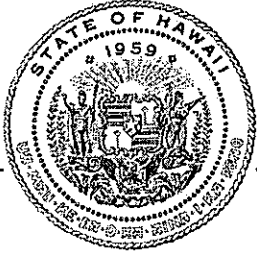


SB 1408



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

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
INTERIM DIRECTOR

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Statement of
RICHARD C. LIM
Interim Director

Department of Business, Economic Development, and Tourism
before the

**SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
AND
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY**

Wednesday, February 2, 2011
1:30 pm
State Capitol, Conference Room 016

in consideration of
SB 1408
RELATING TO RENEWABLE ENERGY ENTERPRISE ZONES.

Chairs Gabbard and Fukunaga, Vice Chairs English and Wakai, and Members of the Committees.

The Department of Business, Economic Development, and Tourism (DBEDT) supports the intent of Senate Bill 1408, which proposes to establish renewable energy enterprise zones in the state and develops a "pilot zone" in Kalaeloa to encourage the development of renewable energy technologies. We defer to the Department of Taxation on the fiscal impact of this measure.

This bill among other things will provide Enterprise Zone (EZ) program benefits to a to-be-determined area in Kalaeloa for renewable energy businesses that locate or relocate their businesses in to that area. This initiative will require considerable time in the development of a new chapter, adoption of new rules, and a new legislative report will need to be created. In addition, this bill gives the responsibility of zone designation to the director of the department (DBEDT) (Page 15, Section 3, Lines 1 – 4); where under the current EZ process, this responsibility is designated to the Governor.

An option to consider may be to simply add “qualified renewable energy activities” as eligible types of businesses covered under the Enterprise Zone Statute. Most of Kalaeloa is already an approved enterprise zone.

Thank you for the opportunity to provide these comments.

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1530
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FREDERICK D. PABLO
INTERIM DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

**SENATE COMMITTEES ON ECONOMIC DEVELOPMENT &
TECHNOLOGY AND ENERGY & ENVIRONMENT**

**TESTIMONY OF THE DEPARTMENT OF TAXATION
REGARDING SB 1408
RELATING TO RENEWABLE ENERGY ENTERPRISE ZONES**

TESTIFIER: FREDERICK D. PABLO, INTERIM DIRECTOR OF
TAXATION (OR DESIGNEE)
COMMITTEE: EDT-ENE
DATE: FEBRUARY 2, 2011
TIME: 1:30PM
POSITION: COMMENTS; CONCERNED WITH COSTS

This measure creates a "pilot program" renewable energy enterprise zone. This measure patterns the renewable energy enterprise zone after the existing enterprise zone program.

The Department of Taxation (Department) takes no position on this measure; however has concerns regarding its revenue loss.

DEFERRAL TO DBEDT—The Department defers to the Department of Business, Economic Development & Tourism on whether the enterprise zone incentives should be expanded to include this pilot program.

SUPPORT FOR ALTERNATIVE ENERGY—The Department 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.

NOT FACTORED INTO BUDGET—The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either.

REVENUE IMPACT—This measure will result in a revenue loss of approximately \$150,000 million per year starting in FY 2012.

Qualified companies in the State's enterprise zones received about \$1.5 million in tax credits in 2006. It is assumed that that this proposal would expand enterprise zone activities by 10%. ($\$1.5 \text{ million} * 10\% = \$150,000$)



HAWAII COMMUNITY
DEVELOPMENT AUTHORITY



KAKA'IKO
KALAELOA

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Governor

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Chairperson

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STATEMENT OF

ANTHONY J. H. CHING, EXECUTIVE DIRECTOR
HAWAII COMMUNITY DEVELOPMENT AUTHORITY

BEFORE THE

SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
AND
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND
TECHNOLOGY

WEDNESDAY, FEBRUARY 2, 2011

1:30 P.M.

State Capitol, Conference Room 016

**S.B. 1408 - RELATING TO RENEWABLE ENERGY ENTERPRISE
ZONES.**

Purpose: Establishes a Renewable Energy Enterprise Zone program within the Department of Business, Economic Development and Tourism (DBEDT). A pilot demonstration program is established at Kalaeloa.

