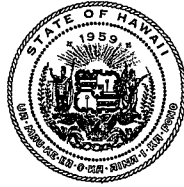


**SB 464**

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



KURT KAWAFUCHI  
DIRECTOR OF TAXATION

SANDRA L. YAHIRO  
DEPUTY DIRECTOR

STATE OF HAWAII  
DEPARTMENT OF TAXATION  
P.O. BOX 259  
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510  
FAX NO: (808) 587-1560

**SENATE COMMITTEE ON ENERGY & ENVIRONMENT  
TESTIMONY REGARDING SB 464  
RELATING TO TAXATION**

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**  
**DATE: FEBRUARY 10, 2009**  
**TIME: 3:45PM**  
**ROOM: 225**

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This measure amends the renewable energy technologies income tax credit to make the credit refundable for certain taxpayers, allows special allocations of the credit by pass-through entities, and prevents passive activity losses from including a depreciation deduction.

The Department of Taxation supports the intent of incentivizing alternative energy use in the State; however opposes the revenue loss generated by this measure.

**SUPPORT FOR ALTERNATIVE ENERGY**—The Department strongly supports the encouragement and implementation of alternative energy systems in Hawaii in order to lessen the State's dependence on alternative energy. As fossil fuel and petroleum prices become more volatile, Hawaii's ability to generate its own energy from home will make the State more secure and less reliant on others.

**PREFERENCE FOR ADMINISTRATION'S TAX PACKAGE**—The Department prefers the comprehensive energy-related tax package contained in SB 871, which clarifies the renewable energy systems tax credits, as well as tax incentives for net-zero energy efficient buildings. The Administration's measure has been factored into the biennium budget and the financial plan.

**OPPOSITION TO UNBUDGETED REVENUE LOSS**—The Department cannot support the tax provision in this measure because it is not factored into the budget. The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either. Given the forecasted decrease in revenue projections, this measure would add to the budget shortfall.

**UNWORKABLE PASSIVE ACTIVITY LOSS LIMITATION**—Hawaii has conformed to the federal tax treatment of passive activity losses. These rules limit the ability of a taxpayer to currently deduct losses incurred as a result of passive activities. Passive activities include business

activities in which the taxpayer does not materially participate in, as well as most rental real property other than hotels and similar businesses. Under existing federal and State law, passive activity losses can be used only to offset passive activity gains. Special rules apply to rental real property where the taxpayer actively participates in the rental activities and provided certain income levels are not exceeded. Generally, passive activity losses may be used to offset income of up to \$25,000 if this exception applies. In addition, certain real estate professionals are not subject to the passive activity loss limitations. In the event the passive activity loss exceeds the amount that the taxpayer can currently use, the excess loss is "suspended." The taxpayer will use such losses in a year in which he falls under the limitations or sells the real property from which the loss was generated.

As proposed, this measure would eliminate all depreciation expense that is used in calculating whether an activity has a gain or loss. For example, residential real property is depreciated using a straight line method over 27.5 years. Thus, a building that cost \$275,000 would have depreciation expense of \$10,000 per year in determining the extent of passive activity losses or gains. This measure would strike that amount from determining whether a passive activity loss exists for State tax purposes, as well as depreciation expense from all other property related to the rental real property such as improvements, appliances and furnishings. The net result for State tax purposes is that there will be a substantial reduction in taxable income.

This measure decouples state tax law from federal tax law. It should be noted that while the State can eliminate depreciation from determining whether a passive activity loss has occurred for State tax purposes, there would be no effect on the federal tax consequences. For federal tax purposes, depreciation would still be an expense that must be used in calculating whether the passive activity loss limitation rules apply. In order to accomplish this, the Department would have to generate new forms to track the passive activity losses and whether and when such losses can be used to offset income. This will affect the carryforwards of any losses, such that taxpayers will have to keep track of two different carryforwards: the federal carryforward and the State carryforward. The Department would be forced to commit substantial resources to reprogram its computer system to make this change, and would have to commit personnel to insure that taxpayers are properly calculating the loss limitations. New forms would have to be designed as well. These problems do not currently exist since the passive activity loss limitations are currently the same for both federal and State tax purposes.

**DESCRIPTION ERROR---**The headnote for this measure indicates that the measure prohibits special allocation of the renewable energy technologies income tax credit. However, the result of this measure would be to allow such special allocations as the substantial economic effect rules of Internal Revenue Code section 704 are relaxed with respect to this credit.

