

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
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ISAAC W. CHOY
DIRECTOR OF TAXATION

To: The Honorable Sylvia Luke, Chair;
The Honorable Kyle T. Yamashita, Vice Chair;
and Members of the House Committee on Finance

From: Isaac W. Choy, Director
Department of Taxation

Date: Friday, February 25, 2022
Time: 12:30 P.M.
Place: Via Video Conference, State Capitol

Re: H.B. 1631, H.D. 1, Relating to Water Conservation

The Department of Taxation (Department) appreciates the intent of H.B. 1631, H.D. 1, and offers the following comments for the committee's consideration.

H.B. 1631, H.D. 1, adds a new section to chapter 235, Hawaii Revised Statutes (HRS), creating a new nonrefundable tax credit of \$100 for each qualified taxpayer who installs or has installed a water catchment system during the taxable year with a minimum capacity of one thousand gallons on a residential property owned by the qualified taxpayer within the State. There is a limit of one credit per qualified taxpayer. The measure has a defective effective date of July 1, 2050, with the credit otherwise applying to taxable years beginning after December 31, 2050.

The Department notes that the Committee on Water and Land amended the previous version of this measure to make the new tax credit nonrefundable, establish a limit of one credit per taxpayer, and change the definition of "qualified taxpayer" so that the taxpayer must have installed and placed in service the water catchment system during the taxable year in order to qualify for the tax credit. The Department appreciates these changes and requests that they remain intact.

If the Committee wishes to insert a functional effective date and advance this measure, the Department respectfully requests that the new credit be made applicable to taxable years beginning after December 31, 2022.

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



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
House Committee on Finance
Friday, February 25, 2022 at 12:30 p.m.

By

Darren T. Lerner, PhD
Director, Sea Grant College Program,
School of Ocean and Earth Science and Technology

And

Michael Bruno, PhD
Provost
University of Hawai'i at Mānoa

HB 1631 HD1 – RELATING TO WATER CONSERVATION

Chair Luke, Vice Chair Yamashita, and members of the committee:

The University of Hawai'i Sea Grant College Program (Hawai'i Sea Grant) supports the intent of HB 1631 HD1. This legislation proposes to provide a refundable income tax credit for Hawai'i homeowners for water catchment systems meeting certain requirements. Hawai'i Sea Grant offers the following comments and suggestions to strengthen this Bill:

1. In its current form, this bill stipulates that qualified catchment systems must accommodate a minimum capacity of 1,000 gallons. Due to the modest size of most residential lots in Hawai'i, the committee may consider extending a rebate for smaller systems, (perhaps those ranging from as small as 50 gallons up to 1,000). If widely distributed across developed areas, the collective benefits of such systems would positively impact urban and residential areas.
2. The proposed financial incentive (rebate value of \$100 annually) may not encourage homeowners to invest in the required 1,000-gallon catchment system, which costs over \$1,000 before installation. This bill would be more likely to stimulate homeowner investment if the rebate structure covered a percentage of the cost of the initial catchment system and a \$100 annual rebate for maintenance thereafter.
3. The state may also consider adding other complimentary financial incentives that have successfully been implemented in other U.S. states and territories, including the waiver of sales tax on rainwater catchment systems, the exemption of such systems from a property's assessed value for taxation, or a rebate per-gallon to incentivize the use of larger catchment systems.
4. This bill currently includes only homeowners as receiving the stated tax incentive. The committee may consider extending the benefits of this bill to other buildings in the urban zone, particularly commercial lots which typically have large roof square-footage. The roof is the area where water is collected and conveyed to the catchment structure. Therefore, the larger a building's roof, the greater the

potential to capture and store water with an adequately sized catchment structure. Extending the proposed incentive to all buildings in the urban zone is recommended.

5. This bill should clarify that catchment systems on residential properties are not presently regulated by the Hawai'i Department of Health or other regulatory entity and educational materials may be needed for the safe and appropriate use of collected rainwater.
 - a. Hawai'i Department of Health:
<https://health.Hawaii.gov/sdwb/raincatchment/>
 - b. Hawai'i Sea Grant: <https://seagrantsoest.Hawaii.edu/rainwater-catchment-project/>
 - c. University of Hawai'i College of Tropical Agriculture and Human Resources:
https://www.ctahr.Hawaii.edu/oc/freepubs/pdf/RM-12_rev.2020-web.pdf

Hawai'i Sea Grant's mission is to provide integrated research, extension, and education activities that increase understanding and use of ocean and coastal resources of the Hawaiian and Pacific Islands and support the informed personal, policy, and management decisions that are integral to realizing this vision. Hawai'i Sea Grant is part of a national network of 34 university-based programs associated with the National Oceanic and Atmospheric Administration (NOAA) that promote better understanding, conservation, and use of coastal resources.