Position: The HCDA supports the intent of the proposal insofar as it creates a mechanism and policies designed to increase energy self-sufficiency and energy security; and establishes a pilot demonstration program in Kalaeloa. The HCDA defers to the Department of Business, Economic Development and Tourism (DBEDT) with respect to all aspects of the proposal calling for the DBEDT to establish and administer the program.

The Ewa Plain of Oahu has been documented to contain some of the highest radiation values in the state and is therefore a very attractive site to construct and operate solar photo voltaic power generating facilities. The Kalaeloa Community Development District (KCDD) is particularly suited for hosting the development of solar power generating facilities due to the relative absence of

residential or commercial uses which might object to the development of power generating facilities.

The Department of Hawaiian Home Lands (DHHL) has already entered into an agreement with two entities to develop up to 10 MW of power on their lands in the western portion of the KCDD. The Hunt Development/Ford Island Ventures is also exploring the feasibility of developing 5 MW of energy on its holdings in the KCDD. Finally, the HCDA has identified that up to 20 MW of solar power might be generated upon its own lands at Kalaeloa. Given the pending development of up to 35 MW of solar power at Kalaeloa, there is much logic to establishing the State's pilot project in the KCDD.

Given that the DBEDT currently operates Exclusive Economic Enterprise Zones throughout the State of Hawaii and that the proposal adds this responsibility to their portfolio, the HCDA defers to the DBEDT in this matter.

Thank you for the opportunity to provide testimony on this subject.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Renewable energy enterprise zone

BILL NUMBER: SB 1408; HB 1395 (Similar)

INTRODUCED BY: SB by Fukunaga and Gabbard; HB by Jordan

BRIEF SUMMARY: SB 1408 adds a new chapter to establish a pilot renewable energy enterprise zone in Kalaeloa which shall include a renewable energy facility engaged in the production, generation, or research and development of energy technologies using: (1) wind; (2) the sun; (3) falling water; (4) biogas; (5) geothermal; (6) ocean water, currents and waves; (7) biomass; (8) biofuels; and (9) hydrogen.

Delineates eligibility requirements of a qualified business in order to receive enterprise zone benefits, including state business tax credits, unemployment tax credits, general excise and use tax exemptions and local incentives.

Directs the department of business, economic development and tourism in consultation with the department of taxation to submit a report to the legislature by December 31 of each year beginning in 2012 regarding the implementation of the pilot renewable energy enterprise zone in Kalaeloa. This act shall be repealed on January 1, 2018.

HB 1395 amends HRS section 209E to replace the provision allowing a business engaged in the production of electric power from wind energy to a public utility company for resale with provisions for the development or production of fuels, thermal energy, or electrical energy from renewable resources, including: (1) wind; (2) the sun; (3) falling water; (4) biogas; (5) geothermal; (6) ocean water, currents and waves; (7) biomass; (8) biofuels; and (9) hydrogen.

EFFECTIVE DATE: SB - Tax years beginning after December 31, 2010; HB - Upon approval

STAFF COMMENTS: Act 160, SLH 2000, expanded the enterprise zone laws by revising the definition of qualified businesses to include businesses engaged in producing electric power from wind energy which is subsequently sold to a public utility for resale, making the business eligible for enterprise zone benefits. These proposed measures would further extend enterprise zone benefits to businesses engaged in the development or production of electric power from various renewable energy sources.

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.

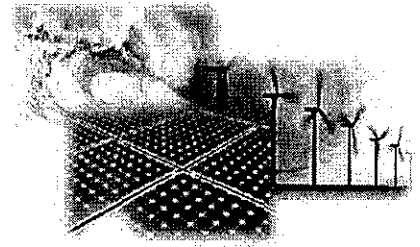
If it is the intent of the legislature to encourage new and existing businesses to expand their employment bases and increase their marketing territories, enterprise zones merely exacerbate what is already considered a poor climate in which to do business. Singling out specific areas of the state merely

confers preferences for those businesses located within those geographic areas at the expense of all other taxpayers who are not so favored. It should be remembered that those taxpayers who live and work in the zone will demand the same public services as those who are not as fortunate to be located in the zone. Who then will pay for these services?

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.

