



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

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Statement of
RICHARD C. LIM
Director

Department of Business, Economic Development, and Tourism
before the

**HOUSE COMMITTEE ON ECONOMIC REVITALIZATION AND BUSINESS
AND
HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION**

Tuesday, March 22, 2011
10:30 AM
State Capitol, Conference Room 312

in consideration of
SB 1164, SD2
RELATING TO ENTERPRISE ZONES

Chair McKelvey, Acting Chair Coffman, Vice Chair Choy, and Members of the
Committees.

The Department of Business, Economic Development, and Tourism (DBEDT) supports the intent of SB 1164, SD2, which amends the definition of "eligible business activity" in the Enterprise Zones (EZ) Program to include the production of renewable energy as defined in section 269-91 and owning, controlling, operating or managing any seawater air conditioning district cooling project.

DBEDT believes that it is essential for the State to reduce its dependence upon fossil fuels by developing renewable and clean energy resources. The EZ Program's favorable tax incentives are an important way of encouraging new industry development and is especially important to the success of the Hawaii Clean Energy Initiative. An ambiguity exists, however, in the application of the EZ Program's general excise tax exemption for energy sold primarily to a

public utility company for resale to the public (as an eligible business activity in section 209E-11), and the excise tax on the sale of electric power to a public utility company for resale to the public in section 237-13.5. To clarify this ambiguity, DBEDT respectfully requests that the Committee consider amending this measure to include the following language on Page 2 (Line 5):

SECTION 2. 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 an eligible business activity as defined in this chapter; 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[-] ; and provided further this section shall apply notwithstanding section 237-13.5. The gross proceeds received by a contractor licensed under chapter 444....”

Thank you for the opportunity to offer these comments.

From: Tina Desuacido [tina500@juno.com]
Sent: Monday, March 21, 2011 10:01 AM
To: ERBtestimony
Subject: Tax Foundation Testimony
Attachments: s0745e11.pdf; s1164e11.pdf

TRANSMISSION OF TESTIMONY

DATE: Monday, March 21, 2011

TO: House Committee on Economic Revitalization & Business
House Committee on Energy & Environmental Protection

FROM: Tax Foundation of Hawaii

Total Pages 3

FOR: Rep. Angus McKelvey, Chair
Rep. Denny Coffman, Acting Chair

Testifier: Lowell L. Kalapa, President - Tax Foundation of Hawaii

(Mr. Kalapa will not appear in person at the hearing.)

Date of Hearing - Tuesday, March 22, 2011

Position: Comments

Time of Hearing - 10:30 am

SB 745, SD-2 - Relating to Seawater Air Conditioning (1 page)

✓ **SB 1164, SD-2 - Relating to Enterprise Zones (2 pages)**

Number of copies - 4

Thank you.

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SUBJECT: MISCELLANEOUS, Renewable energy resources

BILL NUMBER: SB 1164, SD-2

INTRODUCED BY: Senate Committee on Ways and Means

BRIEF SUMMARY: Amends HRS section 209E-2 to amend the definition of "eligible business activity" in an enterprise zone to include the: (1) production of electric power from renewable energy from: (a) wind; (b) the sun; (c) falling water; (d) biogas; (e) geothermal; (f) ocean water, currents and waves; (g) biomass; (h) biofuels; and (I) hydrogen for sale to a public utility for resale; and (2) owning, controlling operating, or managing any seawater air conditioning district cooling project.

EFFECTIVE DATE: July 1, 2050

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. The proposed measure would further extend enterprise zone benefits to the: (1) production of electricity from renewable energy sources; and (2) owning, controlling operating, or managing any seawater air conditioning district cooling project.

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?

The question is why confer enterprise status on this type of activity as it would seem the location and placement of the solar collectors would be more important than the fact that the facility is located in a depressed economic zone. This proposal is counter-intuitive and fails to recognize the forces and factors taken into consideration in establishing a business enterprise. Then again, having much experience doing business is sorely lacking in the policymaking arena today.

The proposed measure also provides that the owning, controlling operating, or managing of a sea water air conditioning system would be eligible for enterprise zone benefits. While it appears that the legislature wishes to subsidize a project that is already on the drawing boards, the question is whether or not the project has demonstrated a need for such special treatment or is it just a matter that the legislature just wants to look like it is doing something to “revitalize the economy?” Using the back door means of conferring an enterprise zone benefit upon this project implies the legislature knows better what this project needs to become a success. The project may not need all of the exemptions and exclusions from taxes and employment mandates, but instead, it may need financing. Thus, unless the project has identified where it needs assistance, creating an enterprise zone makes absolutely no sense.

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.

