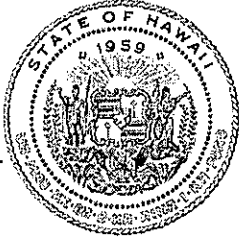


# SB 3027

Measure Title: RELATING TO ECONOMIC DEVELOPMENT.

Report Title: Energy Zone Designation; Department of Business, Economic Development, and Tourism

Description: Allows the energy resources coordinator and governor to designate areas as energy zones. Provides a state business tax credit to qualifying businesses in energy zones.



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

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813  
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**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 COMMITTEES ON ENERGY AND ENVIRONMENT**  
And  
**ECONOMIC DEVELOPMENT, GOVERNMENT OPERATIONS AND HOUSING**

Wednesday, February 5, 2014  
2:50 PM  
State Capitol, Conference Room 016

in consideration of  
**SB 3027**  
**RELATING TO ECONOMIC DEVELOPMENT.**

Chairs Gabbard and Dela Cruz, Vice Chairs Ruderman and Slom, and Members of the Committees.

The Department of Business, Economic Development, and Tourism (DBEDT) offers comments on SB 3027, which directs DBEDT to designate energy zones and administer the proposed energy zone program.

DBEDT notes that the Hawaii Clean Energy Initiative is an effective driver in stimulating the development of renewable energy and our State's economy. We also note, that there are existing policies and programs in place to incentivize the development of renewable energy in Hawaii. DBEDT advises that any new economic incentive program should reflect the State's energy policy of balancing technical, economic, environmental and cultural considerations, and not be approached strictly on a "renewable energy at any cost" basis.

DBEDT respectfully defers to the Department of Taxation on the fiscal impacts 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**  
P.O. BOX 259  
HONOLULU, HAWAII 96809  
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FREDERICK D. PABLO  
DIRECTOR OF TAXATION

JOSHUA WISCH  
DEPUTY DIRECTOR

To: The Honorable Mike Gabbard, Chair  
and Members of the Senate Committee on Energy and Environment

The Honorable Donovan M. Dela Cruz, Chair  
and Members of the Senate Committee on Economic Development, Government  
Operations and Housing

Date: Wednesday, February 5, 2014  
Time: 2:50 P.M.  
Place: Conference Room 016, State Capitol

From: Frederick D. Pablo, Director  
Department of Taxation

Re: S.B. No. 3027, Relating to Economic Development

The Department of Taxation (Department) provides the following comments regarding S.B. 3027 for your consideration.

S.B. 3027 would allow for the creation of "Energy Zones" within the State, to be administered by the Department of Business, Economic Development, and Tourism (DBEDT). Participants in energy zones would receive numerous State tax benefits.

The Department defers to DBEDT regarding the merits of this legislation, and notes the similarity of the energy zones described in S.B. 3027 to Enterprise Zones, already created in Chapter 209E, Hawaii Revised Statutes (HRS). The production of energy using means other than wind is not an eligible business activity under the Enterprise Zone statutes, due to the definition of "eligible business activity" in Chapter 209E, HRS. The Department notes that S.B. 2764, which is also set for hearing before these Committees, presents an alternative that would result in the same or similar tax benefits for energy producers and which would utilize an administrative framework already in place.

The Department additionally notes that S.B. 3027 would provide tax benefits for taxpayers, but does not make clear the authority of the Department to audit claims for the tax benefits. If tax benefits are offered, the Department requests that the sections providing tax benefits be placed in Title 14, HRS, so that it is clear that the Department has authority and jurisdiction to audit claims for benefits, and to enforce compliance.

Department of Taxation Testimony  
SB 3027 ENE/EGH  
February 5, 2014  
Page 2 of 2

The Department additionally notes that, while the majority of businesses in an energy zone would be subject to the General Excise Tax, some may be subject to the Public Utilities Tax described in Chapter 239, HRS.

Thank you for the opportunity to provide comments.

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** MISCELLANEOUS, Energy zone designation

**BILL NUMBER:** SB 3027

**INTRODUCED BY:** Dela Cruz, Solomon and 1 Democrat

**BRIEF SUMMARY:** Adds a new part to HRS chapter 201 to allow the energy resources coordinator to declare up to six areas in each county as energy zones for a period of twenty years; provided the census tract in which the zone is located also meets one of the following criteria: (1) twenty-five percent or more of the population have incomes below eighty percent of the median family income of the county; (2) the unemployment rate is 1.5 times the state average; or (3) is an area with high density or potential energy-intensive production or use.

Delineates eligibility requirements of a qualified business in order to receive energy zone benefits, including state business tax credits, unemployment tax credits, general excise and use tax exemptions and local incentives.

The department of business, economic development, and tourism (DBEDT) shall administer this and shall have the following powers and duties: (1) establish criteria for determining what areas qualify as energy zones; (2) monitor the implementation and operation of this part; (3) conduct a continuing evaluation program of energy zones; (4) assist counties in obtaining the reduction of rules within energy zones; (5) submit annual reports evaluating the effectiveness of the program and any recommendations for legislation to the governor; (6) administer and enforce the rules adopted by the department; and (7) administer this part in such a manner that the area to be designated as an energy zone will most benefit the area and the state.

**EFFECTIVE DATE:** Tax years beginning after December 31, 2014

**STAFF COMMENTS:** This measure proposes to establish energy zones similar to an area being designated as an enterprise zone. Businesses located in an enterprise zone are eligible for certain tax incentives, bonds, and other appropriate measures. Businesses located in a 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. This measure would grant eligible businesses state business tax credits, unemployment tax credits, general excise and use tax exemptions and local incentives.

