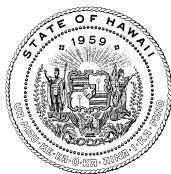


DAVID Y. IGE
GOVERNOR



LAUREL A. JOHNSTON
DIRECTOR

KEN N. KITAMURA
ACTING DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

**STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE**

P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY

TESTIMONY BY LAUREL A. JOHNSTON
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON OCEAN, MARINE RESOURCES
AND HAWAIIAN AFFAIRS
ON
SENATE BILL NO. 2717, S.D. 2

**March 13, 2018
9:45 a.m.
Room 312**

RELATING TO CESSPOOLS

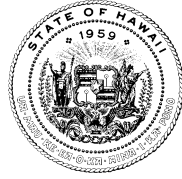
Senate Bill No. 2717, S.D. 2, establishes a grant program to assist beneficiaries on Hawaiian home lands with cesspool upgrades or conversion costs; establishes that a recipient of a cesspool grant shall not be eligible for the cesspool upgrade, conversion, or connection income tax credit; establishes the Cesspool Compliance Grant Program Special Fund (CCGPSF); appropriates an unspecified amount of general funds for FY 19 for deposit into the CCGPSF; and appropriates an unspecified amount of special funds for FY 19 from the CCGPSF.

While the Department of Budget and Finance takes no position on the establishment of a cesspool grant program for Hawaiian home lands beneficiaries, as a matter of general policy, the department does not support the creation of any special fund which does not meet the requirements of Section 37-52.3, HRS. Special funds should: 1) serve a need as demonstrated by the purpose, scope of work and an explanation why the program cannot be implemented successfully under the general fund appropriation process; 2) reflect a clear nexus between the benefits sought and

charges made upon the users or beneficiaries or a clear link between the program and the sources of revenue; 3) provide an appropriate means of financing for the program or activity; and 4) demonstrate the capacity to be financially self-sustaining. In regards to Senate Bill No. 2717, S.D. 2, it is difficult to determine whether the proposed special fund would be self-sustaining.

Thank you for your consideration of our comments.

DAVID Y. IGE
GOVERNOR
STATE OF HAWAII



JOBIE M. K. MASAGATANI
CHAIRMAN
HAWAIIAN HOMES COMMISSION

SHAN S. TSUTSUI
LT. GOVERNOR
STATE OF HAWAII

WILLIAM J. AILA, JR.
DEPUTY TO THE CHAIRMAN

**STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS**

P. O. BOX 1879
HONOLULU, HAWAII 96805

LATE

**TESTIMONY OF JOBIE M. K. MASAGATANI, CHAIRMAN
HAWAIIAN HOMES COMMISSION
BEFORE THE HOUSE COMMITTEE ON OCEAN, MARINE RESOURCES &
HAWAIIAN AFFAIRS**

IN SUPPORT OF

SB 2717 SD2 RELATING TO CESSPOOLS

March 13, 2018

Aloha Chair Ing and members of the Committee:

Thank you for the opportunity to testify on Senate Bill 2717 SD2. This bill establishes a grant program and special fund to assist beneficiaries on Hawaiian home lands with cesspool upgrade, conversion, or connection costs. The Department supports this measure as long as it doesn't affect the priorities identified in the Governor's Executive budget request.

The Department supports this grant program that would assist lessees in meeting the costs of upgrading or converting a cesspool located on Hawaiian home lands to a septic or aerobic treatment unit system or connecting a cesspool located on Hawaiian home lands to a sewerage system.

Thank you for your consideration of our testimony.

DAVID Y. IGE
GOVERNOR

DOUGLAS S. CHIN
LIEUTENANT GOVERNOR



LINDA CHU TAKAYAMA
DIRECTOR

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

STATE OF HAWAII
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830 PUNCHBOWL STREET, ROOM 221
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To: The Honorable Kaniela Ing, Chair
and Members of the House Committee on Ocean, Marine Resources, & Hawaiian
Affairs

Date: Tuesday, March 13, 2018
Time: 9:45 A.M.
Place: Conference Room 312, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 2717, S.D. 2, Relating to Cesspools

The Department of Taxation (Department) offers the following comments regarding S.B. 2717, S.D. 2, for your consideration. S.B. 2717, S.D. 2, establishes a grant program to assist beneficiaries on Hawaiian home lands with the costs of upgrading or converting a cesspool. The measure also provides that a recipient of such a grant is ineligible for the cesspool upgrade, conversion, or connection income tax credit under section 235-16.5, Hawaii Revised Statutes (HRS). The measure has a defective effective date of July 1, 2050, but otherwise applies to taxable yeas beginning after December 31, 2017, with funding for the program effective July 1, 2018.

