



STATE OF HAWAII
DEPARTMENT OF HEALTH
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**Testimony COMMENTING on HB2573
RELATING TO CESSPOOLS**

REPRESENTATIVE CHRIS LEE, CHAIR
HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

Hearing Date: February 6, 2018
Time: 8:35 a.m.

Room Number: 325

1 **Fiscal Implications:** The Department of Health (Department) would need resources to establish
2 the grant program under this measure. We appreciate and support the intent of this initiative, but
3 defer to the Governor's Executive Supplemental Budget Request for the Department's
4 appropriations and personnel priorities.

5 **Department Testimony:** The Department supports the intent of this bill. Cesspools are a major
6 source of pollution to Hawaii's waters. There are approximately 88,000 cesspools in the State,
7 discharging approximately 53 million gallons of untreated sewage into the groundwater every day.
8 Groundwater flows into drinking water sources; since ninety-five percent of all drinking water in
9 Hawaii comes from ground water sources, this cesspool pollution can potentially harm human
10 health. Groundwater also flows into streams and the ocean, harming public health and the
11 environment, including beaches, recreational waters, and coral reefs. The Department would like to
12 see cesspools phased out as soon as feasible and is open to consideration of various financial
13 options to assist homeowners with the high cost of upgrading cesspools.

14 The water pollution control revolving fund program provides low interest loans. However, under
15 federal regulations, the program is not allowed to issue grants. Therefore, the measure should be
16 revised to delete SECTION 7 in its entirety. A grant program funded another way may be feasible
17 and the Department is open to consideration of such a program if adequate resources are provided.

18 Thank you for the opportunity to testify on this measure.

DAVID Y. IGE
GOVERNOR

DOUGLAS S. CHIN
LIEUTENANT GOVERNOR



LINDA CHU TAKAYAMA
DIRECTOR

DAMIEN A. ELEFANTE
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**STATE OF HAWAII
DEPARTMENT OF TAXATION**

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To: The Honorable Chris Lee, Chair
and Members of the House Committee on Energy and Environmental Protection

Date: Tuesday, February 6, 2018

Time: 8:35 A.M.

Place: Conference Room 325, State Capitol

Re: H.B. 2573, Relating to Cesspools

The Department of Taxation (Department) defers to the Department of Health (DOH) on the merits of this bill and provides the following comments regarding H.B. 2573 for your consideration.

Among other things, S.B 2573 amends the cesspool upgrade, conversion, or connection income tax credit under Hawaii Revised Statutes section 235-16.5, by making the credit refundable, and sets eligibility for the credit based upon certain maximum income levels and filing status. In addition, the measure creates a grant program administered by the DOH to provide homeowners assistance in meeting the costs of upgrading or converting a cesspool, and provides that a person receiving a grant is ineligible for the tax credit based on costs paid for by the grant. The measure is effective upon approval and applies to taxable years beginning after December 31, 2018.

First, the Department first notes that making the credit refundable creates a greater risk of improper claims and abuse. As a general rule, the Department prefers nonrefundable credits over refundable credits due to this potential. Nonrefundable credits do not pose this same risk because they can only be used to offset tax liability.

Second, the Department requests a provision be included that would allow DOH and the Department to share information concerning persons obtaining a grant and/or tax credit, but only to the extent necessary to determine whether costs paid for by a grant have also been used to claim a credit under HRS section 235-16.5. The Department notes that such information is considered confidential taxpayer information, and disclosure of any such information is strictly prohibited under HRS section 235-116, unless the disclosure is authorized.

Finally, the Department notes that it will be able to implement this measure with its current effective date.

Thank you for the opportunity to provide comments.

HB-2573

Submitted on: 2/5/2018 8:29:49 AM

Testimony for EEP on 2/6/2018 8:35:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	OCC Legislative Priorities	Support	No

Comments:

Rep. Chris Lee, Chair

COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

Dear Chair Lee and Committee Members:

Re: HB 2268, HB 2573, HB 2626, and HB 2540: cesspools

Housing already is barely affordable for many of Hawaii's people, and the conversion of cesspools to septic systems is a very costly proposition. Therefore, if cesspools are to be abolished in the State of Hawaii, anything that eases the financial burden will be welcomed.

As a result, I support HB 2268, HB 2573, HB 2626, and HB2540, to the extent that those bills provide ways to reduce the net expenses of our constituents.

Respectfully submitted,

hk

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Make Cesspool Credit Refundable

BILL NUMBER: HB 2573

INTRODUCED BY: SAN BUENAVENTURA, DECOITE, EVANS, MCKELVEY, SOUKI, TODD, WOODSON, YAMASHITA

EXECUTIVE SUMMARY: Changes the existing credit for cesspool conversion by (1) Including high priority cesspool areas in the list of areas that are eligible for the income tax credit; (2) Expanding tax credits allowed under and extending the expiration date of the cesspool upgrade, conversion, or connection income tax credit; (3) Making the income tax credit refundable for certain taxpayers; and (4) Establishing a grant program for cesspool owners with income below a particular level.