If it is the intent of the legislature to encourage new and existing businesses to expand their employment bases and increase their marketing territories, 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?



# Indigenous Consultants, LLC

Mililani B. Trask, Principal

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Bill #: **SB 3027** Re: Economic Development  
Committees: EGH/ENE  
Hearing Date: Wednesday, Feb. 5, 2014  
Room: CR 016  
Time: 2:50pm

Testimony in Support

January 31, 2014

Aloha Legislators,

Indigenous Consultants (IC) is a Hawaii based, indigenous LLC owned and operated by Native Hawaiians. It was created to assist indigenous peoples in developing their renewable energy resources in ways that are: culturally appropriate, environmentally green and sustainable, socially responsible and economically equitable and affordable. For several years the IC has worked with Innovations Development Group in New Zealand and indigenous Maori developing geothermal resources, which are trust assets of Maori Land Trusts. In addition, the IC has acted as a consultant to other indigenous people in Hawaii and Asia who are addressing development of their trust renewable energy resources in ways that; directly benefit their people, bring in revenues, create small business opportunities and ensure fair & affordable rates to consumers, including themselves and their communities.

IC supports this bill because it will allow for economic development in conjunction with energy development. Whenever energy development occurs, energy is produced that can and should be used (at discounted rates) by abutting consumers for economic development purposes. This approach lowers cost for transmission because energy provided to abutting energy consumers would not need to be transmitted great distances.

Passage of this measure would also have a significant impact on employment and diversified small businesses. (Farmers in Puna sell Papayas for 5 for \$1.00, dried papaya is \$6.00 for 8 oz.) This could be done if there were an energy zone in the vicinity where an agricultural energy industrial park could be developed. Not only could fruit be dried and packaged for marketing, but other commercial ventures like timber drying, could be facilitated. Ammonia, a byproduct of geothermal energy production could be processed as fertilizer in the energy zone as well. In order for these things to occur, there needs to be some mechanism to accommodate other uses that consume energy in the vicinity of energy production area.

Please pass this measure,

Mililani B. Trask, Indigenous Consultants LLC



Written Statement of  
**DARRYL NAKAMOTO, Partner**  
Kaiuli Energy

before the  
**SENATE COMMITTEE ON  
ECONOMIC DEVELOPMENT, GOVERNMENT OPERATIONS AND HOUSING  
AND  
ENERGY AND ENVIRONMENT**

Wednesday, February 5, 2014  
2:50 PM  
State Capitol, Conference Room 016

In consideration of  
**SB 3027 RELATING TO ECONOMIC DEVELOPMENT**

Date: February 4, 2014

To: Chairs Dela Cruz & Gabbard, and Committee Members

Kaiuli Energy is in support of this measure that will allow the energy resources coordinator and governor to designate areas as energy zones.

Kaiuli Energy was founded in 2011 with the goal to be a global leader in ocean sourced energy development. Its current focus is on developing a 22,500 ton Waikiki based seawater air conditioning (SWAC) system, which is designed to provide district cooling to replace the energy-intensive central refrigeration system of a traditional air conditioning at individual buildings. The natural resource of cold seawater is used to chill freshwater that will be delivered to structures with centralized air conditioning systems.

A 22,500 ton SWAC system offers:

- Conservation of approximately 106,000 barrels of oil/year
- Reduction of approximately 48,000,000 kWh/year
- Reduction of potable water usage by approximately 157,000,000 gallons/year
- Reduction of sewage discharge by approximately 69,000,000 gallons/year
- Reduction of harmful gas emissions of approximately 50,000 tons/year
- Alignment with HCEI's goals of End-Use Efficiency and next generation technologies

There are five parameters that favor potential SWAC project locations. They are: access to cold water, high density of customer load, year-round air conditioning utilization, high electricity rates, and a good marine environment. A Waikiki system satisfies all five parameters. Other locations where SWAC projects are currently in operation are:

- Stockholm, Sweden – 80,000 tons
- Toronto, Canada – 75,000+ tons
- Amsterdam, Netherlands – 35,000 tons
- Cornell University, Ithaca, New York – 20,000 tons
- Bora Bora, French Polynesia – 3,000 tons

Our customers will be hotels and other buildings in and around the Waikiki and Ala Moana areas that have large air conditioning loads. It is estimated that air conditioning usage represents up to 45% of these buildings' total electricity costs. Not only will these SWAC customers benefit through substantial savings on electricity rates, SWAC customers will also realize significant savings on water and sewage consumption. In addition, these hotels, resorts, retail centers and other commercial and residential entities will be able to market themselves as environmentally conscious and friendly consumers.

The project is estimated to take five years to complete with the delivery of chilled water beginning in 2018. The estimated total project cost of the Waikiki SWAC system is projected to be approximately \$225 million.

Kaiuli's management team is comprised of Hawaii business and community leaders with the necessary experience critical to the project's success. As the former CFO of Hoku Corporation, I have over seven years of experience in alternative energy and raising funds for large scale ventures. In addition, Rob Iopa, president of WCIT Architecture, has extensive experience and expertise in entitling, designing and constructing large complex projects in Waikiki and urban Honolulu, and Ray Soon has over 40+ years consulting and delivering on construction projects in Hawaii.

Thank you for the opportunity to share our thoughts with you.