

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

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

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Statement of
RICHARD C. LIM
Director

Department of Business, Economic Development, and Tourism
before the

HOUSE COMMITTEE ON FINANCE

Tuesday, February 25, 2014

1:00 PM

State Capitol, Conference Room 308

in consideration of

HB 1950, HD 1
RELATING TO SEAWATER AIR CONDITIONING

Chair Luke, Vice-Chairs Nishimoto and Johanson, and Members of the
Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) opposes HB 1950, HD1, in its current form, which adds “production of air conditioning in an area or district from a seawater air conditioning system” to the list of business activities eligible for the Enterprise Zone GET exemption and income tax credits for seven years.

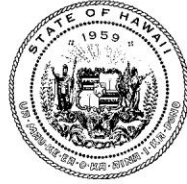
The primary mission of DBEDT’s Enterprise Zone program is to encourage the development of long-term, full-time jobs for local residents in Hawaii’s economically disadvantaged areas. The production of air conditioning from seawater air conditioning systems, as we understand it, is not a major contributor to long-term, full-time jobs. If it is the Legislature’s intention to provide a GET exemption we recommend that the proposed GET exemption be limited to the construction of systems.

We defer to the Department of Taxation on the fiscal impact of this measure.

Thank you for the opportunity to provide these comments.

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
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FREDERICK D. PABLO
DIRECTOR OF TAXATION

JOSHUA WISCH
DEPUTY DIRECTOR

To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Tuesday, February 25, 2014
Time: 1:00 p.m.
Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. No. 1950, H.D.1, Relating to Seawater Air Conditioning

The Department of Taxation (Department) appreciates the intent of H.B. 1950, H.D.1, to encourage the use of renewable and sustainable energy sources in the State.

H.B. 1950, H.D.1, qualifies the production of air conditioning in an area or district from a seawater air conditioning cooling system as an "eligible business activity" under the State's enterprise zones program so that it would be eligible for various tax incentives established in the enterprise zone program. The measure would take effect upon its approval.

The Department defers to the Department of Business, Economic Development, and Tourism on the merits of this measure, but notes that the business would still need to be located in an enterprise zone within the State in order to qualify for the tax benefits. In addition, even if a business qualifies as an enterprise zone business, in order for the business to be eligible for the General Excise Tax (GET) exemption, the delivery of any service must also occur within an enterprise zone in order to qualify for the exemption. The delivery of a service to customers outside of an enterprise zone would not qualify for the GET tax exemption.

Thank you for the opportunity to provide comments.

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

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SUBJECT: MISCELLANEOUS, Expand enterprise zone eligibility

BILL NUMBER: HB 1950, HD-1

INTRODUCED BY: House Committee on Consumer Protection & Commerce

BRIEF SUMMARY: Amends HRS section 209E-2 to amend the definition of “eligible business activity” in an enterprise zone to include the production of air conditioning from a seawater air conditioning cooling system in an area or district.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: This measure proposes to expand enterprise zone laws to include a business that produces 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 commit to maintain or increase head count within the zone and may claim a tax credit on a sliding scale based on income taxes and state unemployment insurance contributions for a period of seven years. The sale of items sold by such businesses within the zone, and contracting activity within the zone, are exempt from the general excise tax.

The bill’s apparent beneficiary, in previous testimony, mentioned that the project would generate \$200 million in construction spending on Oahu. Thus, the fiscal impact would be at least \$9 million (\$200 million x 4.5%) counting only the contracting activity exemption.

Concurrent efforts must be made to improve Hawaii’s business climate to enhance the economic prospects for all businesses. Government is still responsible 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 2/23/14



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Finance
Tuesday, February 25, 2014 at 1:00 P.M.
Conference Room 308, State Capitol**

**RE: HOUSE BILL 1950, HD1 RELATING TO SEAWATER AIR
CONDITIONING**

Chair Luke, Vice Chairs Nishimoto and Johanson, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") **supports** HB 1950, HD1 Relating to Seawater Air Conditioning.

The Chamber is the largest business organization in Hawaii, representing over 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

This bill provides support to seawater air conditioning by allowing production to qualify for state enterprise zone benefits. Enterprise zones were designed to attract investment into an area to stimulate the economy and create jobs. Seawater air conditioning is an innovative approach that would replace inefficient cooling systems with a system that utilizes cold deep seawater – a resource readily available to our island state.

HB 1950, HD1 would provide benefits to reduce the high costs associated with converting to renewable energy sources. In converting to renewable energy resources, green technology becomes more readily available to customers and helps create a more sustainable state.

Thank you for the opportunity to testify.