**REVENUE LOSS—**This legislation will result in a revenue loss of approximately \$9.2 million per year.

**Testimony before the  
Senate Committee on**

**Energy and Environment**

**S.B. 464 -- Relating to Taxation**

**Tuesday, February 10, 2009  
3:45 pm, Conference Room 225**

**By Arthur Seki  
Director, Technology  
Hawaiian Electric Company, Inc.**

Chair Gabbard, Vice-Chair English and Members of the Committee:

My name is Arthur Seki. I am the Director of Technology for Hawaiian Electric Company. I am testifying on behalf of Hawaiian Electric Company (HECO) and its subsidiary utilities, Maui Electric Company (MECO) and Hawaii Electric Light Company (HELCO). We support S.B. 464 which amends the renewable energy tax credit. The proposed changes in this bill will make it more attractive for more entities to take advantage of this benefit thus creating more jobs and helping stimulate the sluggish economy.

Thank you for the opportunity to testify.



**Hawaii Solar Energy Association**  
*Serving Hawaii Since 1977*

Feb. 12, 2009  
Room 225  
3:45 P.M

Senate  
Committee on Energy and Environment  
SB464

Mark Duda  
President

**Testimony in Strong Support**

**Chair Gabbard, Vice Chair English and Members of the Committees:**

**Basis for HSEA's Testimony**

HSEA's member companies install the majority of solar systems in the Hawaiian Islands. In this role they work closely not only with prospective purchasers of solar systems but also with financiers and prospective financiers of solar systems. In this position, HSEA is uniquely aware of the financial challenges faced by those who would prefer to consume clean, efficient solar energy. Our testimony is based on this intimate knowledge of the constraints would-be investors face.

**HSEA makes the following comments regarding this measure:**

As currently written, the Renewable Energy Technologies Income Tax Credit (RETITC) has very limited appeal due to a series of provisions that undermine its ability to serve as a financial incentive to potential investors. SB464 addresses each of these limitations and in doing so substantially expands the investor base for renewable energy. One of the key beneficiaries of this change will be the State of Hawaii, which is currently unable to benefit from renewable energy systems because investors are not able to monetize the RETITC. Under realistic assumptions the changes proposed in SB 464 are fiscally positive and result in substantial job creation/retention in a very difficult environment for the construction sector.

SB464 addressing the current inability to utilize the RETITC by doing the following:

1. Allows tax payers to reduce the 35% non-refundable RETITC by 30% (*i.e.*, reduce it to 24.5%) on a per system basis and have it made refundable.
2. Allows the RETITC credit to be specially allocated within partnerships so that investment partnerships funding 3<sup>rd</sup> party systems can be more easily assembled.
3. Allows the credit to be used by investors against non-passive income (passive income is basically limited to income from rental property) so as to expand the pool of individual investors that might fund renewable energy.
4. Allows the credit to be taken by insurers against their insurance premium taxes allowing insurance companies to begin funding renewable energy.

5. Makes it possible for low-income people and people with pension income only (*i.e.*, groups that have no tax liability and for whom a non-refundable tax credit is meaningless) to take the credit as refundable instead of non-refundable.

Each of provisions 1-4 individually makes the RETITC a more effective as an incentive and will bring money from outside the state to Hawaii. The bill does not make the credit richer for investors (note that HSEA has earlier this session testified against the need to make the credit richer) but instead expands the class of investors who can use the credit. In doing so it will thereby drive much more capital to renewable energy in Hawaii.

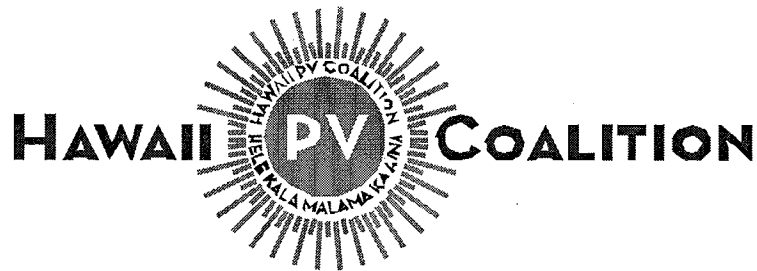
As noted above, the expansion of the investor base for renewable energy systems that will result from SB464 is fiscally positive. Every dollar given up by the state on a refundable RETITC will yield \$1.48 in combined GET, payroll, and corporate income tax revenues.

