

SB 242

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

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**SENATE COMMITTEE ON ENERGY & ENVIRONMENT
TESTIMONY REGARDING SB 242
RELATING TO SEAWATER AIR CONDITIONING**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: FEBRUARY 17, 2009

TIME: 2:45PM

ROOM: 225

This bill would include within the definition of "qualified business," any business engaged in producing air conditioning from a seawater air conditioning district cooling system for purposes of the State Enterprise Zone tax incentives.

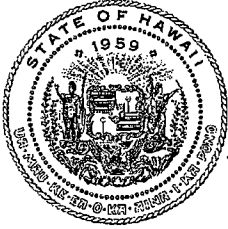
The Department of Taxation (Department) takes **no position** on this measure; however must **oppose the revenue loss** anticipated by this measure.

NOT FACTORED INTO EXECUTIVE BUDGET

Though the Department supports the intent of minimizing the State's dependency upon foreign oil and fossil fuels, the Department cannot support the tax provision in this measure because it is not factored into the budget. The Department points out that this legislation has not been factored into the Executive Budget and has not been prioritized as a means of tax relief this legislative session. 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.

REVENUE IMPACT

The revenue loss is estimated at \$3.2 million for FY10, \$1.0 million for FY11, and \$1.3 million for FY12.



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

LINDA LINGLE
GOVERNOR
THEODORE E. LIU
DIRECTOR
MARK K. ANDERSON
DEPUTY DIRECTOR

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Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
Tuesday, February 17, 2009
2:45p.m.
State Capitol, Conference Room 225

in consideration of
SB 242
RELATING TO SEAWATER AIR CONDITIONING.

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

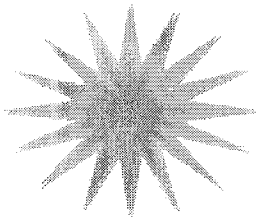
The Department of Business, Economic Development, and Tourism (DBEDT) appreciates the intent of this measure, which adds Seawater Air Conditioning (SWAC) District Cooling Systems to the list of businesses eligible for the Enterprise Zone GET exemption and income tax credits for seven years; however, given the current fiscal difficulties, it would not be prudent to pursue enactment at this time. We defer to the Department of Taxation on the fiscal impact of this measure.

The list of qualified business in Chapter 209E, HRS, already includes wind energy, which was added in 2000. DBEDT recognizes that adding other alternative energy production such as SWAC District Cooling Systems would further promote the State's goal of lessening our dependency on fossil fuels.

We do note that seawater air conditioning cooling systems are site specific and all installations may not be located in one or more of the 21 Enterprise Zones across the state whose boundaries are determined by the counties. The downtown Honolulu Seawater Air Conditioning Project is located in the Urban Honolulu Zone which includes Downtown and Kaka'ako. However, not all coastal areas, including Waikiki and the Kohala coast, are within existing zones.

The employment growth requirements for the EZ program: increasing jobs by 10% and holding that level for seven years, may also be a challenging requirement for some companies to meet.

Thank you for the opportunity to offer these comments.



Honolulu Seawater Air Conditioning, LLC

Affiliate of Renewable Energy Innovations, LLC, the COOL GREEN & CLEAN™ Company

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Testimony on

S.B. NO. 242 –

RELATING TO SEAWATER AIR CONDITIONING

Before the
Senate Committee on Energy and Environment
Tuesday, February 17, 2009, 2:45 p.m., Conference Room 225

By
David Rezachek, Consultant
Honolulu Seawater Air Conditioning LLC

Good afternoon Chair Gabbard, Vice Chair English, and members of the Committee. My name is David Rezachek and I am testifying on behalf of Honolulu Seawater Air Conditioning, LLC (HSWAC).

HSWAC **strongly supports** S.B 242, which allows the sale of cooling from seawater air conditioning district cooling systems to qualify for state enterprise zone benefits.

This amendment adds seawater air conditioning (SWAC) district cooling systems to the definition of “qualified business” to qualify for state enterprise zone benefits. “Qualified business” already includes another renewable energy technology - wind. Downtown Honolulu and Kakaako (the service area for the Downtown Honolulu SWAC Project) are in an 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 will effectively reduce the costs of such systems to developers and customers.

