

NEIL ABERCROMBIE
GOVERNOR

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To: The Honorable David Y. Ige, Chair
and Members of the Senate Committee on Ways and Means

Date: Friday, March 28, 2014
Time: 9:35 a.m.
Place: Conference Room 211, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. No. 1950, H.D. 2, Relating to Seawater Air Conditioning

The Department of Taxation (Department) offers comments with respect to H.B. 1950, H.D. 2 for your consideration.

This measure 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 zone program, thereby enabling the business (among other things) to be eligible for the various tax incentives of the program. The measure has a defective effective date of July 1, 2030.

The Department defers to the Department of Business, Economic Development, and Tourism on the merits of this measure, but notes that in order to qualify for the tax incentives of the Enterprise Zone program, a qualified service business would need to sell its services from a location within an enterprise zone. If the qualified business is selling tangible personal property, delivery must also be to a business located in an enterprise zone within the same county that the qualified business is established in. The delivery of tangible personal property to customers outside of an enterprise zone would not qualify for the exemption.

In addition, to qualify for the general excise tax exemption for construction activities for an enterprise zone business, the construction activities must take place for the qualified business within an enterprise zone.

Thank you for the opportunity to provide comments.



**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
SENATE COMMITTEE ON WAYS AND MEANS

Friday, March 28, 2014
State Capitol, Conference Room 211

in consideration of
HB 1950 HD 2
RELATING TO SEAWATER AIR CONDITIONING.

Chair Ige, Vice-Chair Kidani and Committee members.

The Department of Business, Economic Development, and Tourism (DBEDT) opposes HB 1950,HD2, 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.

DBEDT will be examining the various subsets of renewable energy, including seawater air conditioning, to ascertain how appropriate some of these business activities might be to the

Enterprise Zone program. DBEDT would be happy to report back to the legislature next session with recommendations.

We defer to the Department of Taxation on the fiscal impact of this measure. Thank you for the opportunity to provide these comments.



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Affiliate of Renewable Energy Innovations, LLC

Testimony on
H.B. 1950, H.D.2
RELATING TO SEAWATER AIR CONDITIONING
Before the
Hawaii State Senate
COMMITTEE ON WAYS AND MEANS
Friday, March 28, 2014
By
Eric Masutomi, CEO and President
Honolulu Seawater Air Conditioning, LLC

Good afternoon, Chair Ige, Vice Chair Kidani and Members of the Committee.

Honolulu Seawater Air Conditioning, LLC (HSWAC) strongly supports H.B.1950, HD2 which would allow the production and sale of chilled water service from seawater air conditioning district cooling systems to qualify for state enterprise zone benefits. We do, however, recommend that the bill be amended to restore the effective date to July 1, 2014.

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.

In addition to the compelling environmental and renewable energy benefits associated with deepwater cooling, seawater air conditioning projects in the Downtown Honolulu-Kakaako Enterprise Zone have the potential to create a significant amount of permanent, high-value jobs in the area, which is consistent with the purpose and intent of the Enterprise Zone program. The latter is in addition to the more than 1500 construction jobs expected to be generated by construction of the HSWAC system in 2014 to 2016. Other local benefits would accrue from money that stays in Hawaii and 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.



SENATE COMMITTEE ON WAYS & MEANS
Friday, March 28, 2014 – 9:35 a.m. – Room 211

Ulupono Initiative Strongly Supports HB 1950 HD 2, Relating to Seawater Air Conditioning

Dear Chair Ige, Vice Chair Kidani 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 2, 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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Chamber of Commerce HAWAII
The Voice of Business

Testimony to the Senate Committee on Ways and Means

Friday, March 28, 2014 at 9:35 A.M.
Conference Room 211, State Capitol

RE: HOUSE BILL 1950 HD2 RELATING TO SEAWATER AIR CONDITIONING

Chair Ige, Vice Chair Kidani, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") **supports** HB 1950 HD2, which allows the production of air conditioning in an area or district from a seawater air conditioning cooling system to benefit as an "eligible business activity" under the State's enterprise zones program.

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 HD2 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.

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Expand enterprise zone eligibility

BILL NUMBER: HB 1950, HD-2

INTRODUCED BY: House Committee on Finance

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: July 1, 2030

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 3/13/14

Testimony of Thomas J. Smyth, CEcD
Before the
Committee on Economic Development, Government Operations and Housing
And
Committee on Energy and Environment

Friday, March 28, 2014 9:35 a.m. Conference Room 211
On
HB 1950 HD2 Relating to Seawater Air Conditioning

Chair Ige , Vice Chair Kidani and Committee Members:

As the former manager of the DBEDT Enterprise Zone (EZ) Partnership Program, I strongly support adding Seawater Air Conditioning (SWAC) District Cooling Systems to the types of businesses eligible to participate in the EZ Program.

Since its creation in 1986 the EZ Program has been relatively successful in helping more than 250 firms start and grow their workforce in areas that meet certain economic distress criteria. The counties have been active partners in the program by designating zones and establishing their own economic incentives.

To date the only alternative energy activities eligible for EZ benefits are wind farms. This approach is not consistent with the State's focus on developing a strong alternate energy and energy efficient programs. Even though alternate energy firms do not have a lot of employees in construction and later operations, they are an essential element in the reduction of costs for businesses and the state itself. **Addition of those SWAC facilities that are in any of the existing 22 EZs across the state will certainly add to our energy independence emphasis.**

We understand that the SWAC District now being developed for the Downtown Honolulu area, an existing EZ, will not only contribute to fossil-fuel energy dependence but allow co-located state and C&C buildings to save money on their air conditioning costs. Coupled with other energy efficiency efforts this will help them with their budget difficulties. **It should be noted that since EZ firms are granted a GET exclusion, they may not pass any GET tax on to their customers.**

Other sites are being planned, some of which may also be located in currently designated EZs. Since there will not be more than a few such sites, the DBEDT staff effort needed to add them will, in my opinion, be minimal.

Finally, I believe that the exception to the licensed contractor GET exemption in the EZ program is appropriate and will significantly reduce the economic impact on the state. **When coupled with the cost saving for state buildings, the overall dynamic revenue cost-benefit analysis will show a relative balance.**

Thank you for the opportunity to provide comments.