



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

NEIL ABERCROMBIE
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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 AND ENVIRONMENTAL PROTECTION**

Tuesday, March 22, 2011

10:30 a.m.

State Capitol, Conference Room 312

in consideration of

SB 745 SD2

RELATING TO SEAWATER AIR CONDITIONING.

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

The Department of Business, Economic Development, and Tourism (DBEDT)

supports the intent of Senate Bill 745 SD2, 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 as the technology is in alignment with

Hawaii's Clean Energy Initiative which supports renewable energy activities.

DBEDT would like to mention that SB1164 SD2, includes the ownership, control, operation, or management of any seawater air conditioning district cooling project as and eligible business activity in the Hawaii Enterprise Zones Partnership program. The department strongly supports the language included in SB1164 SD2 related to this activity. Proposed language in SB1164 SD2 is the preferable bill to support this industry.

Thank you for the opportunity to provide 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, Expand enterprise zone eligibility

BILL NUMBER: SB 745, 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” to include the production of air conditioning from a seawater air conditioning district cooling system.

Amends HRS section 209E-11 to provide that the gross income received by a contractor in connection with the construction of a seawater air conditioning district cooling system shall not be exempt from the general excise tax.

EFFECTIVE DATE: July 1, 2050

STAFF COMMENTS: This measure proposes to expand enterprise zone laws to include the production of 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 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 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, on the other hand, 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?

This, like many other “tax incentive” proposals, is an indicator that lawmakers truly do not understand business, but instead want to offer a “magic bullet” to heal the economy. It is no surprise that Hawaii’s economy continues to falter as policymakers do not understand some of the basics that make businesses run and thrive.

Digested 3/21/11



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Affiliate of Renewable Energy Innovations, LLC

Testimony on
S.B. NO. 745 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. 745 SD2, which allows the sale of chilled water service from a seawater air conditioning district cooling systems to qualify for state enterprise zone benefits.

Due to the difficult economic conditions facing the State, we are proposing SB 745 would only provide a GET exemption for Seawater Air Conditioning systems during the **operational phase** of their project. **No GET exemption benefit to SWAC systems will be realized during their construction phase.**

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.

A downtown Honolulu seawater air conditioning project would generate an estimated **\$16M** in new taxes (GET and Income Taxes) during its construction phase (2011 to 2013). During this same period, SWAC projects will not require enterprise zone benefits in the form of GET exemptions to customers of the system.

Over the next 25 years, a project would generate \$52.4M in GET revenue. With SB 745, Seawater Air Conditioning customers would benefit from **\$11.2M** in GET exemptions during the first 7 years of operations and net GET revenue to the State of **\$41.1M**. SB 745 limits customers' risk in converting to a Seawater Air Conditioning district cooling system.

Recognizing the fiscal challenges the state is currently facing, SB 745 would result in no tax exemption for this fiscal biennium.

If a project is completed, there would be a net increase in State tax revenue of more than \$27M over the life of the project.

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 745 adds seawater air conditioning district cooling systems to the definition of "qualified business" to qualify for state enterprise zone benefits in an existing enterprise zone. "Qualified business" already includes another renewable energy technology - wind. Downtown Honolulu and Kakaako (the service area for a downtown Honolulu Seawater Air Conditioning project) are in an enterprise zone. **This bill does not create a new 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 745, 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 SB745, SD2**, which allows the sale of air conditioning produced from seawater air conditioning district cooling systems (SWAC) to qualify for state enterprise zone benefits. Establishes that contractors working on SWAC will not be exempt from the general excise tax.

By adding other energy alternative enterprises such as seawater air conditioning district cooling systems will further promote the State's goal of reducing Hawaii's dependency on fossil fuels. The downtown Honolulu Seawater Air Conditioning Project will generate significant construction spending and create jobs now and for the future.

The Hawaii Building and Construction Trades Council, **Supports SB745, SD2**.

Thank you for this opportunity to testify.

Reggie Castanares, President