



Real Property Tax Assessments of Native Forest in Hawai'i County

Keiko Bonk, Hawai'i County Council

I feel privileged to be a speaker here today, rather than a participant, as a change. I've attended many of these conferences over the years as a councilwoman and learned a great deal. I've been asked to speak on a very interesting and provocative subject today: taxes. It's not one of my fortés in life, but, however, as a public servant interested in the forestry industry as well as protecting our native ecosystems here in Hawai'i, I was motivated to get involved in this issue.

For decades, county tax policies were identified as a major factor contributing to the destruction of our native forests. Native forests and all forests, for that matter, were assessed at the open market or the so-called "highest and best use" level. This discouraged people from getting their land forested. At the same time, a landowner could get a giant tax break if they could put the land into pasture, which encouraged many people in Hawai'i to cut down our forests. Although the problem was identified decades ago, nothing was done. The usual excuse was that it would cost the county too much money if we started to do something about this. So no one wanted to do the study to find out actually how much it would cost.

As Chairwoman of the Hawai'i County Council, I initiated a study and submitted legislation to change our tax laws, and I was motivated to do this through attending this forum of the Hawai'i Forestry Association, but also I was motivated by many other people in the community, including the environmental community and people involved in other agricultural endeavors, to change the tax laws.

The legislation was originally designed to do three things. First, create a new tax category for a native forest. Second, to simplify the tax system and create tax incentives for commercial forestry and diversified agriculture. Third, to close tax loopholes that allow people to get an agricultural investment when they were not engaged in any commercial agriculture. The council and the administration initially opposed all of these three goals, but eventually passed a piece of legislation that created a new tax category for native forests and a num-

ber of other revisions that would make it easier for people to restore native forests. The other goals of the initial legislation which I introduced are still stalled in the finance committee, and they haven't passed out of finance committee since the Native Forest Bill part was passed.

The key to getting these legislative changes started was done by a study initiated by myself and carried out by a special assistant named Michael Christopher. He also had a staff of university students as well as part staff from the legislative auditor's office in the county council's jurisdiction, but also we worked together with the Hawai'i Forestry Industry as well as ranchers and other people involved in agriculture and the other parts of the community to form a coalition of resource people in order to write this legislation, and we also worked together with the tax office itself to get information to put together this legislation.

The first thing that was done was to overlay a vegetation map of Hawai'i over a tax key map to identify what forests there were and what the impact would be in terms of our tax assessment. The vegetation map was produced by the Cooperative National Parks Resource Studies Unit in conjunction with the Botany Department of the University of Hawai'i at Manoa and the United States Fish and Wildlife Service. The map is commonly referred to as the Jacobi Map because its named after Jim Jacobi, who many of you know is a scientist that works up at the national park under, I believe, the Biological Service. The Office of State Planning produced the overlay map using their GIS computer, but we had to give the state Division of Forestry and Wildlife credit because OSP at the time was under attack by a lot of my fellow council members, as well as other people in the state.

The computer was set to define a native forest as 60 percent or greater native species forest cover, and that means that at least 25 percent had to be tree cover. Out of 131,185 tax parcels, we initially identified 3850 parcels that were potentially covered with at least 5 acres of native forest. There were tens of thousands of other parcels that contained some native forests but didn't meet



the requirements of Bill 160, which became Bill 259. Most of these parcels were in Puna, where the land had been subdivided into 1- and 3-acre lots. Many of the 3850 parcels were owned by the state or the federal government and so were exempt from the property taxes. The final sort left us with only 389 parcels ranging in size from 5 acres to 115 or so acres. Many of these parcels had only a small portion in native forests.

The overall revenue impact of the creation of the native forest category was shown to be a maximum of \$322,124 per year. Realistically, it would probably be half that. The cost is so modest because most of the land that met the criteria was already being assessed as pasture or conservation land. If it wasn't pasture the revenue impact was neutral, since the change in the law gave native forests the equivalent of a pasture assessment. If the land wasn't conservation, the revenue loss would be minimal; the areas where there would be a large tax loss by the county were exactly those areas which we most wanted to protect, but were instead encouraging land owners to deforest . . . areas where there was a great deal of land speculation, such as Kaloko Mauka and places like that on the Big Island.

The bill also made it possible for large landowners who had been grazing cattle and forests in order to get a pasture assessment to remove the cows without being penalized, provided that they met the 60-percent requirement. The bill also made special provisions to make it possible to get a native forest assessment for land that was being actively restored. The Native Forest Bill passed, and as a result, in Hawai'i County if you have at least 5 acres of native forest you can have it assessed at the lowest agricultural assessment level, which in effect means the same as getting a pasture assessment. Persons wishing a more detailed account of the revenue impact analysis can get a copy of this analysis in book format from Hawai'i County; it's called "The Revenue Impact Analysis of Implementation of Bill 16095, Draft 3."

