



**TESTIMONY OF THE STATE ATTORNEY GENERAL
TWENTY-FOURTH LEGISLATURE, 2008**

ON THE FOLLOWING MEASURE:

H.B. NO. 2825, RELATING TO THE ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS TO ASSIST SOPOGY, INC., IN THE DEVELOPMENT OF RENEWABLE ENERGY ON THE ISLAND OF OAHU.

BEFORE THE:

HOUSE COMMITTEE ON FINANCE

DATE: Thursday, February 21, 2008 **TIME:** 10:00 AM

LOCATION: State Capitol, Room 308
Deliver to: Committee Clerk, Room 306 . 2 Copies

TESTIFIER(S): Mark J. Bennett, Attorney General
Or Brian Aburano, Deputy Attorney General

Chair Oshiro and Members of the Committee:

The Attorney General has comments regarding whether the special purpose revenue bonds proposed by this bill would be tax-exempt under current federal tax laws.

This bill is to authorize the issuance of special purpose revenue bonds under part V, chapter 39A, Hawaii Revised Statutes (HRS), in a total amount not to exceed \$35,000,000, for the purpose of assisting Sopogy, Inc. with the planning, designing, construction, equipping, and operating of a solar farm power plant on the island of Oahu [page 2, lines 10-17].

Generally, the purpose of issuing special purpose revenue bonds is to issue tax-exempt bonds, i.e., bonds that will pay interest that is exempt from federal income taxes. Tax-exempt bonds have lower interest rates than taxable bonds or commercial loans since they produce interest that is exempt from federal taxation. As outlined below, current federal tax laws will make it difficult for the special purpose revenue bonds proposed by this bill to be tax-exempt bonds.

Tax-exempt bonds may be issued under 26 U.S.C. § 142(a)(8) so long as 95 percent or more of the net proceeds of the bonds are used to provide "facilities for the local furnishing of electrical energy or gas." However, this provision is limited to entities that were engaged in the furnishing of electrical energy or gas on January 1, 1997, and the proposed facility must serve the area served by that entity on January 1, 1997. See 26 U.S.C. § 142(f)(3). Sopogy, Inc. would not qualify to issue tax-exempt bonds under this provision, because it was not furnishing electrical energy in Hawaii on January 1, 1997.

Tax-exempt bonds may be issued under 26 U.S.C. § 144(a) if they are "qualified small issue bonds." Bonds issued after December 31, 1986, do not qualify as "qualified small issue bonds" unless 95 percent of the net proceeds of those bonds are used to provide a "manufacturing facility" or farm property. See 26 U.S.C. § 144(a)(12)(A) and (B). A "manufacturing facility" is defined as a facility used "in the manufacturing or production of tangible personal property (including the processing resulting in a change in the condition of such property)." See 26 U.S.C. § 144(a)(12)(C). Sopogy, Inc.'s proposed solar farm power plant would not qualify as a "manufacturing facility" as the production of electrical energy is not the production or manufacture of tangible personal property. Further, the amount of the proposed bonds exceeds the amount that is allowed for small issue bonds. See 26 U.S.C. § 144(a)(1) and (4) (\$1,000,000 and optional \$10,000,000 limit).

Tax-exempt bonds may be issued under 26 U.S.C. § 145(a) if all property to be provided by the net proceeds of the bonds is to be owned by a 501(c)(3) organization, i.e., a nonprofit organization under 26 U.S.C. § 501(c)(3). The records of the Department of Commerce and Consumer Affairs do not indicate that Sopogy, Inc. is a nonprofit organization. Rather, they indicate that it is a foreign profit corporation. As such, the bonds to be issued under this bill

would not appear to qualify as tax-exempt bonds under 26 U.S.C. § 145(a).

While not tax-exempt, the proposed bonds could receive favorable tax treatment if they qualify as "clean renewable energy bonds" (CREB) under 26 U.S.C. § 54. However, the borrower who uses the proceeds of CREB special purpose revenue bonds must be a mutual or cooperative electric company, i.e., a nonprofit organization organized under 26 U.S.C. § 501(c)(12) or 1381(a)(2)(C). See 26 U.S.C. § 54(d)(1)(B) and (j)(5). Sopogy, Inc. does not appear to be such a company. The bonds proposed by this bill also may not meet other requirements for CREB bonds set out in 26 U.S.C. § 54, including a current requirement that the bonds be issued before December 31, 2008. See 26 U.S.C. § 54(m).

Written Statement of
YUKA NAGASHIMA
Executive Director & CEO
High Technology Development Corporation
before the
HOUSE COMMITTEE ON FINANCE
Thursday February 21, 2008
10:00 AM
State Capitol, Conference Room 308

In consideration of
**HB 2825 RELATING TO THE ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS
TO ASSIST SOPOGY INC., IN THE DEVELOPMENT OF RENEWABLE ENERGY ON
THE ISLAND OF OAHU.**

Chair Oshiro, Vice Chair Lee, and Members of the House Committee on Finance.

The High Technology Development Corporation (HTDC) supports HB 2825 which authorizes Special Purpose Revenue Bonds in an amount not exceeding \$35,000,000 to assist Sopogy, Inc. with planning, designing, construction, equipping, and operating a solar farm power plant on the island of Oahu to produce electricity from solar power.

Thank you for this opportunity to submit testimony in support.

LATE

To: Representative Marcus Oshiro, Chair
Committee on Finance

From: Sopogy, Inc.

Date: February 21, 2008, Agenda # 1, 10:00 a.m.

Subject: Support for HB 2825 - Relating to the Issuance of Special Purpose Revenue Bonds for Sopogy, Inc.

Chair Oshiro and Vice Chair Lee and Members of the Committee:

Sopogy, Inc. is a solar power technology company based in Hawaii. Our purpose is to bring renewable solar energy technologies to Hawaii and its people for the betterment of our environment, independence from volatile imported fossil fuels, and energy stability.

HB 2825 in its current form may limit the total amount of special purpose revenue bonds that Sopogy can issue due to a "small issuance" limitation (\$10,000,000). Our goal is to build a larger solar energy plant that would require use of the entire \$35,000,000 special purpose revenue bond; therefore, we would like to amend this bill.

We are currently researching our options which will allow us to issue bonds in excess of the small issuance limitations.

Thank you for this opportunity to testify.

Tim Wong
Vice President Finance



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