The Department first notes that the Senate Committees on Hawaiian Affairs and Commerce, Consumer Protection, and Health adopted the Department's recommendation that DHHL be authorized to periodically provide to the Department a listing of any recipient of the grant along with their tax identification number so that the Department can ensure that such person does not also claim the tax credit under HRS section 235-16.5.

The Department further notes that it is able to implement the measure with its current effective date. Thank you for the opportunity to provide comments.

STATE OF HAWAII
DEPARTMENT OF HEALTH
P. O. Box 3378
Honolulu, HI 96801-3378
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WRITTEN
TESTIMONY ONLY

**Testimony in SUPPORT of SB2717 SD2
RELATING TO CESSPOOLS**

REPRESENTATIVE KANIELA ING, CHAIR
HOUSE COMMITTEE ON OCEAN, MARINE RESOURCES, & HAWAIIAN AFFAIRS

Hearing Date: March 13, 2018
Time: 9:45 A.M.

Room Number: 312

1 **Fiscal Implications:** None for the Department of Health (Department). The measure establishes a
2 grant program and special fund to assist beneficiaries on Hawaiian Home Lands with cesspool
3 upgrade or conversion costs. Establishes that a recipient of a cesspool upgrade grant shall not be
4 eligible for the cesspool upgrade, conversion, or connection income tax credit. Appropriates
5 moneys for the grant program.

6 **Department Testimony:** We appreciate and support the intent of this initiative, but defer to the
7 Governor's Executive Supplemental Budget Request for the Department's appropriations and
8 personnel priorities. Cesspools are a major source of pollution to Hawaii's waters. There are
9 approximately 88,000 cesspools in the State, discharging approximately 53 million gallons of
10 untreated sewage into the groundwater every day. Ground water flows into drinking water sources;
11 since ninety-five percent of all drinking water in Hawaii comes from ground water sources, this
12 cesspool pollution can potentially harm human health. Groundwater also flows into streams and the
13 ocean, harming public health and the environment, including beaches, recreational waters, and coral
14 reefs.

15 During the most recent regular Legislative session, Act 125 was passed, requiring the replacement
16 of all cesspools by 2050. The Legislature has taken important actions to address Hawaii's
17 cesspools. There is an urgent need to protect the public health and environment with cesspool
18 upgrades as soon as feasible. These upgrades can be to sewer, septic systems or any other
19 individual wastewater systems that comply with the Department's Chapter 11-62, Hawaii
20 Administrative Rules.

21 The cost of upgrades will be high, averaging \$20,000 to \$30,000. The Department is open to
22 various forms and strategies of financial support for homeowners who upgrade. Expanded tax

- 1 credits and grants are two possible options that would help homeowners afford the phasing out of
- 2 cesspools.
- 3 This bill addresses a small part of the overall cesspools problem with Department of Hawaiian
- 4 Homelands properties, but is one step in the right direction.
- 5 Thank you for the opportunity to testify on this measure.



HOUSE COMMITTEE ON OCEAN, MARINE RESOURCES & HAWAIIAN AFFAIRS

Tuesday, March 13, 2018 9:45AM Conference Room 312

In SUPPORT of SB 2717 SD2 Relating to cesspools

Aloha Chair Ing, Vice Chair DeCoite and members of the Committee,

On behalf of our 20,000 members and supporters, the Sierra Club of Hawai'i, a member of the Common Good Coalition, **supports SB 2717 SD2**, which would establish a grant program and special fund to assist lessees on Hawaiian Homelands with cesspool upgrade, conversion, or connection costs and denotes that grantees shall not be eligible for the cesspool income tax credit.