Hawai'i Sea Grant supports the intent of HB 1631 HD1 to explore a financial incentive for water catchment installation and operation and recommends consideration of the above-mentioned amendments.

Thank you for the opportunity to testify on this measure.

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

GLORIA CHANG
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 CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 1631, H.D. 1

February 25, 2022
12:30 p.m.
Room 308 and Videoconference

RELATING TO WATER CONSERVATION

The Department of Budget and Finance (B&F) offers comments on this bill.

House Bill No. 1631, H.D. 1, adds a new section to Chapter 235, HRS, that establishes a refundable income tax credit of \$100 for taxpayers who install a water catchment system with a minimum capacity of 1,000 gallons on a residential property located in the State that is owned by the taxpayer.

B&F notes that the federal American Rescue Plan (ARP) Act restricts states from using ARP Coronavirus State Fiscal Recovery Funds (CSFRF) to directly or indirectly offset a reduction in net tax revenue resulting from a change in law, regulation, or administrative interpretation beginning on March 3, 2021, through the last day of the fiscal year in which the CSFRF have been spent. If a state cuts taxes during this period, it must demonstrate how it paid for the tax cuts from sources other than the CSFRF, such as:

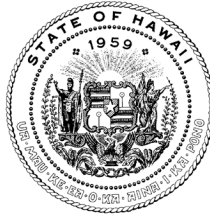
- By enacting policies to raise other sources of revenue;
- By cutting spending; or
- Through higher revenue due to economic growth.

If the CSFRF provided have been used to offset tax cuts, the amount used for this purpose must be repaid to the U.S. Treasury.

The U.S. Department of Treasury has issued rules governing how this restriction is to be administered. B&F will be working with the money committees of the Legislature to ensure that the State of Hawai'i complies with this ARP restriction.

Thank you for your consideration of our comments.

DAVID Y. IGE
GOVERNOR OF
HAWAII



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

ROBERT K. MASUDA
FIRST DEPUTY

M. KALEO MANUEL
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

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
FINANCE**

**Friday, February 25, 2022
12:30 PM**

State Capitol, Conference Room 308, Via Videoconference

**In consideration of
HOUSE BILL 1631, HOUSE DRAFT 1
RELATING TO WATER CONSERVATION**

House Bill 1631, House Draft 1, proposes to amend Chapter 235, Hawai'i Revised Statutes, by adding a new section creating a nonrefundable water catchment tax credit for homeowners who install a water catchment system meeting certain requirements on residential property located in the State that is owned by the homeowners. **The Department of Land and Natural Resources (Department) supports this measure provided that its passage does not replace or adversely impact priorities indicated in the Executive Supplemental Budget request and offers comments.**

The Department recognizes there are numerous opportunities for water conservation in all sectors of water use. On O'ahu, the average per capita water use is estimated to be approximately 150 gallons per person per day (this includes all customer classes). According to the Honolulu Board of Water Supply, about half of a household's water use is for outdoor activities.

The Department's Commission on Water Resource Management's Water Resource Protection Plan and Hawaii Water Conservation Plan (<http://files.hawaii.gov/dlnr/cwrm/planning/hwcp2013.pdf>) endorses and supports demand-side (customer) water conservation programs. The Hawai'i Water Conservation Plan recognizes rebate programs offered by the municipal water departments as a proven and effective way to reach its customers and reduce their water demands and water bills. For example, rain barrel, smart irrigation timer, and high-efficiency toilet rebates or direct replacement programs offered by water utilities have been shown to be effective and simple for the water customer to

participate in . Currently, the Honolulu Board of Water Supply, County of Maui Department of Water Supply and County of Hawai'i Department of Water Supply have a rebate, direct replacement or giveaway program for water conservation. While a tax credit is not identified as one of the recommended programs in the Hawai'i Water Conservation Plan, we support the intent to incentivize water conservation efforts for Hawai'i residential property owners that may not be customers of the county water systems named above.

The Department also notes that the amount of refundable tax credit offered in this measure may not be an adequate incentive for a residential property owner to participate since the cost of a commercially available 1,000-gallon plastic water tank alone can be approximately \$2,000 - \$3,000. Delivery, other material and supply costs, as well as labor, will add to the total catchment system price.

Thank you for the opportunity to comment on this measure.

HB-1631-HD-1

Submitted on: 2/24/2022 12:26:40 PM

Testimony for FIN on 2/25/2022 12:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Neal Fujii	DLNR-CWRM	Support	Yes

Comments:

I am available for questions to DLNR. Please allow me Zoom access.