In addition, each \$1 million system will generate or preserve 11.3 jobs. At this rate, the PV market, which was roughly \$120 million in 2008, is currently responsible for about 1,356 jobs. At about \$55 million, the solar water heating market is responsible for 621 jobs. These numbers could be far higher if the problems with the RETITC could be addressed.

In conclusion, please note that, although it sounds self-serving, it is nonetheless true that there is virtually nothing the state could do that would have a greater impact on the amount of renewable energy generating equipment installed in Hawaii over the next three years than to pass a form of SB464. This is the case because the technology involved is proven and available today; and because the distributed nature of the projects means they are far less capital-intensive and thus less exposed to the financial markets than larger scale projects. HSEA strongly supports SB464 as a policy that is both timely and well-crafted.

#### **About the Hawaii Solar Energy Association**

*Hawaii Solar Energy Association (HSEA) was founded in 1977 and is comprised of more than 30 installers, distributors, manufacturers and financiers of solar energy systems, both hot water and PV, most of which are Hawaii based, owned and operated. The organization's primary goals are: (1) to further solar energy and related arts, sciences and technologies with concern for the ecologic, social and economic fabric of the area; (2) to encourage the widespread utilization of solar equipment as a means of lowering the cost of energy to the American public, to help stabilize our economy, to develop independence from fossil fuel and thereby reduce carbon emissions that contribute to climate change; (3) to establish, foster and advance the usefulness of the members, and their various products and services related to the economic applications of the conversion of solar energy for various useful purposes; and (4) to cooperate in, and contribute toward, the enhancement of widespread understanding of the various applications of solar energy conversion in order to increase their usefulness to society.*



Feb. 12, 2009  
Room 225  
3:45 P.M

Senate  
Committee on Energy and Environment  
SB464

Brad Albert  
President

### Testimony in Strong Support

**Chair Gabbard, Vice Chair English and Members of the Committees:**

#### **Basis for HPVC Testimony**

HPVC member companies install the majority of solar systems in the Hawaiian Islands. In this role they work closely not only with prospective purchasers of solar systems but also with financiers and prospective financiers of solar systems. In this position, HPVC is intimately aware of the financial challenges faced by those who would prefer to consume clean, efficient solar energy. Our testimony is based on this intimate knowledge of the constraints would-be investors face.

#### **HPVC makes the following comments regarding this measure:**

As currently written, the Renewable Energy Technologies Income Tax Credit (RETITC) has very limited appeal due to a series of provisions that undermine its ability to serve as a financial incentive to potential investors. SB464 addresses each of these limitations and in doing so substantially expands the investor base for renewable energy. One of the key beneficiaries of this change will be the State of Hawaii, which is currently unable to benefit from renewable energy systems because investors are not able to monetize the RETITC. Under realistic assumptions the changes proposed in SB 464 are fiscally positive and result in substantial job creation/retention in a very difficult environment for the construction sector.

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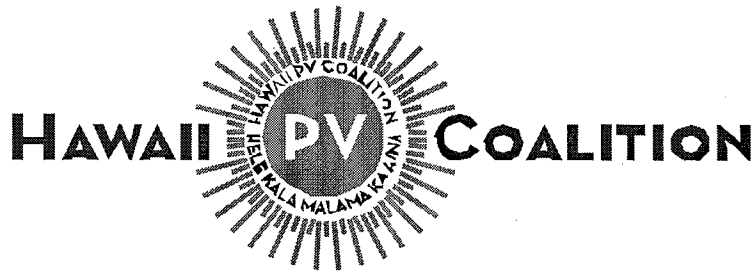
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**The Sun At The Source Of Life**  
Mary Kawena Pukui

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3. Allows the credit to be used by investors against non-passive income (passive income is basically limited to income from rental property) so as to expand the pool of individual investors that might fund renewable energy.

4. Allows the credit to be taken by insurers against their insurance premium taxes allowing insurance companies to begin funding renewable energy.

5. Makes it possible for low-income people and people with pension income only (*i.e.*, groups that have no tax liability and for whom a non-refundable tax credit is meaningless) to take the credit as refundable instead of non-refundable.

