

STAND. COM. REP. NO.

244

Honolulu, Hawaii

Feb 14, 2011

RE: H.B. No. 563
H.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Sixth State Legislature
Regular Session of 2011
State of Hawaii

Sir:

Your Committee on Energy & Environmental Protection, to which was referred H.B. No. 563 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this bill is to assist the State in addressing its projected revenue shortfall by:

- (1) Limiting the Ethanol Facility Tax Credit (Tax Credit) to facility taxpayers that claim the credit prior to May 1, 2011; and
- (2) Repealing the Tax Credit on May 1, 2011.

The Department of Taxation, Department of Business, Economic Development and Tourism, Hawaii BioEnergy, LLC, Pacific West Energy LLC, Pacific West Energy Kauai LLC, and Sunfuels Hawaii testified in opposition to this bill. The Tax Foundation of Hawaii provided comments.

Hawaii is one of the most fossil fuel dependent states in the nation with a majority of our oil being imported despite the fact that Hawaii has some of the most diversified environmental conditions for renewable energy production. One incentive to stimulate the production of one of these forms of renewable energy was the enactment of the Tax Credit in both 2000 and 2004. It was envisioned that biofuel production in Hawaii would support

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agriculture, provide synergies with food and feed production, support the maintenance of agricultural infrastructure, reduce fossil fuel imports, improve Hawaii's energy security, and diversify the economy. Unfortunately, many challenges, including the recent turmoil in the financial sector, volatility of the energy markets, and the securing of suitable agricultural land for the production of ethanol have resulted in the Tax Credit being unclaimed.

While your Committee understands that repealing of the Tax Credit will increase the State's financial flexibility to address current issues with the overall financial plan of the State, repealing of the Tax Credit may affect growth of ethanol production in Hawaii and ultimately Hawaii's desire to develop and achieve greater clean energy policies. Your Committee finds that a balance that provides for the current fiscal needs of the State while maintaining the Tax Credit can be achieved by delaying the availability of the Tax Credit for a little more than two years, which is also the timeframe that current ethanol production companies have stated would be the earliest ethanol production facilities could be brought on-line. Accordingly, your Committee has amended this bill by delaying the ability of facility taxpayers to claim the Tax Credit until January 1, 2014.

Your Committee has also amended this measure by:

- (1) Changing its effective date from May 1, 2011, to upon its approval; and
- (2) Making technical, nonsubstantive amendments for clarity, consistency, and style.

As affirmed by the record of votes of the members of your Committee on Energy & Environmental Protection that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 563, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 563, H.D. 1, and be referred to the Committee on Finance.



Respectfully submitted on
behalf of the members of the
Committee on Energy &
Environmental Protection,

for *Danny Coffey*
HERMINA MORITA, Chair