The impetus for the establishment of enterprise zones is to attract businesses to locate in an economically depressed area, to create jobs for those living in that community. This measure specifically singles out the Kalaeloa area as the pilot project area to be designated. Given that interest has already been expressed in locating such an activity in this specific area, one has to question why an enterprise zone status needs to be conferred? Where is there the need to attract this particular activity to this area when it appears that the area has already been singled out for this type of activity. It raises the question of whether or not the particular business is being "taken care of" without any demonstration of need for the tax preferences granted under an enterprise zone. In that sense, all other taxpayers are being asked to subsidize this preferred business.

Digested 2/1/11



**SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY**

February 2, 2011, 1:30 P.M.

Room 016

(Testimony is 1 page long)

TESTIMONY IN SUPPORT OF SB 1408

Chairs Gabbard and Fukunaga and members of the Committees:

The Blue Planet Foundation supports SB 1408, a measure to establish renewable energy enterprise zones in the State to encourage the development of clean energy and create a 7-year pilot renewable energy enterprise zone in Kalaheo.

This measure would provide yet another tool in the policy toolbox to encourage clean energy development in Hawai'i. The redeveloping Kalaheo area is an ideal location for such a pilot program as it is blessed with solar resource and would benefit from added appropriate development and economic growth.

Thank you for the opportunity to testify.



TO: Senator Mike Gabbard
Chair, Committee on Energy and Environment
Hawaii State Capitol, Room201
Via Email: ENETestimony@Capitol.hawaii.gov

FROM: Tim Wong
Vice President of Strategy
Sopogy, Inc.

DATE: February 1, 2011

RE: **S.B. 1408 – Relating to Renewable Energy Enterprise Zones**
Hearing: Wednesday, February 2, 2011 at 1:30 p.m., Room 016

Dear Chair Gabbard and Members of the Committee on Energy and Environment:

My name is Tim Wong and I am the Head of Strategy for Sopogy, Inc. (Sopogy). Sopogy is a solar power technology company based in Hawaii that uses concentration solar thermal to heat to generate electricity, process heat, and provide solar air conditioning. Our mission 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.

Sopogy **strongly supports** S.B. 1408, which creates a renewable energy enterprise Zone in Kalaeloa. We support the state's efforts to develop a new renewable energy sector that will incentivize Hawaii-based renewable energy companies to develop their solar facilities in the state of Hawaii.

The Renewable Energy Enterprise Zone will exempt qualified renewable energy companies from a portion of their state income tax and state unemployment tax for the first seven years (beginning at 80% for the first year with a 10% reduction each year after until year seven). This measure also allows qualified businesses a limited exemption from the state general excise and use tax. These tax benefits will provide a significant benefit to the State, as they will stimulate the growth of a new renewable energy technology sector and will create new construction, new jobs and promote research and development in the solar energy technologies field. Each of these





benefits will move Hawaii one step closer to helping the State eliminate its fossil fuel dependency.

This bill incentivizes solar related businesses to fully utilize the natural solar resources in the Kalaeloa area and to develop renewable energy manufacturing facilities in the area. Kalaeloa has significant natural solar resources and available land, and is ideally suited for the development of such facilities. Currently, Sopogy plans to use its technology to build a 5 megawatt concentrating solar thermal facility in Kalaeloa, but also continues to look for new opportunities to expand in the area.

In sum, we urge your support for this bill, which will help the State become truly energy independent and meet its goals of generating 40% of its energy needs locally by 2030.

Thank you for this opportunity to present testimony in support of this measure.



**Testimony before the
Senate Committees on

Energy and Environment
and
Economic Development and Technology**

S.B. 1408 – Relating to Renewable Energy Enterprise Zones

**Wednesday, February 2, 2011
1:30 pm, Conference Room 016**

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

Chairs Gabbard and Fukunaga, Vice Chairs English and Wakai and members of the Committees:

My name is Arthur Seki—I am the Director of Renewable Technology at Hawaiian Electric Company. I am testifying on behalf of Hawaiian Electric Company (HECO) and its subsidiaries, Maui Electric Company (MECO) and Hawaii Electric Light Company (HELCO) hereinafter collectively referred to as HECO.

HECO supports S.B. 1408 for creating a renewable energy enterprise zone. We would suggest, however, that the existing enterprise zones be open to all renewable energy development. Currently, only wind energy development is allowed in existing enterprise zones. Land availability and incentives for renewable energy development continue to be issues.

Thank you for the opportunity to present this testimony.