Each of provisions 1-4 individually makes the RETITC a more effective as an incentive and will bring money from outside the state to Hawaii. The bill does not make the credit richer for investors (note that HPVC has earlier this session testified against the need to make the credit richer) but instead expands the class of investors who can use the credit. In doing so it will thereby drive much more capital to renewable energy in Hawaii.

As noted above, the expansion of the investor base for renewable energy systems that will result from SB464 is fiscally positive. Every dollar given up by the state on a refundable RETITC will yield \$1.48 in combined GET, payroll, and corporate income tax revenues.

In addition, each \$1 million system will generate or preserve 11.3 jobs. At this rate, the PV market, which was roughly \$120 million in 2008, is currently responsible for about 1,356 jobs. At about \$55 million, the solar water heating market is responsible for 621 jobs. These numbers could be far higher if the problems with the RETITC could be addressed.

In conclusion, please note that, although it sounds self-serving, it is nonetheless true that there is virtually nothing the state could do that would have a greater impact on the amount of renewable energy generating equipment installed in Hawaii over the next three years than to pass a form of SB464. This is the case because the technology involved is proven and available today; and because the distributed nature of the projects means they are far less capital-intensive and thus less exposed to the financial markets than larger scale projects. HPVC strongly supports SB464 as a policy that is both timely and well-crafted.

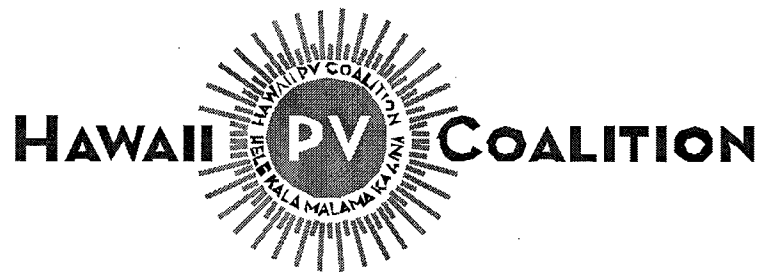
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**About the Hawaii PV Coalition**

**Hawaii PV Coalition (HPVC)** was founded in 2006 and is comprised of more than 30 installers, distributors, manufacturers and financers of Photovoltaic (PV) NEM systems, many of which are Hawaii based, owned and operated. The Hawaii PV Coalition also has non-industry businesses and homeowners who are support solar as members. HPVC was formed to actively promote the solar electric agenda across our islands. Working with legislators, government agencies, utility companies, and public interest groups, the Coalition is pushing to make Hawaii more energy independent while creating more jobs in the renewable energy sector.

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Mary Kawena Pukui

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**www.hawaiipvcoalition.org**

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**From:** Sean Coletta [Sean.Coletta@mmarenew.com]  
**Sent:** Monday, February 09, 2009 3:28 PM  
**To:** ENETestimony  
**Subject:** Testimony in Support of SB464

Mr. Chairman and members of the Committee:

Thank you for the opportunity to submit this testimony in support of SB464. My name is Sean Coletta, and I am the Director of Structured Finance for MMA Renewable Ventures. MMA Renewable Ventures is one of the largest providers of financing for solar and other renewable energy projects in the United States, and we arrange financing for projects all across the United States. During past three years we have arranged over \$350 million dollars of financing for solar energy projects, resulting in the installation of over 40MW's of solar power systems in 10 states.

One of the major factors that determines whether we are able to provide effective financing for solar projects in a given state is the level of state tax incentives which that state provides. States which provide strong economic incentives, such as California and New Jersey, have attracted hundreds of millions of dollars worth of solar project investments, while states which provide very little or no incentive attract very little outside investment in solar projects.

Hawai'i has the potential to be one of the best locations in the nation for solar projects, and we have spent considerable time there working on financings for solar projects. Unfortunately, we have found that the Hawai'i Renewable Energy Tax Credit contained in HRS 235-12.5, while appearing generous on its face with a 35% tax credit, is in fact nearly useless as an incentive, due to some basic flaws in the way it interacts with other portions of the tax laws. Moreover, the Hawai'i credit competes with incentives from other states, such as Oregon, which are provided in cash or a refundable credit, which is much more appealing to the national scale investors that we deal with. As a result, we have only been able to finance seven million of Hawai'i projects out of the dozens we have looked at or worked on, and even those financings were not at attractive terms for the projects or investors.

