

DAVID Y. IGE
GOVERNOR OF HAWAII



**STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES**

POST OFFICE BOX 621
HONOLULU, HAWAII 96809

**Testimony of
SUZANNE D. CASE
Chairperson**

**Before the House Committee on
WATER AND LAND**

**Wednesday, February 8, 2017
9:00 AM
Conference Room 325**

**In consideration of
HOUSE BILL 1213
RELATING TO THE DEPARTMENT OF LAND AND NATURAL RESOURCES**

House Bill 1213 proposes to appropriate \$100,000 for the State Historic Preservation Division in the Department of Land and Natural Resources (Department) to conduct a study in cooperation with the Department of Taxation on the viability and costs associated with creating a state tax credit of twenty percent for historic commercial properties that make historic preservation efforts on their properties. **The Department strongly supports this bill as long as it does not replace our priorities requested in the Executive Budget.**

The Federal Government offers a twenty (20) percent tax credit for certified rehabilitation of historic commercial structures. The federal historic preservation tax incentivizes redevelopment in communities from large cities to small towns and rural areas. They are used to bring once vacant or underutilized buildings back to life, give them a second life through adaptive reuse, and enhance the quality of life for everyone in the community. Historic preservation tax credits encourage preservation of historic properties, the state's history, and a community's unique sense of place, revitalizing communities, enhancing the quality of life, and promoting economic development.

The potential economic impact of historic tax credit driven projects begin in the development cycle as construction related jobs are created, and materials purchased, etc., In the longer-term the operation of businesses that locate in newly rehabilitated historic buildings create continuing economic benefits to the community.

A number of states have state historic preservation tax credits. Other states report that their historic tax credit programs are initially revenue-neutral as any reduction in revenue due to the

SUZANNE D. CASE
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

KEKOA KALUHIWA
FIRST DEPUTY

JEFFREY T. PEARSON, P.E.
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES
BOATING AND OCEAN RECREATION
BUREAU OF CONVEYANCES
COMMISSION ON WATER RESOURCE MANAGEMENT
CONSERVATION AND COASTAL LANDS
CONSERVATION AND RESOURCES ENFORCEMENT
ENGINEERING
FORESTRY AND WILDLIFE
HISTORIC PRESERVATION
KAHOOLAWE ISLAND RESERVE COMMISSION
LAND
STATE PARKS

tax credit is offset by taxes paid by the various construction related activities. Economic impacts, however, typically last long after the tax credits are exhausted, with increased revenue to the general fund through income tax and sales tax, taking the project from revenue-neutral to revenue-positive once construction is completed. These additional tax revenues can begin to be collected well before investors claim their tax credits.

The Historic Preservation Tax Credit programs in other states across the country, however, cannot answer questions about the value, viability, and costs associated with establishing a state historic preservation rehabilitation tax credit in Hawai`i, decisions should not be made based upon the experiences of other states. The Department believes that the study authorized and funded by the House Bill 1213 is a measured approach that will provide the Legislature with the information necessary to assess the potential viability of a state historic preservation tax credit in the State of Hawai`i.

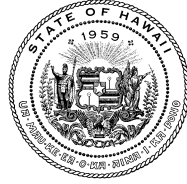
The Department strongly supports this measure and looks forward to collaborating with the Department of Taxation and reporting our findings to the legislature.

Due to the time often involved in the procurement process, the Department does believe that it may not be possible to meet the deadline for submission of the report to the Legislature prior to the beginning of the 2018 regular session and recommends that House Bill 1213 be amended to provide for submission of the report prior to the start of the 2019 Regular Session.

Thank you for the opportunity to provide testimony on this measure.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

To: The Honorable Ryan I. Yamane, Chair
and Members of the House Committee on Water and Land

Date: Wednesday, February 8, 2017

Time: 9:00 A.M.

Place: Conference Room 325, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 1213, Relating to the Department of Land and Natural Resources

The Department of Taxation (Department) appreciates the intent of the measure to assist businesses to preserve historic properties. The Department takes no position on the matter, defers to the Department of Land and Natural Resources tenants on the merits, and provides the following comments for your consideration on H.B. 1213.

