

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

NEIL ABERCROMBIE
GOVERNOR

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Statement of
RICHARD C. LIM
Interim Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION
Tuesday, February 9, 2011
9:00 AM
State Capitol, Conference Room 325

in consideration of
HB 563
RELATING TO TRANSPORTATION ENERGY INITIATIVES.

Chair Morita, Vice Chair Coffman, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) has serious concerns about HB 563, which would repeal the ethanol facility incentive.

We greatly prefer the approach taken in House Bill 788, which would modify the incentive to be available to other types of biofuels.

The production of biofuels in Hawaii has the potential to support agricultural activity, particularly in rural areas; provide synergies with food and feed production; support the maintenance of agricultural infrastructure; reduce imports; improve our energy security; and provide a measure of economic diversification.

Hawaii has received significant attention in this important area from the US Department of Energy, the US Department of Agriculture, the US Navy, and a number of investors and corporations. There are several biofuel projects in the pilot, design, and permitting phase.

Although most of those projects will not make use of this incentive, the elimination of this incentive could send a negative message and thereby jeopardize the completion or expansion of those projects. In the longer term, abrupt changes in direction and repeal of important energy incentives such as this could reduce Hawaii's attractiveness to investors and supporting agencies and organizations, due to perceived inconsistency and lack of credibility.

One of Hawaii's strengths in the energy area is our clear and consistent support for clean energy policies.

We would like to point out that the structure of this incentive requires the project to be built and operating before the incentive can be claimed. Therefore, the economic benefits and jobs are created first, and the facility has to be operational, before the facility is eligible for the incentive.

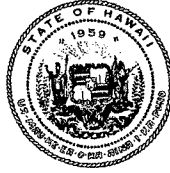
This particular incentive has attracted significant positive attention without cost to the State. And there will be no costs until something gets built.

We respectfully request that the Committee hold this measure.

Thank you for the opportunity to offer these comments.

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR



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HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 563 RELATING TO TAXATION

WRITTEN TESTIMONY ONLY

TESTIFIER: FREDERICK D. PABLO, INTERIM DIRECTOR OF
TAXATION (OR DESIGNEE)
COMMITTEE: EEP
DATE: FEBRUARY 8, 2011
TIME: 9AM
POSITION: COMMENTS

This measure repeals the ethanol facility tax credit effective May 1, 2011.

The Department of Taxation (Department) suggests that this bill be held in favor of other legislation that is intended to expand the ethanol facilities tax credit so that it may be utilized by more taxpayers.

The Department understands that the current ethanol facilities tax credit is underutilized. For the past few years, the Legislature has considered numerous efforts to expand the existing credit for additional biofuel varieties e.g., HB 788. The Department believes the efforts to expand the existing credit, and thus assisting with reducing Hawaii's dependency on fossil fuels, is more worthwhile.

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SUBJECT: INCOME, Sunset ethanol facility tax credit

BILL NUMBER: HB 563

INTRODUCED BY: Chong, M. Lee, B. Oshiro, Say, Yamashita

BRIEF SUMMARY: Repeals HRS section 235-110.3, the ethanol facility income tax credit.

Allows a taxpayer to claim the ethanol facility tax credit for investments made on a qualifying ethanol facility prior to May 1, 2011; provided that the claim credit is properly filed on or before the end of the twelfth month following the close of the taxable year for which the tax credit may be claimed.

EFFECTIVE DATE: May 1, 2011

STAFF COMMENTS: While the proposed measure would repeal the ethanol facility tax credit on May 1, 2011, in order to claim the credit a facility must be in operation and its level of production must be at least 75% of its nameplate capacity. Inasmuch as it appears that there will be no ethanol production facilities in operation by May 1, 2011, it is doubtful that this credit will be claimed before its repeal date.

Digested 2/7/11

HB 563

RELATING TO TAXATION

**JOEL K. MATSUNAGA
CHIEF OPERATING OFFICER & EXECUTIVE VP
HAWAII BIOENERGY, LLC**

FEBRUARY 8, 2011

Chair Morita, Vice Chair Coffman and Members of the House Committee on Energy & Environmental Protection:

I am Joel Matsunaga, testifying on behalf of Hawaii BioEnergy on HB 563, "Relating to Taxation."

SUMMARY

Hawaii BioEnergy ("HBE") opposes HB 563 which limits the ethanol facility tax credit by allowing taxpayers to claim the tax credit only for investments made prior to May 1, 2011. Maintaining a facility credit to help offset capital costs will lower the barriers to entry for prospective producers as well as help to jumpstart the nascent renewable fuels industry in Hawaii; however, HBE asserts that the credit would be more effective in expanding the state's bio-based economy if the revised statute was expanded to apply to biofuels more broadly.

HAWAII BENEFITS FROM LOCAL BIOFUELS PRODUCTION

Hawaii BioEnergy is a local company dedicated to strengthening the state's energy future through sustainable biofuel production from locally grown feedstocks. Among its partners are three of the larger land owners in Hawaii. HBE and its partners would like to use significant portions of their land to address Hawaii's existing and growing energy needs.

One of the biofuel alternatives that HBE is pursuing is the production of jet fuel and other oil derivatives from micro-algae, and is already engaged in Phase II of a Hawaii-based, DARPA-funded algae project. Along with providing a local, renewable, and lower-carbon fuel source, expanded algae-based biofuel production will benefit the agriculture industry by providing a local

source of protein for animal feed, fertilizers and other products. In addition to HBE's on-going algae-based biofuel projects, the company is moving forward with plans to develop locally produced high density fuels from sweet sorghum, eucalyptus and/or other dedicated energy crops. The feedstocks and conversion production pathways under consideration hold tremendous potential to displace fossil fuel imports given their relatively low input requirements, exceptionally high yields, and capacity to produce a portfolio of products including liquid fuels for transport and power generation while contributing feed, and other bio-based co-products to the local market.

In addition to the clear environmental and energy security benefits that local production would bring to bear, fostering Hawaii's biofuel industry would also provide needed economic stimulus to the state through direct investment, job creation, and demand for goods and services. Based on an independent analysis commissioned by HBE, it's projected that a large-scale agricultural operation coupled with biofuels facility could provide up to 1,400 new direct, indirect and induced jobs, over \$115 million in value added or new wealth, and over \$17 million in annual tax revenue from combined indirect business and personal income taxes. Such benefits could be multiplied through additional investments in large-scale biofuels facilities supported through a facility tax credit.

While the environmental, energy security and economic benefits are clear, the state's ability to secure the substantial capital required for large-scale commercial facilities requires providing a degree of assurance to private investors that they will be able to recover their investment within a reasonable time horizon. Extending the current Ethanol Facility Tax Credit to incorporate biofuels more broadly would help to attract a wider range of investors and provide the additional support needed to help offset the technology and capital risk inherent in the establishment of new industries, particularly those that require new technology. The credit would also be self-sustaining as the additional business and income tax revenue generated by the industry could be applied to future credits.

CONCLUDING REMARKS

HBE is moving forward with projects that will help provide renewable and sustainable sources of energy for Hawaii. Limiting tax incentives such as HRS235-110.3 will also limit the growth of the bio-based renewable fuels industry in this state. HBE therefore opposes HB 563 and respectfully requests that members of the committee consider alternative measures being proposed before this legislature that expand the existing HRS235-110.3 to apply to a broader base of biofuels.

Thank you for the opportunity to testify.