SB464 addresses the flaws in the existing Hawai'i Renewable Energy Tax Credit by (1) making it refundable, (2) removing the restriction on the type of income that it can be used to offset (which in the present law drastically limits the number and type of investors who may be available for it), (3) makes it specially allocatable, and (4) makes it available to Hawaii's insurance companies, which are among the most active investors in the state.

We strongly support SB464, and encourage you to pass it out of committee with a favorable recommendation. With the enactment of SB464, Hawai'i would rise to one of the most attractive states in the nation for the building of solar projects, and make it relatively easy for MMA and other companies providing solar financing to bring tens and even hundreds of millions of dollars per year in outside investor financing to Hawai'i projects, propelling Hawai'i into the top echelon of "solar-enabled" locations in the world.

Thank you for the opportunity to submit this testimony, and please feel free to contact me if I can be of further assistance.

Sean Coletta  
Director of Structure Finance  
415.229.8809  
[Sean.Coletta@mmarenew.com](mailto:Sean.Coletta@mmarenew.com)



TO: Senate Committee on Energy and Environment  
Honorable Senator Mike Gabbard, Chairman

RE: Testimony in Support of SB464 Relating To Taxation.

HEARING: Tuesday, February 10, 2009, 3:45pm

Mr. Chairman and members of the Committee:

I appreciate this committee's consideration of SB464, and welcome this opportunity submit testimony in support of it.

My name is Larry Gilbert, and I am the Managing Director and Chief Executive of Sennet Capital LLC. Sennet Capital is a Hawai'i merchant bank that focuses entirely on providing and arranging funding for Hawai'i companies and renewable energy projects. We have become one of the leading experts in Hawai'i in solar project financing, and recently completed one of the largest solar project financings done in Hawai'i when we arranged the financing for Hoku Solar to put solar panels on all of the Neighbor Island airports for the State of Hawai'i Department of Transportation.

During 2008, we attempted to finance nearly \$50 million worth of Hawai'i solar projects. As part of that effort, we spent a great deal of time talking to Hawai'i investors about their interest and ability to use the Hawai'i Renewable Energy Tax Credit contained in HRS 235-12.5. Unfortunately, that effort resulted in zero dollars from Hawai'i investors for solar projects during 2008.

What we found from that experience is that the Hawai'i Renewable Energy Tax Credit is nearly useless to almost all categories of Hawai'i investors, and does not provide them with any meaningful incentive to invest in Hawai'i renewable energy projects. The problem was not a lack of investor interest—their interest in the deals and the returns was very high—it was that without being able to use the Hawai'i Renewable Energy Tax Credit, the returns were insufficient to entice them invest in these projects versus their other alternatives.

What the Hawai'i investor market tells us from this experience is that the principal problems with the Hawai'i Renewable Energy Tax Credit are:

- 1) The law is unclear about whether, for any type of taxpayer other than major corporations, the Hawai'i Renewable Energy Tax Credit can be used to offset any type of taxable income other than "passive" income. The Federal renewable energy tax credit clearly cannot be used against anything other than passive income, and Hawai'i investors are concerned that the ambiguous nature of the Hawai'i law would result in the same interpretation. Very, very few Hawai'i investors have sufficient taxable passive income to make it worthwhile to invest for the purpose of taking advantage of the tax credit, and when the uncertainty of the existing law is added to this, the result is the most likely type of Hawai'i

February 9, 2009

Page 2

investor—the high-net-worth individual or successful small or medium-sized business—cannot use the Hawai'i Renewable Energy Tax Credit.

- 2) The Hawai'i Renewable Energy Tax Credit cannot be allocated entirely to Hawai'i investors, as a result of which the Hawai'i tax credits cannot be given entirely to the people who can use them. There is a ready market for investment in the Federal energy tax credit by major mainland corporations seeking to manage their Federal tax bill. But almost none of these companies has any meaningful amount of Hawai'i tax liability. The way in which the other parts of the tax code cause the Hawai'i Renewable Energy Tax Credit to work mean that if these major mainland companies put up half the money, they have to receive half of the Hawai'i tax credits, which are useless to them. In essence, the Hawai'i Renewable Energy Tax Credit does not act as any incentive at all for them to invest. And because the Hawai'i credit cannot be "specially allocated" to even the very few Hawai'i taxpayers that might be able to use it against passive income, the credit goes largely or entirely to waste.
- 3) The Hawai'i Renewable Energy Tax Credit cannot be used by Hawai'i insurance companies against their Hawai'i insurance premium tax liability. Our insurance companies are among the most prolific investors in Hawai'i, and a natural source of capital for renewable energy projects. But again, the Hawai'i Renewable Energy Tax Credit provides no incentive for them to invest in these projects.
- 4) The Hawai'i Renewable Energy Tax Credit can only be used by Hawai'i taxpayers. Other states, such as Oregon, California and (indirectly) New Jersey provide a mechanism for their tax incentives to be converted to cash by investors who cannot use those incentives to offset state income taxes. The amount of investment capital which exists in Hawai'i is relatively limited versus the amount that could be profitably deployed for renewable energy projects here, so cutting off the use of the Hawai'i credit to incentivize these non-Hawai'i investors puts Hawai'i at a disadvantage in terms of attracting capital to finance renewable energy projects.

