and ranches while ensuring the social and environmental wellbeing of the island.

MCFB **strongly supports HB518**, seeking to level the playing field for agricultural water rates.

The island of Maui is unique in having a County Ag Park vs. a State Ag Park. The majority of our farmers depend on the County water system for their irrigation water. It is a surface water system and even as the County has generously passed ordinances to minimize drought impacts on farmers, farmers know what is happening and when conservation is necessary to ensure adequate water for the communities they live in. Many have chosen to reduce plantings or fallow fields during the summer.

Farmers already experience reduced revenue due to water. Higher costs exacerbate their balance sheets. Without some level of parity, farms will gravitate to select locations while others may fail. This will not contribute to agricultural sustainability. Strong agriculture on all islands is needed to offset threats of natural disasters and pests.

Our best success at significantly moving the needle on ag is by achieving some level of parity of input costs for farmers and ranchers. Your **support by passing this measure today** will take us closer to that goal. Thank you for this opportunity to address this important measure.

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 7, 2017 11:05 AM
To: AGRtestimony
Cc: alan@prloffice.com
Subject: *Submitted testimony for HB518 on Feb 8, 2017 08:30AM*

HB518

Submitted on: 2/7/2017

Testimony for AGR on Feb 8, 2017 08:30AM in Conference Room 312

Submitted By	Organization	Testifier Position	Present at Hearing
Alan Gottlieb	Ponoholo Ranch Limited	Support	No

Comments:

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February 8, 2017

HEARING BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE

TESTIMONY ON HB 518
RELATING TO IRRIGATION

Room 312
8:30 AM

Aloha Chair Creagan, Vice Chair DeCoite, and Members of the Committee:

I am Randy Cabral, President of the Hawaii Farm Bureau (HFB). Organized since 1948, the HFB is comprised of 1,900 farm family members statewide, and serves as Hawaii's voice of agriculture to protect, advocate and advance the social, economic and educational interests of our diverse agricultural community.

The Hawaii Farm Bureau strongly support HB 518, which establishes a mechanism to achieve parity for agriculture water rates across the State.

As Hawaii strongly advocates for increased levels of self-sufficiency and sustainability, farmers across the State experience significant differences in water rates – a very basic resource for agriculture. State subsidized systems are able to provide rates far below County water rates, especially if farms such as areas of Kauai and Upcountry Maui are totally dependent on potable water systems.

HFB respectfully requests your strong support of this measure to bring some level of parity across farms and ranches throughout the State.

Thank you for this opportunity to provide comment on this important subject.

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 7, 2017 1:16 PM
To: AGRtestimony
Cc: gregf@haleakalaranch.com
Subject: *Submitted testimony for HB518 on Feb 8, 2017 08:30AM*

HB518

Submitted on: 2/7/2017

Testimony for AGR on Feb 8, 2017 08:30AM in Conference Room 312

Submitted By	Organization	Testifier Position	Present at Hearing
Gregory Friel	Individual	Support	No

Comments:

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LATE

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, February 8, 2017 12:32 AM
To: AGRtestimony
Cc: legechair@gmail.com
Subject: *Submitted testimony for HB518 on Feb 8, 2017 08:30AM*

HB518

Submitted on: 2/8/2017

Testimony for AGR on Feb 8, 2017 08:30AM in Conference Room 312

Submitted By	Organization	Testifier Position	Present at Hearing
Simon Russell	Hawaii Farmers Union United	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, February 8, 2017 8:18 AM
To: AGRtestimony
Cc: jimmygomes@hawaii.rr.com
Subject: *Submitted testimony for HB518 on Feb 8, 2017 08:30AM*



HB518

Submitted on: 2/8/2017

Testimony for AGR on Feb 8, 2017 08:30AM in Conference Room 312

Submitted By	Organization	Testifier Position	Present at Hearing
Jimmy Gomes	Ulupalakua Ranch	Support	No

Comments:

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