SYNOPSIS: Amends section 235-16.5, HRS, as follows.

1. Clarifies that the credit doesn't apply to the extent that the taxpayer paid for the system with grant money.
2. Changes the credit to a refundable credit.
3. Provides that grants are not available if a taxpayer is single, or married filing separately, with federal AGI of \$_____ or more; if a taxpayer is a head of household with federal AGI of \$_____ or more; or if a taxpayer is filing a joint return or is a surviving spouse with federal AGI of \$_____ or more.
4. Moves the sunset date to December 31, 2022.

Adds two new sections to chapter 342D, HRS, to establish the grant program.

EFFECTIVE DATE: Upon approval, (1) the amendments to the existing cesspool credit apply to taxable years beginning after December 31, 2018, and (2) the grant program shall take effect on July 1, 2018.

STAFF COMMENTS: Act 120, SLH 2015, enacted a temporary income tax credit, expiring on December 31, 2020, for 100% of the qualified costs of a cesspool upgrade, conversion, or connection, up to \$10,000. Act 182, SLH 2016, made clarifying amendments.

This measure is an extension of the current effort to mitigate the public health hazards caused by cesspools, which release millions of gallons of untreated sewage into the ground. Many houses, especially in rural areas, still have them. Converting them is expensive, hence the credit to encourage homeowners to do so.

Earlier versions of the bill made the credit assignable as well as refundable, and we pointed out that it did not make sense for a refundable credit to be assignable. The Department of Taxation also testified that it would be unwieldy to set up a process for such a credit to be assignable. This bill calls for the credit to be refundable but not assignable.

Re: HB 2573

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As we noted in 2015 time, this credit was given without any consideration of the taxpayer's need for tax relief. This bill now seeks to correct this but does so in somewhat ham-fisted fashion with an all-or-nothing approach. The legislature may want to consider phasing in the disallowance, so the "tax cliff" effect upon taxpayers is mitigated.

Digested 2/1/2018

HB-2573

Submitted on: 2/2/2018 9:13:54 AM

Testimony for EEP on 2/6/2018 8:35:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Robert Douglas		Comments	No

Comments:

Please amend to ensure that the recipient of any tax credit is current on their property taxes and building permits. Prior cesspool permit on file must be mandatory.

HB-2573

Submitted on: 2/2/2018 3:40:44 PM

Testimony for EEP on 2/6/2018 8:35:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
natasha sky		Support	No

Comments:

Let's keep the well water clean. Yes to the grants. Thankyou

HB-2573

Submitted on: 2/4/2018 6:45:06 PM

Testimony for EEP on 2/6/2018 8:35:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Morgan Bonnet		Support	No

Comments:

Dear Committee Members,

As a surfer, or an ocean "user" at large, I am always worried about the ocean water quality in Hawai'i. I usually avoid getting in the water after any heavy rain events and I signed up for the alerts provided by the state of Hawai'i to be informed of other factors that could lead to sewage water entering the ocean. And even by following these self imposed rules, I am constantly worried to go in the water with an open wound (reef cut for example) and I regularly get minor ear infections.

Clearly, there is a lot of factors that can lead to ocean water contamination, and Cesspools is high on the list. Especially considering that the Hawai'i soil, being "volcanic", is more poreous that most places on the mainland for example. Also, cesspools are a solution of the past, and having so many cesspools left in Hawai'i is a sign that the infrastucture needs to keep up with 2018!

Two years ago, I wiped out surfing in Waikiki and I landed chin first on the edge of my surfboard, which resulted in a 3/4 inch cut. I went to the ER and got it glued. The ER doctor, also a surfer, told me to wait at least a week before going back in the water, which I did. Even then, I got a staph infection that took over 2 months to get rid off, while using antibiotics. This unfortunate event, which happened in Waikiki, could have been the experience of a tourist. In fact, after talking with the hospital staff, I know for a fact that this happens to many tourists. It doesn't take a genius to see that associating Hawai'i's ocean water with "poop" water isn't exactly too good for tourism.

Please support HB2573.

Mahalo,

Morgan

HB-2573

Submitted on: 2/5/2018 8:58:35 AM

Testimony for EEP on 2/6/2018 8:35:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Jennifer Milholen	Kokua Hawaii Foundation	Support	No

Comments:

HB-2573

Submitted on: 2/5/2018 11:07:07 PM

Testimony for EEP on 2/6/2018 8:35:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Andrea Nandoskar		Support	No

Comments:

Please support HB2573 which addresses financial concerns related to cesspool upgrades including grant funds to help homeowners with cesspools offset the cost to upgrade or convert. Thousands of cesspools continue to exist in Hawaii risking groundwater contamination and contributing to the destruction of our precious coral reefs.

Mahalo for your consideration