The Hawai'i market has the potential to immediately attract \$100 million to \$200 million per year in investment capital for renewable energy projects here. These projects would generate hundreds if not thousands of jobs, reduce Hawai'i's dependence on imported oil, and protect our environment. Yet of the \$50 million of projects that Sennet Capital could potentially have financed in 2008, zero got financed, principally due to the problems described above with using the Hawai'i tax credit.

SB464 addresses the flaws in the existing Hawai'i Renewable Energy Tax Credit by (1) making it refundable, (2) removing the restriction on the type of income that it can be used to offset, (3) makes it specially allocatable, and (4) makes it available to Hawai'i's insurance companies.

February 9, 2009

Page 3

If Hawai'i is serious about incentivizing investment in renewable energy projects, then making the minor changes to the Hawai'i Renewable Energy Tax Credit which are contained in SB464 would be a very good way to do so. We strongly support SB464, and encourage you to pass it out of committee with a favorable recommendation. Hawai'i could be one of the best states in the country for solar projects, and attract tens and hundreds of millions in outside capital to help build them, which in turn provides stimulus to our economy and jobs for our electricians, construction workers and others who install and maintain these projects, as well as put millions of dollars in energy savings into the economy rather than shipping them overseas to buy foreign oil.

Thank you for the opportunity to submit this testimony, and please feel free to contact me if I can be of further assistance.

Larry Gilbert  
Managing Director  
Sennet Capital LLC  
737 Bishop Street, Suite 3170  
Honolulu, HI 96813  
Tel 808 457-1300  
Email: [LGilbert@sennetcapital.com](mailto:LGilbert@sennetcapital.com)



**SENATE COMMITTEE ON ENERGY AND ENVIRONMENT**

February 10, 2008, 3:45 P.M.

Room 225

**(Testimony is 1 page long)**

**TESTIMONY IN SUPPORT OF SB 464**

Chair Gabbard and members of the committee:

The Blue Planet Foundation supports SB 464, expanding the ability for investors to use the clean energy investment tax credit. This measure will help to accelerate the investment in Hawaii's clean energy future by encouraging more private investment in solar thermal, photovoltaic, and wind energy technologies. By leveraging private investment in clean energy, state tax incentives will yield numerous benefits through job creation, reduced dependency on imported fossil fuel, reduced greenhouse gas emissions, and economic development.

While current law provides for a tax credit for various renewable energy devices, investors have found it to be lacking meaningful incentive to invest in Hawaii's renewable energy projects. The problem is that the current incentive only applies to a narrow class of taxable income. Senate Bill 464 wisely expands the types of income that the tax credits can be taken against and expands the types of taxpayers who can take the credits.

Investment experts estimate that the Hawaii's market has the potential to immediately attract \$100 million to \$200 million per year in investment capital for renewable energy projects in the state. These projects would generate hundreds if not thousands of jobs, reduce Hawaii's dependence on imported oil, and protect our environment.

Please forward SB 464 to encourage private investors to make a down payment on Hawaii's clean energy future.

Thank you for the opportunity to testify.

**Jeff Mikulina, executive director • [jeff@blueplanetfoundation.org](mailto:jeff@blueplanetfoundation.org)**

55 Merchant Street 17<sup>th</sup> Floor • Honolulu, Hawaii 96813 • 808-954-6142 • [blueplanetfoundation.org](http://blueplanetfoundation.org)

# HAWAII RENEWABLE ENERGY ALLIANCE

46-040 Konane Place #3816, Kaneohe, HI 96744 – Telephone/FAX: 247-7753 – Email: wsb@lava.net

## Officers

President  
Warren S. Bollmeier II

Vice-President  
John Crouch

Secretary/Treasurer  
Cully Judd

## Directors

Warren S. Bollmeier II  
WSB-Hawaii

Cully Judd  
Inter Island Solar  
Supply

John Crouch  
Sunpower

Herbert M. (Monty)  
Richards  
Kahua Ranch Ltd.

