

DAVID Y. IGE
GOVERNOR OF
HAWAII



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

ROBERT K. MASUDA
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M. KALEO MANUEL
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES
BOATING AND OCEAN RECREATION
BUREAU OF CONVEYANCES
COMMISSION ON WATER RESOURCE MANAGEMENT
CONSERVATION AND COASTAL LANDS
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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 Senate Committee on
WAYS AND MEANS**

**Wednesday, February 2, 2022
10:00 AM**

State Capitol, Conference Room 211 & Videoconference

**In consideration of
SENATE BILL 2654
RELATING TO WATER RATIONING**

Senate Bill 2654 proposes to amend Chapter 235, Hawai‘i Revised Statutes, by adding a new section establishing an income tax credit to taxpayers for a portion of the cost of installing a water rationing system. **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 the following 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 water efficient commercial equipment rebates have been shown to be effective and less cumbersome for the water customer to participate in. Currently, the Honolulu Board of Water Supply, 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 taxpayers that may not be customers of the county water systems named above.

Thank you for the opportunity to comment on this measure.

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



ISAAC W. CHOY
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
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To: The Honorable Donovan M. Dela Cruz, Chair;
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair;
and Members of the Senate Committee on Ways and Means

From: Isaac W. Choy, Director
Department of Taxation

Date: Wednesday, February 2, 2022
Time: 10:00 A.M.
Place: Via Video Conference, State Capitol

Re: S.B. 2654, Relating to Water Rationing

The Department of Taxation (Department offers the following comments regarding S.B. 2654 for the committee's consideration.

S.B. 2654 establishes a new income tax credit for every eligible water rationing system that is installed and placed in service in the State by a taxpayer during the taxable year. Four types of system are eligible for the credit: rain barrel systems, water catchment systems, home water system efficiency upgrades, and dual-use piping systems. The credit is set at an unspecified percentage of the "actual cost," up to a cap of an unspecified dollar amount depending on whether the systems were installed on single-family residential property, multi-family residential property, or commercial property. The measure also tasks the Department with assisting with annual data collection for the number of systems that qualified during the calendar year by system type and taxpayer type. The credit applies to water rationing systems that are installed and placed in service on or after July 1, 2022; the measure is effective upon approval and applies to taxable years beginning after December 31, 2021.

First, the Department notes that the definition of "water rationing system" as "a new system that reduces the amount of water used by a residential or commercial entity" is extremely broad and vague. Moreover, there are no definitions or limiting parameters for any of the four sub-categories of water rationing systems that would be eligible for this credit. The Department strongly suggests that the measure be amended to include definitions for "rain barrel system," "water catchment system," "home water system efficiency upgrade," and "dual-use piping system."

This new credit seems to have been modeled after the Renewable Energy Technologies Income Tax credit (RETITC) under section 235-12.5, Hawaii Revised Statutes. The lack of

specific and enforceable definitions for the RETITC resulted in significant revenue loss for the State. Because this new credit is available per system, it is absolutely critical that the “systems” are defined with precision. Without proper definitions, this credit will also result in unintended revenue losses. Similarly, the definition of “actual cost” is quite broad and should be clarified.

Second, the Department notes that the credit is refundable for certain low-income taxpayers. As a general matter, the Department prefers nonrefundable credits because refundable credits create a higher potential for improper claims and abuse.

Finally, the Department respectfully requests that the date of applicability be postponed until taxable years beginning after December 31, 2022. This will give the Department sufficient time to make the necessary form and computer system changes.

Thank you for the opportunity to provide comments.

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 SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 2654

February 2, 2022
10:00 a.m.
Room 211 & Videoconference

RELATING TO WATER RATIONING

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

Senate Bill No. 2654 adds a new section to Chapter 235, HRS, that establishes an income tax credit for the installation of water rationing systems for taxable years beginning after December 31, 2021. The tax credit amount would be an unspecified percentage up to an unspecified maximum amount of the cost of installing a rain barrel system, a water catchment system, a home water system efficiency upgrade, or a dual-use piping system.

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.

BOARD OF WATER SUPPLY

CITY AND COUNTY OF HONOLULU
630 SOUTH BERETANIA STREET
HONOLULU, HI 96843
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February 2, 2022

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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 Donovan M. Dela Cruz, Chair
The Honorable Gilbert S. C. Keith-Agaran, Vice Chair
and Members
Committee on Ways and Means
State Senate
Hawaii State Capitol, Room 211
Honolulu, Hawaii 96813

Dear Chair Dela Cruz, Vice Chair Keith-Agaran and Members:

Subject: Senate Bill 2654: Relating to Water Rationing

The Honolulu Board of Water Supply (BWS) supports Senate Bill (SB) 2654. This bill establishes an income tax credit for water rationing systems that come in different forms of efficiency: rain barrel systems, water catchment systems, home water system efficiency upgrades or dual-use piping systems. 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 Donovan M. Dela Cruz, Chair
The Honorable Gilbert S. C. Keith-Agaran, Vice Chair
and Members
February 2, 2022
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Thank you for the opportunity to testify in support of SB 2654.

Very truly yours,

A handwritten signature in blue ink, appearing to read 'Ernest Y.W. Lau', with a stylized flourish at the end.

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, Tax Credit for Water Rationing Systems

BILL NUMBER: SB 2654, HB 2262

INTRODUCED BY: SB by KEOHOKALOOLE, ACASIO, CHANG, LEE, MISALUCHA, RHOADS, SAN BUENAVENTURA, Baker, Keith-Agaran, Kim, Shimabukuro; HB by YAMANE

EXECUTIVE SUMMARY: Establishes an income tax credit for water rationing systems.

SYNOPSIS: Adds a new section to chapter 235, HRS, to establish a water rationing tax credit.

For each rain barrel system: ___% of the actual cost up to the applicable cap amount. The cap amount is \$_____ per system for single-family residential property, \$_____ per unit per system for multi-family residential property, and \$_____ per system for commercial property.

For each water catchment system: ___% of the actual cost up to the applicable cap amount. The cap amount is \$_____ per system for single-family residential property, \$_____ per unit per system for multi-family residential property, and \$_____ per system for commercial property.

For home water system efficiency upgrades: ___% of the actual cost up to the applicable cap amount. The cap amount is \$_____ per system for single-family residential property, \$_____ per unit per system for multi-family residential property, and \$_____ per system for commercial property.

For dual-use piping systems: ___% of the actual cost up to the applicable cap amount. The cap amount is \$_____ per system for single-family residential property, \$_____ per unit per system for multi-family residential property, and \$_____ per system for commercial property.

Other administrative provisions resemble those in the credit for renewable energy systems under section 235-12.5, HRS.

EFFECTIVE DATE: Applicable 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 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.

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?

If lawmakers want to subsidize the purchase of this type of technology, then a direct appropriation would be more accountable and transparent. The credit as currently drafted is very complex. Complexity makes proper administration of the credit very difficult. There will be taxpayers who will not claim the credit properly because of honest mistakes or misunderstandings, as well as bad actors who will intentionally claim the credit improperly for profit. Less complexity reduces the number of the former and makes it easier to catch the latter.

In addition, key numbers in the legislation have not been filled in, making it difficult or impossible to estimate its revenue impact.

Finally, irrespective of how the numbers are filled in, the additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount. A direct appropriation, or adding on to an existing program such as Hawaii Energy, may be a far less costly method to accomplish the same thing.

Digested: 1/31/2022