HOUSE COMMITTEE ON FINANCE
Tuesday, February 25, 2014 – 1:00 p.m. – Room 308

Ulupono Initiative Strongly Supports HB 1950 HD 1, Relating to Seawater Air Conditioning

Dear Chair Luke, Vice Chair Nishimoto, Vice Chair Johanson and Members of the Committee:

My name is Murray Clay and I am managing partner of the Ulupono Initiative, a Hawai'i-based impact investment firm that strives to improve the quality of life for the people of Hawai'i by working toward solutions that create more locally grown food, increase renewable energy, and reduce/recycle waste. Ulupono invests in projects that have the potential to create large-scale, innovative change.

Ulupono strongly supports HB 1950 HD 1, which will allow the production of air conditioning in an area from a seawater air conditioning cooling system to benefit as an “eligible business activity” under the State’s enterprise zones program. We support HSWAC’s request because we believe seawater air conditioning technology is proven and will help replace the energy-intensive central refrigeration system of a traditional air-conditioning system. HSWAC is targeting buildings that could benefit from substantial savings on electricity and water consumption, system replacement costs, and maintenance costs. By using 44 degree seawater instead of electricity to cool buildings, electricity costs can be cut by 75% and save an estimated 77 million kilowatt-hours of power a year. That is enough to power more than 10,000 homes a year and eliminate the need to burn 178,000 barrels of oil a year.

This technology is known to provide substantial savings of energy and fresh water, both of which are critical to our economy and sustainability. HSWAC will reduce potable water consumption for air conditioning by 260 million gallons and avoids 84,000 tons of carbon dioxide (15,000 cars). In addition, it will also help the State move closer to its HCEI clean energy goals and support Hawai'i’s vital tourism industry.

Since this project has potential to greatly benefit the State, we feel this bill should qualify under the State’s enterprise zone program. This designation will help to spur greater success in energy efficiency projects that can help Hawai'i become less dependent on imported fossil fuels.

Ulupono Initiative seeks to promote and invest in innovative sustainability ideas and business models that have the potential to make a significant difference for Hawai'i. We work with, and invest in, businesses that show this potential for innovation. We strive to invest in ideas and inspiration born in Hawai'i while using technologies and models that can be replicated for global applicability.

Thank you for this opportunity to testify.

Respectfully,

Murray Clay

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Affiliate of Renewable Energy Innovations, LLC

Testimony on
H.B. 1950, H.D. 1
RELATING TO SEAWATER AIR CONDITIONING



Before the
House of Representatives
COMMITTEE ON FINANCE
Tuesday, February 25, 2014

By
Eric Masutomi, CEO and President
Honolulu Seawater Air Conditioning, LLC

Chair Luke, Vice Chairs Nishimoto and Johanson, and Members of the Committee.

Honolulu Seawater Air Conditioning, LLC (HSWAC) strongly supports H.B. 1950, H.D. 1 which would allow the sale of chilled water service from seawater air conditioning district cooling systems to qualify for state enterprise zone benefits.

Deepwater district cooling systems have been successfully implemented in numerous localities throughout the U.S., Canada and Europe – with many in operation for over twenty years. Despite this proven record of success, our experience has shown that when district energy systems such as that being developed by HSWAC are newly introduced in a community, potential customers are frequently wary about the costs of converting to the new system, the risk of higher costs in the initial years of operation and the uncertainties of adapting to a new system. The enterprise zone qualification would significantly assist customers in offsetting the perceived costs and risk inherent in converting to this green technology.

If passed, this bill will assist potential customers of seawater air conditioning district cooling systems in making the critical decision to eliminate existing inefficient cooling systems – currently responsible for more than forty percent of a building's electricity consumption - in favor of utilizing a district cooling system that takes benign advantage Hawaii's abundant surrounding ocean waters. With the potential to reduce electricity consumption used for air conditioning by up to 75%, this technology promises to significantly contribute to the State's sustainability objectives and reduce our dependence on imported fossil fuels.

With proper maintenance, the infrastructure supporting these systems has a useful life of more than 60 years. In addition to the compelling environmental and renewal energy benefits associated with deep water cooling, a seawater air conditioning project in the Downtown Honolulu – Kakaako Enterprise Zone would generate close to \$250 million of dollars in construction spending and create more than 1,500 construction jobs in 2014 through 2016. In addition, it would create a long-term, gainful employment and establish the State as a leading authority on the development and installation of seawater air conditioning systems throughout the Asia-Pacific region. Other local economic benefits would accrue from money that stays in Hawaii and is not exported outside the State to purchase oil.

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 would effectively reduce the costs of such systems to customers and would help tremendously in introducing this promising technology to Hawaii.

Thank you for this opportunity to testify.