BOARD OF WATER SUPPLY

CITY AND COUNTY OF HONOLULU
630 SOUTH BERETANIA STREET
HONOLULU, HI 96843
www.boardofwatersupply.com



February 25, 2022

RICK BLANGIARDI, MAYOR

BRYAN P. ANDAYA, Chair
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RAY C. SOON
MAX J. SWORD
NA'ALEHU ANTHONY

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ERNEST Y. W. LAU, P.E.
Manager and Chief Engineer

ELLEN E. KITAMURA, P.E.
Deputy Manager and Chief Engineer

The Honorable Sylvia Luke, Chair
The Honorable Kyle T. Yamashita, Vice Chair
and Members
Committee on Finance
House of Representatives
Hawaii State Capitol, Room 308
Honolulu, Hawaii 96813

Dear Chair Luke, Vice Chair Yamashita, and Members:

SUBJECT: House Bill 1631, HD1: Relating to Water Conservation

The Honolulu Board of Water Supply (BWS) supports House Bill (HB) 1631, House Draft (HD) 1. This bill creates a nonrefundable water catchment tax credit for homeowners who install a water catchment system meeting certain requirements on residential property in the State owned by the homeowners. With the challenges we face now and into the future, we must find solutions to protect our environment and water resources. Population growth, climate change, resource depletion, drought and risks to our groundwater are considerable threats, so we need innovative solutions that can incentivize behavior to conserve and protect our water resources.

The BWS is working hard to preserve and protect our most essential resource – water. Through the Water Sensible program, launched in April 2018, Oahu residents and businesses have the opportunity to save water and money. The overall water savings has been over 43 million gallons saved per year based on over 6,900 rebates that have been provided for efficient clothes washing machines, rain barrels, and weather-based irrigation controllers

As a result of the ongoing water contamination crisis stemming from the U.S. Department of the Navy (Navy) Red Hill Bulk Fuel Storage Facility (Red Hill) fuel release led to the BWS decision to immediately shut down one of its largest water sources on Oahu – Halawa Shaft, along with its Halawa Well and Aiea Well as a precaution to protect our irreplaceable ground water resources and our customers from the imminent peril posed by the Red Hill fuel tanks. During the summer months, it is likely that BWS will ask residents to voluntarily conserve water. Water usage during that time will determine if more action is needed.

The Honorable Sylvia Luke, Chair
The Honorable Kyle T. Yamashita, Vice Chair
and Members
February 25, 2022
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Thank you for the opportunity to testify in support of HB 1631, HD1.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Ernest Y.W. Lau', written in a cursive style.

ERNEST Y.W. LAU, P.E.
Manager and Chief Engineer

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Water Catchment Tax Credit

BILL NUMBER: HB 1631 HD 1

INTRODUCED BY: House Committee on Water & Land

EXECUTIVE SUMMARY: Creates a nonrefundable water catchment income tax credit for homeowners who install a water catchment system meeting certain requirements on residential property in the State owned by the homeowners. The proposed credit would result in a subsidy of such devices as it would merely grant a tax credit for such purchase irrespective of a taxpayer's need for tax relief.

SYNOPSIS: Adds a new section to chapter 235, HRS, providing for a refundable credit of \$100 for a qualified taxpayer. Each qualified taxpayer may claim no more than one tax credit.

Defines "qualified taxpayer" as a taxpayer who has installed and placed in service a water catchment system with a minimum capacity of one thousand gallons on a residential property located in the State that is owned by the taxpayer.

EFFECTIVE DATE: July 1, 2050

STAFF COMMENTS: It appears that this measure is proposed to encourage taxpayers to purchase water catchment systems by allowing taxpayers to claim a \$100 tax credit in the year of installation.

Lawmakers need to remember two things. First, the tax system is the device that raises the money that they, lawmakers, like to spend. Using the tax system to shape social policy merely throws the revenue raising system out of whack, making the system less than reliable as there is no way to determine how many taxpayers will avail themselves of the credit and in what amount. The second point to remember about tax credits is that they are nothing more than the expenditure of public dollars, but out the back door. If, in fact, these dollars were subject to the appropriation process, would taxpayers be as kind about the expenditure of these funds when students are roasting in our schools, or when there isn't enough money for social service programs?

Utilizing tax credits other than to alleviate an excessive tax burden cannot be justified and is of a questionable benefit relative to the cost for all taxpayers. If lawmakers want to encourage the use of water conservation systems by reducing the cost of such systems, then a direct appropriation to subsidize that cost would be more accountable and transparent.

Furthermore, the additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount compared to the loss in revenue from the credit, especially since the credit proposed is a very modest amount. A

Re: HB 1631 HD 1
Page 2

direct appropriation, or even a program similar to the way we currently subsidize energy efficient appliances, may be a far less costly method to accomplish the same thing.

Digested: 2/24/2022

HB-1631-HD-1

Submitted on: 2/24/2022 1:12:48 PM

Testimony for FIN on 2/25/2022 12:30:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Sandee Moniz Pa	Individual	Support	No

Comments:

Please support, mahalo.