



## LATE TESTIMONY

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Testimony on  
**H.B. NO. 424 –**  
**RELATING TO SEAWATER AIR CONDITIONING**

Before the  
House Committee on Economic Revitalization, Business & Military Affairs  
Tuesday, January 26, 2010, 8:30 p.m., Conference Room 312

By Frederic Berg, Project Director  
Honolulu Seawater Air Conditioning, LLC

Good afternoon Chair McKelvey, Vice Chair Choy, and members of the Committee. My name is Frederic Berg and I am testifying on behalf of Honolulu Seawater Air Conditioning, LLC.

Honolulu Seawater Air Conditioning, LLC **strongly supports** H.B. 424, which allows the sale of cooling from a seawater air conditioning district cooling systems to qualify for state enterprise zone benefits.

Due to the difficult economic conditions facing the State, we are proposing an HD 1 (an amendment) which would only provide a GET exemption for all Seawater Air Condition systems during the **operational phase** of their project. **No GET exemption benefit to SWAC systems will be realized during their construction phase.**

This bill will assist customers making the critical decision to eliminate their inefficient cooling systems in favor of utilizing a district cooling system driven by infinitely renewable cold deep seawater which nearly eliminates the use of fossil fuels in the production of air conditioning. **There are over 5,800 district energy systems in operation in the United States. The benefits have been proven over time. With proper maintenance, the infrastructure supporting these systems has a useful life of more than 60 years.**

A downtown Honolulu seawater air conditioning project will generate an estimated **\$13.7M** in new taxes (\$6.2M GET, \$7.5M Income Taxes) during its construction phase. During this same period, a project will not require enterprise zone benefits in the form of GET exemptions to customers of the system.

Over the next 25 years, a project will generate \$48.8M in GET revenue. Seawater Air Conditioning customers will benefit from **\$10.9M** in GET exemptions during the first 7 years of operations, thus limiting customers risk in converting to a Seawater Air Conditioning district cooling system.

Recognizing the fiscal challenges the state is currently facing, HB 424 (proposed HD1) will result in no tax exemption for this fiscal biennium and no tax exemption for the first year of the next fiscal biennium.

If a project is not completed, there will be a net revenue loss to the State of more than \$27M in new state taxes.

One such project, the downtown Honolulu Seawater Air Conditioning, LLC project is a near-term, “**shovel-ready**” project that can immediately help to stimulate Hawaii's economy. However, customers have expressed concern over the costs of converting to Seawater Air Conditioning, including the risk of higher costs in the initial years of operation. The enterprise zone qualification will significantly assist customers in offsetting the costs inherent in converting to this green technology.

A downtown Honolulu Seawater Air Conditioning project will generate close to **\$200 million of dollars in construction project spending**. In addition, it will create a long-term, gainful employment and establish local companies as the leading authorities on Seawater Air Conditioning systems. Other local economic development benefits will accrue from money that stays in Hawaii and is not exported outside the State to purchase oil.

In addition to helping stimulate the State's economy, a downtown Seawater Air Conditioning project will provide the following benefits over the first 25 years of operation:

**Energy and Environmental Benefits Over First 25 Years**

<b>Electricity Savings</b>	<b>2,000,000,000 kWh</b>
<b>Reduction in Demand for New Fossil Fuel Fired Generation</b>	<b>14,119 kW</b>
<b>Reduction in Crude Oil Use</b>	<b>5,210,000 barrels</b>
<b>Reduction in Potable Water Use</b>	<b>8,530,000,000 gallons</b>
<b>Reduced Sewage Generation</b>	<b>3,330,000,000 gallons</b>

HB 424 adds seawater air conditioning district cooling systems to the definition of "qualified business" to qualify for state enterprise zone benefits in an existing enterprise zone. "Qualified business" already includes another renewable energy technology - wind. Downtown Honolulu and Kakaako (the service area for a downtown Honolulu Seawater Air Conditioning project) are in an enterprise zone. **This bill does not create a new enterprise zone.**

The purpose of providing benefits to qualified businesses in enterprise zones is to stimulate business and industrial growth by means of regulatory flexibility and tax incentives. Tax incentives include exemption of qualified businesses from the GET, and State income taxes (on a declining basis), for a period of seven years. Providing these benefits, during the operational phase only, will effectively reduce the costs of such systems to customers and will help introduce this promising technology to Hawaii.

