

HB 240, HD1



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

DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

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Statement of
LUIS P. SALAVERIA
Director

Department of Business, Economic Development, and Tourism
before the

**SENATE COMMITTEES ON ENERGY AND ENVIRONMENT
AND
ECONOMIC DEVELOPMENT AND TECHNOLOGY**

Tuesday, March 24, 2015
2:45 pm
State Capitol, Conference Room 225

in consideration of
HB 240, HD1
RELATING TO SEAWATER AIR CONDITIONING.

Chairs Gabbard and Wakai, Vice Chairs Green and Slom, and Members of the Committees. The Department of Business, Economic Development, and Tourism (DBEDT) offers the following comments regarding amending the Enterprise Zone Program definition of “service business” to include “air conditioning project services from seawater air conditioning district cooling systems” in section 209E-2, Hawaii Revised Statutes.

The intent of this bill supports the State’s goal of transitioning from our dependence on fossil fuels to renewable resources. We defer to the Department of Taxation on the impact to State tax revenues of this bill.

Thank you for the opportunity to provide these comments.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

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

The Honorable Glenn Wakai, Chair
And Members of the Senate Committee on Economic Development and
Technology

Date: Tuesday, March 24, 2015
Time: 2:45 P.M.
Place: Conference Room 225, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 240, H.D. 1, Relating to Seawater Air Conditioning

The Department of Taxation (Department) appreciates the intent of H.B. 240, H.D. 1 and offers comments for your consideration.

This measure expands the definition of "eligible business activity" under the state enterprise zone law to include service businesses that provide air conditioning project services from seawater air conditioning district cooling systems, thereby enabling the business (among other things) to be eligible for the various tax incentives of the program. The measure is effective upon approval.

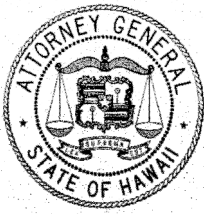
The Department defers to the Department of Business, Economic Development, and Tourism (DBEDT) on the merits of this measure.

The Department 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. Likewise, 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 for a facility within an enterprise zone.

The Department understands from DBEDT that the downtown Honolulu seawater air condition project is within an enterprise zone. However, a proposed Waikiki seawater air condition project is not within an enterprise zone, and hence would not be eligible to participate in the enterprise zone program.

The Department notes that the definition of "seawater air conditioning district cooling system" would include air conditioning cooling projects where at least fifty per cent of the energy required for the air conditioning system is provided by any renewable energy resource, regardless of how that renewable energy is generated. Thus, photovoltaic systems and wind power systems that supply at least 50% of the energy requirements of the air conditioning system would qualify under the proposed definition.

Thank you for the opportunity to provide comments



**TESTIMONY OF
THE DEPARTMENT OF THE ATTORNEY GENERAL
TWENTY-EIGHTH LEGISLATURE, 2015**

ON THE FOLLOWING MEASURE:

H.B. NO. 240, H.D. 1, RELATING TO SEAWATER AIR CONDITIONING.

BEFORE THE:

HOUSE COMMITTEES ON ENERGY AND ENVIRONMENT
AND ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

DATE: Tuesday, March 24, 2015 **TIME:** 2:45 p.m.

LOCATION: State Capitol, Room 225

TESTIFIER(S): Douglas S. Chin, Attorney General, or
Margaret S. Ahn, Deputy Attorney General

Chairs Gabbard and Wakai and Members of the Committees:

The Department of the Attorney General notes the following concern regarding this bill's title and recommends the following amendment.

This bill adds "air conditioning project services from seawater air conditioning district cooling systems" to the list of eligible business activities that qualify for enterprise zone tax benefits under chapter 209E, Hawaii Revised Statutes. The title of the bill, "Relating to Seawater Air Conditioning," however, is too narrow, given that the bill defines "seawater air conditioning district cooling system" as a system whose energy is "provided by a renewable energy resource, such as cold, deep seawater." (Emphasis added). Article III, section 14, of the State Constitution, provides that each law shall embrace but one subject, which shall be expressed in its title. Under this bill's definition of "seawater air conditioning district cooling system," an air conditioning system whose energy is provided by a renewable energy resource other than seawater would be included. For this reason, we believe the scope of the subject expressed in the bill's title "Relating to Seawater Air Conditioning" is too narrow for the system as defined.

