

DAVID Y. IGE
GOVERNOR OF
HAWAII



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

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FIRST DEPUTY

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DEPUTY DIRECTOR - WATER

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BUREAU OF CONVEYANCES
COMMISSION ON WATER RESOURCE MANAGEMENT
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STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES

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Testimony of
SUZANNE D. CASE
Chairperson

Before the House Committee on
FINANCE

Wednesday, April 6, 2022
1:30 PM

State Capitol, Conference Room 308, Via Videoconference

In consideration of
SENATE BILL 2752, SENATE DRAFT 2, HOUSE DRAFT 2
RELATING TO ABANDONED WELLS

Senate Bill 2752, Senate Draft 2, House Draft 2 proposes to: 1) establish an income tax credit for taxpayers who are required to seal abandoned wells on their real property; 2) clarify the definition of the term "abandoned well"; 3) require an owner of an abandoned well to seal the well at the owner's expense; and 4) appropriate funds for three full-time equivalent (3.0 FTE) positions under the Department of Land and Natural Resources' (Department) Commission on Water Resource Management (Commission). **The Department strongly supports this measure provided that its passage does not replace or adversely impact priorities indicated in the Executive Supplemental Budget Request and offers the following comments and suggested amendments.**

Abandoned wells that are not properly sealed can pose a threat to groundwater by providing a direct conduit for pollution or contamination to be introduced into an aquifer. Certain types of abandoned wells, such as shallow dug wells or shaft-type wells, can also pose a risk to public health and safety as humans, animals, or even vehicles may fall into these wells if not properly sealed. There are many reasons well owners do not comply with the law and seal their abandoned wells. The owner may not be aware of the regulatory requirements of well sealing or may be unable to afford the full cost to properly seal their well. The establishment of a state tax credit for taxpayers to seal their abandoned wells will incentivize these tax paying well owners to comply with the law, seal their wells and protect groundwater from potential contamination.

The Commission's Hawaii Well Construction and Pump Installation Standards (2004) require wells to be completely sealed with concrete or other similar materials. Depending on the size, depth, and type of well, the cost to seal will average in several thousand dollars for most wells and up to tens to hundreds of thousands of dollars for other especially large or deep wells around the State.

The current draft of this measure does not provide a numeric amount for the percentage, cap amount, and aggregate annual amount for this tax credit. The Department suggests amending (grey highlight) Section 235-__ (c) and (g), Hawaii Revised Statutes (HRS), as follows:

(c) The well abandonment compliance income tax credit shall be equal to thirty per cent of the qualified compliance costs incurred by the taxpayer, up to a maximum of \$250,000.

(g) If in any taxable year the annual amount of certified credits reaches \$1,000,000 in the aggregate, the commission on water resource management shall immediately discontinue certifying credits and notify the department of taxation. In no instance shall the commission on water resource management certify a total amount of credits exceeding \$1,000,000 per taxable year. To comply with this restriction, the commission on water resource management shall certify credits on a first come, first served basis. The department of taxation shall not allow the aggregate amount of credits claimed to exceed that amount per taxable year.

The Department based its numeric suggestions on prior sealing cost for various sizes and types of wells and on other similar tax credits as the renewable energy technologies income tax credit, Section 235-12.5, HRS, and the historic preservation income tax credit, Section 235-110.97, HRS.

The Commission's Water Resource Protection Plan, 2019 Update, Section 3.2 Action Plan Task 2.7.1 states that the Commission will develop an abandoned well sealing program in coordination with the Department of Health and the Counties, including staff and funding resources, in order to eliminate potential conduits for ground water contamination. Further, Task 2.7.2 states that the Commission shall identify and prioritize abandoned and unused wells for sealing. This bill will assist the Commission in implementing this priority project.