Digested 3/21/11

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TO: Representative Angus L.K. McKelvey
Chair, Committee on Economic Revitalization & Business
Hawaii State Capitol, Room 427

Representative Denny Coffman
Chair, Committee on Energy & Environmental Protection
Hawaii State Capitol, Room 317

Via Email: ERBtestimony@Capitol.hawaii.gov

FROM: Gary M. Slovin / Mihoko E. Ito

DATE: March 20, 2011

RE: **S.B. 1164, S.D. 2 – Relating to Enterprise Zones**
Hearing: Tuesday, March 22, 2011 at 10:30 a.m.
Room 312

Dear Chairs McKelvey and Coffman and Members of the Committees:

We appreciate the opportunity to submit comments on behalf of Sopogy, Inc. **regarding** S.B. 1164, S.D. 2. Sopogy is a solar power technology company based in Hawaii that uses concentration solar thermal technology to generate electricity, process heat, and provide solar air conditioning. The company has successfully completed numerous projects in Hawaii and around the world using this technology.

S.B. 1164, S.D. 2, amends the definition of "eligible business activity" in Hawaii's enterprise zone program to include renewable energy projects that sell electric power for resale to the public.

We appreciate the interest the Legislature has taken in the bill, and support the intent of the measure to incentivize renewable energy projects, including concentrated solar technology projects.

We have met with the Department of Business, Economic Development and Tourism (DBEDT) on to discuss the renewable energy and revenue benefits this measure has the

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potential to bring to the State. As drafted, however, it is not certain that this bill will include Sopogy's activities. We will continue to work with DBEDT on these issues and refine language for any potential legislation. However, at this time, we would prefer that this measure be deferred so that the parties can work in the interim on defining the scope of any amendments to the enterprise zone law.

Thank you very much for the opportunity to submit comments on this measure.



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Affiliate of Renewable Energy Innovations, LLC

Testimony on

S.B. NO. 1164 SD2

RELATING TO SEAWATER AIR CONDITIONING

Before the
House Committee on Energy and Environmental Protection
and
House Committee on Economic Revitalization & Business
Tuesday, March 22, 2011, 10:30 a.m., Conference Room 312

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

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

Honolulu Seawater Air Conditioning, LLC **strongly supports** S.B. 1164 SD2, which allows the sale of chilled water service from a seawater air conditioning district cooling systems to qualify for state enterprise zone benefits.

If passed, 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.**

Customers of the downtown Honolulu Seawater Air Conditioning, LLC project 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 would significantly assist customers in offsetting the costs inherent in converting to this green technology.

A downtown Honolulu Seawater Air Conditioning project would generate close to **\$200 million of dollars in construction project spending**. In addition, it would create a long-term, gainful employment and establish local companies as the leading authorities on Seawater Air Conditioning systems. Other local economic development benefits would 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 would provide the following benefits over the first 25 years of operation:

Energy and Environmental Benefits Over First 25 Years

Electricity Savings	2,000,000,000 kWh
Reduction in Demand for New Fossil Fuel Fired Generation	14 MW
Reduction in Crude Oil Use	4,450,000 barrels
Reduction in Potable Water Use	6,500,000,000 gallons
Reduced Sewage Generation	2,130,000,000 gallons

SB 1164 adds seawater air conditioning district cooling systems among other renewable energy systems to the definition of "qualified business" to qualify for state enterprise zone benefits in an existing enterprise zone. Downtown Honolulu and Kakaako (the service area for a downtown Honolulu Seawater Air Conditioning 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, during the operational phase only, would effectively reduce the costs of such systems to customers and would help introduce this promising technology to Hawaii.

Thank you for this opportunity to testify.

TESTIMONY OF REGINALD V. CASTANARES, JR.
President
The Hawaii Building and Construction Trades Council, AFL-CIO

In Support of SB 1164, SD2

Before the House:
Committee on Economic Revitalization & Business and
Committee on Energy & Environmental Protection

Monday, Mar. 22, 2011
10:30 AM, Conference Room 312

Aloha Chair McKelvey and Chair Coffman, Vice-Chair Choy and Members of the Committees,

My name is Reggie Castanares, I have the privilege to serve the Hawaii Building and Construction Trades Council as its President. Our organization and affiliates represent the largest association of the constructions trade's workers in Hawaii with 16 specialty crafts and trades labor organization.

The HBTC, **Supports, SB 1164 SD2**, which amends the definition of "eligible business activity" in Hawaii's enterprise zone program to include the production of certain electric power from renewable energy, and owning, controlling, operating, or managing a seawater air conditioning district cooling project.

We believe that there is potential jobs created now for the development and construction phase and future jobs for operating and maintenance for our Union members.

Therefore, the Hawaii Building and Construction Trades Council,
Supports SB1164, SD2.

Thank you for this opportunity to testify.

Reggie Castanares, President