Thank you for this opportunity to testify.

**Report Title:**

Enterprise Zones; Seawater Air Conditioning Cooling System

**Description:**

Allows the sale of cooling from seawater air conditioning district cooling systems to qualify for state enterprise zone benefits.

HOUSE OF  
REPRESENTATIVES  
TWENTY-FIFTH  
LEGISLATURE,  
2009  
STATE OF HAWAII

H.B. 424  
NO.

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A BILL FOR AN ACT

RELATING TO SEAWATER AIR CONDITIONING.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

SECTION 1. The legislature finds that seawater air conditioning district cooling systems help to reduce our dependence on fossil fuels and help our economy. The twenty-five thousand ton seawater air conditioning district cooling system under development for downtown Honolulu can potentially

reduce Oahu's dependence on imported oil by as much as one hundred seventy-four thousand barrels annually.

The downtown Honolulu seawater air conditioning project will generate millions of dollars in construction project spending. In addition, it will create a significant amount of long-term, gainful employment. Other local economic development benefits will accrue from money that stays in Hawaii and is not exported outside the State to purchase oil.

During the lifetime of this system, local spending would amount to more than \$294,000,000. The calculated output based on this local spending is \$456,000,000. This amount of local spending would also generate \$149,000,000 in earnings and 3,516 full-time-equivalent person-years of jobs. This is equivalent to 133 full-time jobs for 26.5 years.

Furthermore, this project will actually generate additional revenues for the State during the next three years, and over its more than twenty-five year life. The downtown Honolulu seawater air conditioning project is a new project which will generate an estimated \$8,252,000 in new taxes during the period from 2009 to 2011. During this same period, this project will be eligible

for \$5,116,000 in enterprise zone benefits. Therefore, the net fiscal benefit to the State during this period will be \$3,135,000. If this project is not completed, there will be a net revenue loss to the State of \$3,135,000. During its lifetime, the system would generate \$24,000,000 in new state taxes.

The purpose of this Act is to assist seawater air conditioning district cooling systems by allowing the systems to benefit from the State's enterprise zone program.

SECTION 2. Section 209E-2, Hawaii Revised Statutes, is amended by amending the definition of "qualified business" to read as follows:

"Qualified business" means any corporation, partnership, or sole proprietorship authorized to do business in the State that is qualified under section 209E-9, subject to the state corporate or individual income tax under chapter 235, and is:

(1) Engaged in manufacturing, the wholesale sale of tangible personal property as defined in section 237-4, or a service business as defined in this chapter;

(2) Engaged in producing agricultural products where the business is a producer as defined in section 237-5, or engaged in processing agricultural products, all or some of which were grown within an enterprise zone;

(3) Engaged in research, development, sale, or production of all types of genetically-engineered medical, agricultural, or maritime biotechnology products; ~~[or]~~

(4) Engaged in producing electric power from wind energy for sale primarily to a public utility company for resale to the public~~[-];~~ or

(5) Engaged in producing air conditioning from a seawater air conditioning district cooling system."

SECTION 3. Section 209E-11, Hawaii Revised Statutes, is amended to read as follows:

**"§209E-11 State general excise exemptions.** The department shall certify annually to the department of taxation that any qualified business is exempt from the payment of general excise taxes on the gross proceeds from the manufacture of tangible personal property, the wholesale sale of tangible personal property, the engaging in a service business by a qualified business, ~~[or]~~ the engaging in research, development, sale, or production of all types of genetically-engineered medical, agricultural, or maritime biotechnology products~~[-]~~, or the production of air conditioning from a seawater air conditioning district cooling system; provided that agricultural businesses other than those engaged in the production of genetically-engineered agricultural products shall not be exempt from the

payment of general excise taxes on the gross proceeds of agricultural retail sales. The gross proceeds received by a contractor licensed under chapter 444 shall be exempt from the general excise tax for construction within an enterprise zone performed for a qualified business within an enterprise zone; provided that such gross proceeds received by a contractor licensed under chapter 444 in connection with the construction of a seawater air conditioning district cooling system shall not be exempt from the general excise tax. The exemption shall extend for a period not to exceed seven years; provided that if a force majeure event occurs, then the period of time shall be tolled until the force majeure event ceases."

SECTION 4. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 5. This Act shall take effect upon its approval.

INTRODUCED \_\_\_\_\_  
BY: