

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
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ISAAC W. CHOY
DIRECTOR OF TAXATION

To: The Honorable David A. Tarnas, Chair;
The Honorable Patrick Pihana Branco, Vice Chair;
and Members of the House Committee on Water and Land

From: Isaac W. Choy, Director
Department of Taxation

Date: Thursday, February 10, 2022
Time: 8:30 A.M.
Place: Via Video Conference, State Capitol

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

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

H.B. 1631 adds a new section to chapter 235, Hawaii Revised Statutes (HRS), creating a new refundable tax credit of \$100 for each qualified taxpayer who installs or has installed a water catchment system with a minimum capacity of one thousand gallons on a residential property owned by the qualified taxpayer within the State. The credit applies to taxable years beginning after December 31, 2022.

The Department notes that as currently drafted, the definition of "qualified taxpayer" would allow the credit for any water catchment system ever installed by that taxpayer, as long as the minimum capacity and residential property ownership requirements were met. To avoid unintended losses in revenue, the Department recommends amending the definition of "qualified taxpayer" so that the water catchment system must be installed and placed in service during the taxable year in order to qualify. Similarly, the Committee may wish to consider limiting the credit to one per qualified taxpayer.

The Department also notes that as a general matter, the Department prefers nonrefundable credits because refundable credits create a higher potential for improper claims and abuse. The Department therefore recommends that this credit be made non-refundable.

Finally, notwithstanding the recommendations above, the Department is able to implement the measure with its current effective date. Thank you for the opportunity to provide testimony on this measure.

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

GLORIA CHANG
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

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

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 WATER & LAND
ON
HOUSE BILL NO. 1631

February 10, 2022
8:30 a.m.
Room 430 and Videoconference

RELATING TO WATER CONSERVATION

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

House Bill No. 1631 adds a new section to Chapter 235, HRS, that establishes a refundable income tax credit of \$100 for taxpayers who install or has installed 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



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

POST OFFICE BOX 621
HONOLULU, HAWAII 96809

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

**Testimony of
SUZANNE D. CASE
Chairperson**

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

**Thursday, February 10, 2022
8:30 AM**

State Capitol, Conference Room 430 Via Videoconference

**In consideration of
HOUSE BILL 1631
RELATING TO WATER CONSERVATION**

House Bill 1631 proposes to amend Chapter 235, Hawai'i Revised Statutes, by adding a new section creating a refundable 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. **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.

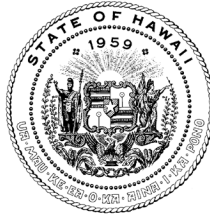
The Department's Commission on Water Resource Management's Water Resource Protection Plan and Hawaii Water Conservation Plan (<http://files.hawaii.gov/dlnr/cwrm/planning/hwcp2013.pdf>) endorses and supports demand-side (customer) water conservation programs. The Hawai'i Water Conservation Plan recognizes 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 purveyors have been shown to be effective and less cumbersome 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.

DAVID Y. IGE
GOVERNOR OF
HAWAII



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

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Thank you for the opportunity to comment on this measure.



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
House Committee on Water and Land
Thursday, February 10, 2022 at 8:30 a.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 – RELATING TO WATER CONSERVATION

Chair Tarnas, Vice Chair Branco, and members of the committee:

The University of Hawai'i Sea Grant College Program (Hawai'i Sea Grant) supports the intent of HB 1631. 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://seagrant.soest.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 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.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Water Catchment Tax Credit

BILL NUMBER: SB 2860, HB 1631

INTRODUCED BY: SB by SAN BUENAVENTURA, CHANG, KEITH-AGARAN, LEE, MISALUCHA, Acasio, Gabbard; HB by CLARK, BRANCO, HASHEM, HASHIMOTO, HOLT, ICHIYAMA, ILAGAN, KAPELA, KITAGAWA, MARTEN, MCKELVEY, MORIKAWA, PERRUSO, TAKAYAMA, TAM, WILDBERGER, WOODSON, Ganaden, LoPresti

EXECUTIVE SUMMARY: Creates a refundable 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. 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.

Defines "qualified taxpayer" as a taxpayer who installs or has installed 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: Applicable to taxable years beginning after December 31, 2022.

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.

Re: SB 2860

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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 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: 2/4/2022

HB-1631

Submitted on: 2/9/2022 3:34:51 PM

Testimony for WAL on 2/10/2022 8:30:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Makanoe Hufana	Individual	Support	No

Comments:

I support HB1631.

Mahalo

Makanoe Hufana