The tasks involved in an abandonment program would include identification and verification of unused wells of the currently 5,332 wells registered in the entire state, intensive field investigations, sealing construction observation, and permitting. The Commission's Groundwater Branch has only five staff members and three additional full time positions are needed to fulfill the additional tasks. In addition to two engineering technicians or environmental health specialist positions to do this work, the additional accounting and clerical work will also require a supporting clerical position.

The Department appreciates the Legislature's acknowledgement that new technical staff positions with funding would be required to implement an abandoned well sealing program within the Commission.

Thank you for the opportunity to comment on this measure.

SB-2752-HD-2

Submitted on: 4/5/2022 10:40:01 AM

Testimony for FIN on 4/6/2022 1:30:00 PM

Submitted By	Organization	Testifier Position	Testify
Ryan Imata	DLNR-CWRM	Support	Remotely Via Zoom

Comments:

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

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

GLORIA CHANG
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
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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
SENATE BILL NO. 2752, S.D. 2, H.D. 2

April 6, 2022
1:30 p.m.
Room 308 and Videoconference

RELATING TO ABANDONED WELLS

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

Senate Bill No. 2752, S.D. 2, H.D. 2, does the following: 1) amends Section 174C-81, HRS, to amend the definition of "abandoned well"; 2) amends Section 174C-87, HRS, to require an owner or prior owner of an abandoned well to repair or fill and seal the well at the owner's or prior owner's expense; 3) adds a new section to Chapter 235, HRS, that establishes a non-refundable tax credit equal to an unspecified percentage of qualified compliance costs up to an unspecified maximum amount for taxpayers who are required to fill and seal abandoned wells on their real property; and 4) appropriates an unspecified amount of general funds in FY 23 for either 2.00 Engineering Technician positions or 2.00 Environmental Health Specialist positions and 1.00 clerical position in the Department of Land and Natural Resources, Commission on Water Resource Management, to effectuate this bill.

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.

B&F also notes that, with respect to the general fund appropriation in this bill, the federal Coronavirus Response and Relief Supplemental Appropriations Act requires that states receiving Elementary and Secondary School Emergency Relief (ESSER) II funds and Governor's Emergency Education Relief II funds must maintain state support for:

- Elementary and secondary education in FY 22 at least at the proportional level of the state's support for elementary and secondary education relative to the state's overall spending, averaged over FYs 17, 18 and 19; and
- Higher education in FY 22 at least at the proportional level of the state's support for higher education relative to the state's overall spending, averaged over FYs 17, 18 and 19.

Further, the ARP Act requires that states receiving ARP ESSER funds must maintain state support for:

- Elementary and secondary education in FY 22 and FY 23 at least at the proportional level of the state's support for elementary and secondary education relative to the state's overall spending, averaged over FYs 17, 18 and 19; and
- Higher education in FY 22 and FY 23 at least at the proportional level of the state's support for higher education relative to the state's overall spending, averaged over FYs 17, 18 and 19.

The U.S. Department of Education has issued rules governing how these maintenance of effort (MOE) requirements are 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 these ESSER MOE requirements.

Thank you for your consideration of our comments.

DAVID Y. IGE
GOVERNOR

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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: Wednesday, April 6, 2022
Time: 1:30 P.M.
Place: Via Video Conference, State Capitol

Re: S.B. 2752, S.D. 2, H.D. 2, Relating to Abandoned Wells

The Department of Taxation (Department) offers the following comments on S.B. 2752, S.D. 2, H.D. 2, for the committee's consideration.

S.B. 2752, S.D. 2, H.D. 2, adds a new section to chapter 235, Hawaii Revised Statutes (HRS), creating a new nonrefundable tax credit for well abandonment compliance. The credit is equal to an unspecified percentage of qualified compliance costs, up to an unspecified maximum cap. There is also an unspecified annual aggregate cap for all taxpayers. The Commission on Water Resource Management will be responsible for maintaining records and certification of the credit. The measure defines "qualified compliance costs" as construction costs that are necessary and directly incurred by the taxpayer to fill and seal an abandoned well in compliance with the State Water Code. The measure has a defective effective date of July 1, 2050, and otherwise applies to taxable years beginning after December 31, 2021.