## TESTIMONY OF WARREN BOLLMEIER ON BEHALF OF THE HAWAII RENEWABLE ENERGY ALLIANCE BEFORE THE SENATE COMMITTEE ON ENERGY AND ENVIRONMENT

SB 464, RELATING TO TAXATION

February 10, 2009

Chair Gabbard and Vice-Chair English and members of the Committee, I am Warren Bollmeier, testifying on behalf of the Hawaii Renewable Energy Alliance (HREA). HREA is a nonprofit corporation in Hawaii, established in 1995 by a group of individuals and organizations concerned about the energy future of Hawaii. HREA's mission is to support, through education and advocacy, the use of renewables for a sustainable, energy-efficient, environmentally-friendly, economically-sound future for Hawaii. One of HREA's goals is to support appropriate policy changes in state and local government, the Public Utilities Commission ("Commission") and the electric utilities to encourage increased use of renewables in Hawaii.

The purposes of SB 464 are to: (i) amend the renewable energy technologies income tax credit to make the credit refundable for certain taxpayers, (ii) prohibit special allocations of the credit by pass-through entities, and (iii) prevent passive activity losses from including a depreciation deduction. HREA wholeheartedly supports this bill. In support we would like to focus our comments on the values and benefits of Section 3 (Renewable Energy Technologies Income Tax Credit):

1. RETITC and its Predecessor. The predecessor to the RETITC, the Energy Conservation Income Tax Credit, has been shown to provide an integrated array of energy, environmental and economic benefits. To HREA, while the RETITC also leverages private investment and makes valuable contributions to our RPS law, its real value has been its net economic stimulus. Renewables are high-tech, their development encouraged by the tax credits, has created and sustained jobs and provided net economic benefit to the state of their system lifetimes;
2. When Times are Tough. HREA appreciates the tough decisions that legislators have to make, especially when times are tough. With the tax credits, through a good deal of economic tough times since the inception of the ECITC in 1990 to now, we would not have over 100,000 solar water heaters installed and the beginnings of the distributed renewable generator market, e.g., photovoltaics and wind. In short, the tax credits have been outrageously successful to consumers and have spawned and help sustain a new industry; and
3. What about the Refundable Option. HREA's view is this: given our tough economic times today, the existing RETITC is not working well, as explained by other testifiers. Thus, the proposed refundable option is both a solution and an option to help sustain growth in the renewable industry in Hawaii. Without this option, it will be hard to see how we can begin to come close to achieving the goals of the Hawaii Clean Energy Initiative.

Thank you for this opportunity to testify.



# Sierra Club Hawai'i Chapter

PO Box 2577, Honolulu, HI 96803  
808.537.9019 hawaii.chapter@sierraclub.org

## SENATE COMMITTEE ON ENERGY AND ENVIRONMENT

February 10, 2009, 3:45 P.M.  
(*Testimony is 1 page long*)

### TESTIMONY IN SUPPORT OF SB 464

Chair Gabbard and members of the Committee:

The Sierra Club, Hawai'i Chapter, with 5500 dues paying members statewide, supports SB 464, making it easier for a wider range of investors to take advantage of the tax credit for the implementation of solar. As the law is currently written, few companies can take advantage of this tax credit. This bill furthers the intent by making the tax credit accessible to a wider range of entities and promoting greater installation of solar systems.

Hawai'i is the most dependent state in the nation on imported oil. Some 50 million barrels are imported annually, nearly 80% of which originate from foreign sources. In addition, over 805,000 tons of coal are imported into our state. These sources provide power for over 92% of Hawaii's electricity generation. The combustion of these resources also contributes over 23 million tons of climate changing greenhouse gas into our atmosphere annually.

Hawaii's economic, environmental, and energy security demand that we reduce the amount of fossil fuel imported and consumed in Hawaii. This bill is a solid step in that direction. It encourages investment in renewable energy -- providing jobs and money into our state -- while also moving us towards a fossil-free Hawai'i.

Thank you for this opportunity to provide testimony.