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SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & TAXATION
TESTIMONY REGARDING SB 2764 SD 1
RELATING TO ETHANOL FACILITIES TAX CREDIT

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 12, 2008
TIME: 9:25AM
ROOM: 224

This legislation was amended by the Senate Committee on Energy & Environment to provide the Ethanol Facilities Tax Credit to large and small refineries for the first 15 million gallons of ethanol produced.

The Department of Taxation (Department) takes **no position** on this legislation.

However, the Department requests that the Committee be cognizant of this bill's revenue impact because the 40 million gallon cap is eliminated and the aggregate credit caps could potentially be increased.

This legislation will currently result in an indeterminate revenue estimate because the credit caps are blank. The amount of revenue loss is dependent upon the change in the annual credit limit. This is currently unspecified.

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SB 2764 SD1
RELATING TO ETHANOL FACILITY TAX CREDIT

PAUL T. OSHIRO
MANAGER – GOVERNMENT RELATIONS
ALEXANDER & BALDWIN, INC.

FEBRUARY 12, 2008

Chair Fukunaga and Members of the Senate Committee on Economic Development & Taxation:

I am Paul Oshiro, testifying on behalf of Alexander & Baldwin, Inc. (A&B) and Hawaiian Commercial & Sugar Company, one of its agricultural companies, on SB 2764 SD1, "A BILL FOR AN ACT RELATING TO ETHANOL FACILITY TAX CREDIT." We support this bill.

As one of two remaining sugar companies operating in the State, Hawaiian Commercial & Sugar Company (HC&S) celebrated its 125th anniversary in 2007. While Hawaii's many other sugar companies have shut down over the years, HC&S has been fortunate, through significant investments by our parent company, A&B, in our agricultural infrastructure and operations and the implementation of our diversified bio-production program, to have sustained our operations and continue as a major employer in the State of Hawaii. Today, as we face the prospect of lower margins from raw sugar production because of flat commodity prices along with increasing production costs, HC&S is in the process of transitioning from a primary producer of commodity sugar into the production of specialty sugar and bio-based products. In addition to being the sole supplier of Sugar In The Raw, the little brown packets of sugar seen at restaurants and coffee shops across the nation, HC&S is also expanding production of our specialty Maui Brand Sugar. HC&S also produces several bio-based products, and provides Maui Electric with biomass produced electricity.

HC&S is also actively and seriously evaluating the feasibility of becoming a producer of ethanol. Our initial investigation into a production facility that would convert only our final molasses to ethanol found, after much research and analysis, that a plant of this scale would not be financially feasible. HC&S is now presently analyzing a larger ethanol production facility that would convert not only all of our molasses, but a significant portion of our cane juice as well. The fermentation process we are focused on is a proven, practical method, similar to how Brazil presently produces ethanol. The sugar cane plant provides many advantages over other crops with respect to energy output because of its efficiency in converting sunlight into biomass energy. However, the required investment in building an ethanol facility is significant and the risks, because of fluctuating energy prices, is also significant.

The ethanol facility tax credit is an important component in HC&S's determination of the financial feasibility of our ethanol production initiative that is presently under consideration. This bill would serve to support the potential of an ethanol industry in Hawaii and at HC&S by modifying the qualifying capacity limits of ethanol production facilities and repealing the sunset provision with respect to the total annual nameplate capacity for qualifying ethanol production facilities. This is particularly important for HC&S, and likely for other prospective producers, because economies of scale can improve significantly on a facility above 15 million gallons.

Based on the aforementioned, we respectfully request your favorable consideration on this bill.

Thank you for the opportunity to testify.

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Ethanol facility tax credit

BILL NUMBER: SB 2764, SD-1

INTRODUCED BY: Senate Committee on Energy and Environment

BRIEF SUMMARY: Amends HRS section 235-110.3 to provide that the ethanol facility tax credit shall be applicable to the first 15 million gallons produced by the facility. Deletes the amount of the credit limitations to provide that if the annual amount of certified credits reaches $_____, the department of business, economic development and tourism (DBEDT) shall discontinue certifying credits and notify the department of taxation. Further stipulates that in no instance shall the total amount of certified credits exceed $______ per year. Repeals the provisions prohibiting the issuance of the credits when ethanol production reaches 40 million gallons per year.

EFFECTIVE DATE: January 1, 2009

STAFF COMMENTS: The legislature by Act 289, SLH 2000, established an investment tax credit to encourage the construction of an ethanol production facility in the state. The legislature by Act 140, SLH 2004, changed the credit from an investment tax credit to a facility tax credit.

While the proposed measure would make the ethanol facility tax credit applicable to the first 15 million gallons produced by the facility over the eight-year period, it is questionable whether the limitation proposed in this measure is fair to those businesses who are committed to and are currently constructing an ethanol production facility in the state.

While this measure would perpetuate the tax incentives for the construction and development of an ethanol production facility in the state, it should be remembered that a direct appropriation would be preferable. This would provide some accountability for the taxpayers' funds being utilized to support this effort. However, the more important point to note here is the arduous path to success with this proposal with the initial tax incentive adopted in 2000 and here some eight years later, the interested parties have yet to put the first spade in the ground. Meanwhile the administration, in its great wisdom, has mandated the use of 10% ethanol in motor vehicles, resulting in the importing of ethanol to meet the needs of the state.

Digested 2/11/08