H.B. 1213 requires the State Historic Preservation Division of the Department of Land and Natural Resources, in conjunction with the Department of Taxation, to conduct a joint study on the viability and costs associated with creating a state tax credit for commercial properties that historically preserve their properties, and makes an appropriation. The measure is effective on July 1, 2017.

The Department is willing to participate in the study, but notes that it has no expertise in determining the viability of such a credit and could not offer anything more than a revenue estimate. The Department would be unable to assist in determining whether such a credit is warranted or even how much of a credit is needed to incentivize a taxpayer. The Department is able to provide revenue impacts based on proposals that result from the study.

Thank you for the opportunity to provide comments.

HISTORIC HAWAII FOUNDATION

TO: Rep. Ryan I. Yamane, Chair
Rep. Sam Satoru Kong, Vice Chair
Committee on Water & Land

FROM: Kiersten Faulkner, Executive Director
Historic Hawaii Foundation

Committee: Wednesday, February 8, 2017
9:00 a.m.
Conference Room 325

RE: HB 1213, Relating to the Department of Land and Natural Resources

On behalf of Historic Hawai'i Foundation, I am writing **in support for HB 1213**. The bill requires the State Historic Preservation Division (SHPD) of the Department of Land and Natural Resources (DLNR), in conjunction with the Department of Taxation (DoTAX), to conduct a joint study on the viability and costs associated with creating a state tax credit for commercial properties that historically preserve their properties. The bill appropriates funds.

The bill would provide a mechanism for the State of Hawai'i to examine and analyze opportunities to establish a viable mechanism to both preserve historic properties and to enhance economic viability associated with rehabilitation of historic commercial properties.

Historic preservation tax credit programs have proved to be successful incentives for rehabilitating older structures and returning them to useful life. Preserving and using our historic buildings are ways to enhance community character, provide an alternative to sprawl, create jobs, provide affordable housing, encourage heritage tourism, and generally spur economic development in older neighborhoods and commercial districts.

Tax credit programs for rehabilitation of historic properties have been used at the federal level and by almost two-thirds of the individual States. While the details of the programs vary state by state, preservation tax credits have universally been shown to be effective, especially when coupled with the 20% federal historic tax credit available to income-producing historic properties, such as commercial, office, industrial and resort properties. Studies from other States that have adopted historic preservation tax credits have consistently found that the tax credits spurred economic development and increased direct tax revenues that offset the tax credit expense. Through increased economic output, the State recovers its investment in rehabilitation tax credits through four sources: construction period taxes, real property taxes, post-construction sales and income taxes.

Many of the states that provide a historic preservation tax credit have conducted economic impact studies to determine the fiscal effect. All of them determined that the fiscal return was greater than the state's forgone taxes, often returning three to five times more revenue to the State in new taxes and significant new

investment. The rehabilitation tax credit also was successful in creating new jobs, increasing loan demand and deposits in local financial institutions, enhancing property values and generating sales. In addition to these direct fiscal impacts, the tax credit also has proven benefits related to environmental sustainability, affordable housing, tourism and visitation, and neighborhood revitalization.

Some 31 states have adopted laws creating credits against state taxes to provide incentives for the appropriate rehabilitation of historic buildings. Most programs include the following basic elements:

- Criteria establishing which buildings qualify for the credit;
- Standards to ensure that the rehabilitation preserves the historic and architectural character of the buildings;
- A method for calculating the value of the credit awarded, reflected as a percentage of the amount expended on that portion of the rehabilitation work that is approved as certified rehabilitation;
- A minimum amount, or threshold, required to be invested in the rehabilitation; and
- A mechanism for administering the program, generally involving the state historic preservation office, and in some cases, the state department of revenue or of economic development.

As an incentive for reinvestment in our neighborhoods and communities, the historic property tax credit program makes sense. As an economic development program, it also makes fiscal sense for the state.

Since 1974, Historic Hawai'i Foundation (HHF) has been a statewide leader for historic preservation. HHF works to preserve Hawai'i's unique architectural and cultural heritage and believes that historic preservation is an important element in the present and future quality of life, economic viability and environmental sustainability of the state.

Therefore, Historic Hawai'i Foundation supports HB 1213.