While the passage of this bill is a good start, there are still many things that can be done with our tax codes and zoning if we are going to see a full recovery of our forests here in Hawai'i. I would strongly recommend that the people here as well as people in the industry start to pursue some of these other changes. The tax changes originally included in Bill 160 could have affected our this industry a lot more. For instance, some of the issues regarding longer dedication periods can

still be addressed, closing loopholes in the system as I suggested earlier, reducing the number of agricultural categories, and allowing the fallowing of land. Closing the loopholes in the agricultural tax assessment system would generate between \$5 million and \$29 million per year in additional county revenue. This would more than offset the cost of the native forest category and strengthen our commercial agriculture and silviculture industry. Changing our tax policies to encourage good farming and good forestry practices would also provide jobs and strengthen our economy without creating service and infrastructure costs.

These are only the beginnings of what could be done if there was a genuine effort by elected officials to accomplish these things. So, I am suggesting (I'm not an elected official anymore) that we urge all elected officials, not just those in Hawai'i County, but across the state to start pursuing these incentives and changing our lives to protect the forests here in Hawai'i.

Questions

Michael Buck: I'd like to thank Keiko and everyone in this room that worked on the tax bill. It's been a long time coming. Can you give us an update on what's the current county tax policy for tree farms or commercial forest development on sugar lands in terms of property tax assessment or the other piece of the puzzle that you're working on.

Keiko Bonk: As I mentioned earlier, that part of the legislation is still stuck in the finance committee, and it's changed around since I was involved in it. It has to pass out of finance committee. What needs to be done is for everyone to write testimony or do some political urging of the present council and the future council that will be sworn in on December 2 to start pushing that legislation. It creates a tree farming category; it starts incorporating some of the good practices that I was talking about.

Q: So people who are planting trees on sugar land right now, what kind of property tax are they being charged?

A: Its highest and best use as far as I understand, because there's no category for tree farming.

Mike Robinson: I don't think the question's answered yet. There are a couple of people here who might be able to answer that. There is a forestry category established under the current law, and it was really a setting of what is the correct assessment. I think it's been low-



ered, but how far down I'm not sure.

Bill Cowern: I think that happened through the Board of Appeal. I think there was an appeal of the Prudential plantings which created a different tax level for that particular operation. I don't believe it applies statewide, but it certainly sets a precedent.

Representative from County of Hawai'i, Real Property Tax: Tree farms are currently covered under the law, that was put in as a separate section before Bill 160. It's true that through the appeal process Prudential is now getting a forest rate. The new revision is out of committee, Thursday is hopefully its final hearing, and it will establish a category for forest.

Q: What's the rate?

A: \$500 per acre for Prudential, and category rates haven't really been established. That's the assessment so the taxes equate to \$5 per acre.

Q: For Mike Tulang, what's the area of responsibility for the soil and water conservation districts? Is it all lands or just certain lands?

Mike Tulang: It's generally all private lands. I just wanted to comment on the \$500 per acre assessment. I think the deliberation at the county was to ensure that it was the plantation rate of agriculture to ensure that the county wouldn't experience a drop in revenues when the plantations went out. That's the rationale for the \$500 per acre.

Steve Smith (Hamakua Timber): That \$500 rate is without a 20 year ag dedication. We are looking, and have in fact applied, for dedication of that property. That hopefully will change the thing again in a year or two. I think it was a very encouraging sign from the County of Hawai'i, and I would like to thank all the people on the review panel and in the administration and the council who have supported our efforts to get an equitable tax rate to encourage both large-scale and small-scale silviculture efforts.

Conservation District Rule Update

Edward Henry, Division of Land Management, Hawai'i Department of Land and Natural Resources

The State Conservation Land Use District: What is it, and how do the law, administrative rules, and processes operate? Additionally, what is the Conservation District Review Update?

First, let's start with some basic understanding of the State Conservation District. There are a total of about 4,051,398 acres of fast land within the State of Hawai'i. The State Land Use Law, Chapter 205 HRS, segments this land within four major land use districts: urban, agricultural, rural, and conservation.

Chapter 205, HRS, provides that the Board and Department of Land and Natural Resources administrate the State Conservation District, while the county jurisdiction administrates the Urban, Agricultural and Rural Districts.

As of 1993, about 49 percent of the land statewide was classified within the State Conservation District. This land area is predominately upper mountain regions, watersheds, forest reserves, some river/stream water-

ways, and coastal shorelines. It includes both public and private land holdings.

The first set of administrative rules for the State Conservation District was established in October 1964, identified as Regulation 4. The rule established two subzones: restricted watershed and general use. In the restricted watershed subzone, land uses were restricted to water and forestry resource development, the installation of transmission facilities, and government programs and activities.

In 1968, Section 41 of Chapter 183 HRS was established to provide a more legal basis for the department to administer the State Conservation District. Following the preparation of a Conservation District Plan in 1977, Regulation 4 was revised to provide for four subzones: protective, limited, resource, and general, with permitted land used identified. A special subzone is also identified for such areas as Sea Life Park.

A conditional use permit was also established which