The Sierra Club of Hawai'i, dedicated to exploring, enjoying, and protecting these unique and beautiful islands we call home, have engaged in decades-long efforts to keep valuable public areas free of pollution and environmental contaminants. We support measures that seek to ensure public health and safety, concurrent with protecting our nearshore waters and finite freshwater resources.

The concentration of cesspools is an urgent issue for many areas across Hawai'i. Decades of poor infrastructure planning and implementation have led to a dangerous concentration of cesspools many areas across Hawai'i. However, upgrades, conversions, or connections to sewer remain financially out-of-reach for many residents. We must take a multi-faceted approach to solving the cesspool issue and ensure that residents who cannot incur \$20,000-40,000 upfront costs have financing options available to them.

The Department of Health's Environmental Management Division released a Report¹ to the legislature in December 2017 regarding cesspools and the prioritization for replacement across the islands (hereby referred to as "The Report"). The Report notes that Hawai'i has far more cesspools than any other state and is the last state in the nation to implement a ban. It emphasizes that cesspools pose significant threats to many areas throughout the islands, putting tens of millions of gallons of raw sewage into the environment each day, often contaminating groundwater and sometimes drinking water. Cesspools present health risks to

1

<https://health.hawaii.gov/opppd/files/2017/12/Act-125-HB1244-HD1-SD3-CD1-29th-Legislature-Cesspool-Report.pdf>

residents and visitors who swim in contaminated waters and cause significant harm to streams and nearshore ecosystems, including damage to fragile coral reefs.

We understand the complexity of this issue and encourage collaborative efforts from the communities, counties, the Legislature, and private entities to solve it. Solutions must be location- and situation-specific. Importantly, funding and financing mechanisms must be identified to achieve the replacements in an economically feasible way.

We must continue to take steps to protect our drinking water, public health, and the environment and encourage the Committee to pass SB 2717 SD2.

Mahalo for the opportunity to provide testimony on this important matter.

SB-2717-SD-2

Submitted on: 3/9/2018 5:59:38 PM

Testimony for OMH on 3/13/2018 9:45:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Benton Kealii Pang, Ph.D.	Individual	Support	No

Comments:

LATE

SB-2717-SD-2

Submitted on: 3/12/2018 9:55:49 AM

Testimony for OMH on 3/13/2018 9:45:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	OCC Legislative Priorities Committee, Democratic Party of Hawai'i	Support	No

Comments:

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Cesspool Compliance Grant Program

BILL NUMBER: SB 2717, SD-2

INTRODUCED BY: Senate Committee on Ways & Means

LATE

EXECUTIVE SUMMARY: Establishes a cesspool compliance grant program to assist beneficiaries on Hawaiian home lands. Prevents duplication with the cesspool upgrade, conversion or connection income tax credit.

SYNOPSIS: Adds a new section to chapter 342D, HRS, establishing a cesspool grant program and special fund. Provides that the Department of Hawaiian Home Lands (DHHL) shall be exempt from section 235-116 and may periodically share with the department of taxation the cesspool compliance grant recipient's tax identification number and other information necessary to ensure cesspool compliance grant recipients do not also claim the cesspool upgrade, conversion, and connection income tax credit established in section 235-16.5.

Amends section 235-16.5, HRS, which now provides for the tax credit, to provide that a taxpayer may claim either the grant or the tax credit, but not both. Taxpayers who already have claimed the tax credit will be ineligible for the grant.

EFFECTIVE DATE: July 1, 2050; changes to the tax credit apply to taxable years beginning after December 31, 2017.

STAFF COMMENTS: The proposed grant program and the existing tax credits duplicate each other to a degree, so it makes sense to prevent double dipping.

The proposed new 342D-__(e), the information sharing provision enacting an exemption to the income tax confidentiality statute, should be deleted. The Department of Taxation, which is better equipped to handle confidential taxpayer information, can receive grant recipient information from DHHL under current law. Section 235-116, HRS, provides that disclosure of tax returns or tax return information is unlawful, and that no officer or employee of the State may lawfully disclose such information. A statement that DHHL is exempt from section 235-116, HRS, as presently in the bill, would allow DHHL to disclose taxpayer information, which does not appear to be what was intended.

Digested 3/12/2018