The Department defers to the Commission on Water Resource management regarding its ability to certify this credit, but respectfully requests that this certification provision be maintained.

Additionally, if the Committee wishes to insert a functional effective date and advance this measure, the Department respectfully requests that the new tax credit be made applicable to taxable years beginning after December 31, 2022. This will give the Department necessary time to make the necessary form and computer changes.

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, Tax Credit for Filling and Sealing Abandoned Wells

BILL NUMBER: SB 2752 HD 2

INTRODUCED BY: House Committee on Judiciary & Hawaiian Affairs

EXECUTIVE SUMMARY: Establishes an income tax credit for taxpayers who are required to seal abandoned wells on their real property. Clarifies the definition of the term "abandoned well". Requires sellers of real property to disclose the existence of wells on the property. Requires an owner or prior owner of an abandoned well to seal the well at the owner's or prior owner's expense. Appropriates funds for three full-time equivalent (3.0 FTE) positions under the Commission on Water Resource Management. Our view is that the same goals can be accomplished in a more efficient manner by appropriating some money to the commission and allowing it to give grants to those who need it to comply with the law.

SYNOPSIS: Adds a new section to chapter 235, HRS, to establish a well abandonment compliance income tax credit. The credit amount is to be ___% of the qualified compliance costs incurred by the taxpayer, up to a maximum of \$____. DOTAX is directed to prescribe forms and rules, and may require the taxpayer to furnish information to ascertain the validity of a claim for this credit.

The credit is nonrefundable but may be carried forward. The credit must be claimed within twelve months after the end of the taxable year in which the costs are incurred, or the credit is waived.

The commission on water resource management is tasked with verifying the compliance costs and certifying the credit claimed by the taxpayer.

Establishes a statewide aggregate cap of \$____. Prohibits the commission from certifying credits exceeding \$____ in the aggregate. States that credits shall be certified on a first come, first served basis.

Defines "qualified compliance costs" as construction costs that are necessary and directly incurred by the taxpayer to fill and seal an abandoned well in compliance with section 174C-87.

Defines "abandoned well" by cross reference to section 174C-81.

Defines "well" by cross reference to section 174C-3.

Amends section 174C-81, HRS, to define an abandoned well as any well the purpose or use of which has been permanently discontinued. Any well shall be deemed abandoned whenever the well has served its purpose, the well use has been permanently discontinued, the well is not properly maintained, the physical condition of the well is causing a waste of ground water or is

impairing or threatens to impair the quality of the ground water resources, or the well is in such a state of disrepair that its continued use is impractical or it is a hazard to public health or safety.

Amends section 174C-87, HRS, to state that the owner of an abandoned well shall repair or fill and seal the well at the owner's expense, and that if the owner of real property that includes an abandoned well transfers ownership of the real property, the owner shall notify the commission on water resource management of that transfer upon opening of escrow; provided that the presence or existence of the abandoned well is: (1) Within the knowledge of the owner; or (2) Visible from an accessible area.

EFFECTIVE DATE: July 1, 2050; provided that the tax credit shall apply to taxable years beginning after December 31, 2021.

STAFF COMMENTS: The tax system is there to raise revenue to keep the government moving. Using the tax system to give taxpayers money to do things they are required to do anyway 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.

Furthermore, tax credits 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 generous about the expenditure of these funds when our kids are roasting in the public school classrooms, there isn't enough money for social service programs, or our state hospitals are on the verge of collapse?

The additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount.

Finally, the statewide cap may inject some unfairness, because some families may get a state subsidy of their repair costs while those who get the job done later, perhaps because they live in a rural area that is harder to access, would get none.

If lawmakers are concerned that families and businesses that are required to comply with the law will not do so because the cost is prohibitive, lawmakers could consider appropriating a few dollars to the commission on water resource management and allow the commission to give families some compensation when they complete the required repairs.

Digested: 4/4/2022