The downtown Honolulu SWAC project is a near-term, "shovel-in-the-ground" project that can immediately help to stimulate Hawaii's economy.

The downtown Honolulu SWAC 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.

In addition to helping stimulate the State's economy, the downtown Honolulu SWAC Project will provide the following benefits over its lifetime:

Energy and Environmental Benefits Over SWAC System Lifetime

Electricity Savings	1,990,000,000	kWh
Reduction in Demand for New Fossil Fuel Fired Generation	14,119	kW
Reduction in Crude Oil Use	5,170,000	barrels
Reduction in Potable Water Use	8,400,000,000	gallons
Reduced Sewage Generation	3,300,000,000	gallons

Thank you for this opportunity to testify.

TAXBILLSERVICE

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SUBJECT: MISCELLANEOUS, Expand enterprise zone eligibility

BILL NUMBER: SB 242

INTRODUCED BY: Gabbard and Green and 1 Democrat

BRIEF SUMMARY: Amends HRS section 209E-2 to amend the definition of “qualified business” in an enterprise zone to include a business engaged in producing air-conditioning from a seawater air conditioning district cooling system.

Makes a conforming amendment to HRS section 209E-11.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: This measure proposes to expand enterprise zone laws to include a business that produces air conditioning from a seawater air conditioning district cooling system. In an enterprise zone, businesses are attracted and encouraged to relocate to the zone through tax incentives, bonds, and other appropriate measures. Businesses located in an enterprise zone may claim a credit against taxes paid for a period of seven years and also allows the sale of items sold by such businesses to be exempt from the general excise tax.

While it appears that it is the intent of the legislature to encourage new and existing businesses to expand their employment bases and increase their marketing territories, enterprise zones merely exacerbate what is already considered a poor climate in which to do business. Singling out businesses for preferential treatment merely confers preferences for those businesses at the expense of all other taxpayers.

Concurrent efforts must be made to improve Hawaii’s business climate to enhance the economic prospects for all businesses. Enterprise zones are merely an abdication of government’s responsibility to create a nurturing and supportive business climate so that all businesses can thrive in Hawaii and provide the jobs the people of Hawaii need.

Instead of expanding the enterprise zone program, the program should be repealed in favor of across-the-board tax relief for all businesses in Hawaii. Indeed, has there been a comprehensive evaluation of the program and do lawmakers know exactly how much enterprise zone businesses have benefitted and whether or not they have created the jobs promised when the program was first established?

Digested 2/13/09

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

SB 242 RELATING TO SEAWATER AIR CONDITIONING

February 17, 2009

Chair Gabberd, 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 and the electric utilities to encourage increased use of renewables in Hawaii.

The purpose of SB 242 is to assist seawater air conditioning district cooling systems by allowing the systems to benefit from the State's enterprise zone program. Specifically, the bill proposes to add seawater air conditioning district cooling systems to the list of "qualified businesses" to Section 209-E. HREA strongly supports this measure and offers the following comments in support:

- (1) Seawater Air Conditioning (SWAC). Wind energy, a renewable energy technology, is already included as a "qualified" business in the enterprise zone program. SWAC is a renewable energy technology (RET) which "offsets" the need for electricity to cool water via a conventional chiller system. Therefore, SWAC should be included as a "qualified" business in the enterprise zone program;
- (2) HSWAC Project Benefits. The proposed Honolulu Seawater Air Conditioning ("HSWAC") Downtown project location is in an enterprise zone. HSWAC has estimated that the Downtown project will off-set approximately 15 MWs in power that would otherwise be needed for 25,000 tons of conventional "chiller-type" air conditioning. This project will not only help HECO meet its anticipated capacity shortfall, but will also help HECO meet its RPS requirements and HCEI goals; and
- (3) Enterprise Zone Benefits. The enterprise zone program provides certain benefits to qualified businesses to stimulate business and industrial growth. For example, tax incentives include exemption of qualified businesses from the GET, and State income taxes (on a declining basis), for a period of seven years. The tax incentives and other benefits of the enterprise zone will help make the Downtown HSWAC project more affordable for potential customers.

Thank you for this opportunity to testify.