To remedy this, we recommend the definition of "seawater air conditioning district cooling system" on page 2, lines 4-8, of the bill be amended to read:

""Seawater air conditioning district cooling system" means an air conditioning cooling project where at least fifty per cent of the energy required for the air conditioning system is provided by cold, deep seawater."

Thank you for the opportunity to testify on this bill.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Expand enterprise zone eligibility

BILL NUMBER: HB 240, HD-1

INTRODUCED BY: House Committee on Finance

BRIEF SUMMARY: Amends HRS section 209E-2 to amend the definition of “service business” in an enterprise zone to include a business that provides air conditioning project services from seawater air conditioning district cooling systems. Adds a definition of “seawater air conditioning district cooling system” to mean an air conditioning cooling project where at least fifty percent of the energy required for the air conditioning system is provided by a renewable energy resource, such as cold, deep seawater.

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.

We are aware that there is a Senate Bill, SB 1295 SD 1, that attempts to give enterprise zone benefits to favored industries without the checks, balances, or accountability. For that reason we recommend the approach in this bill over the approach in SB 1295 SD 1.

The enterprise zone program was enacted as a cooperative program between the state and the counties to promote jobs in areas of high unemployment. Certain areas are designated as enterprise zones through joint action of the state and counties. In a zone, the state offers an income tax credit for the tax attributable to the eligible business conducted in the zone, which is normally applied on a sliding scale – 80% for the first year, 70% for the second, and so on until the credit is 20% for the seventh and last year in the program. It also offers an unemployment tax credit for the tax attributable to employees doing the eligible business in the zone, on the same sliding scale. Finally, the state offers a general excise tax exemption for the eligible business attributed to the zone. The counties also offer incentives, which vary by county. In return, the business commits to either maintain or increase the number of employees in the zone doing the eligible activity, depending on whether it was already in the zone upon designation or moved to the zone.

As business incentives go, the enterprise zone program is better than most. The incentive applies to a specific activity (here, creating and maintaining employment) targeted to the problem the program seeks to address. The incentive tapers off over time and then stops. It requires accountability, namely required reports to DBEDT for a business to retain its eligibility. The business itself may need a different kind of assistance, such as financing, but the state is here focusing on creating and maintaining jobs in areas that need them.

One criticism of the program is that the designated eligible activities do not seem to have a common thread running through them except that the various activities seem to have been the Flavor of the Month at one time or other. Eligible activities at present are:

- Agricultural production or processing
- Manufacturing
- Wholesaling/Distribution
- Aviation or maritime repair or maintenance
- Telecommunications switching and delivery systems
- Information technology design and production
- Medical research, clinical trials, and telemedicine
- For-profit training programs in international business management or environmental remediation
- Biotechnology research, development, production, or sales
- Repair or maintenance of assisted technology equipment
- Certain types of call centers
- Wind energy producers

The enterprise zone program has been around since 1986. Has there been a comprehensive evaluation of the program and do lawmakers know exactly how much bang they have gotten for their bucks? If the program works, great; if it doesn't work, scrap it. In either event, concurrent efforts must be made to improve Hawaii's business climate to enhance the economic prospects for all businesses.

Digested 3/19/15



Email: communications@ulupono.com

SENATE COMMITTEES ON ENERGY & ENVIRONMENT AND ECONOMIC DEVELOPMENT &
TECHNOLOGY

Tuesday, March 24, 2015 — 2:45 p.m. — Room 225

Ulupono Initiative Strongly Supports HB 240 HD 1, Relating to Seawater Air Conditioning

Dear Chair Gabbard, Vice Chair Green, Chair Wakai, Vice Chair Slom, and Members of the Committees:

My name is Murray Clay and I am Managing Partner of the Ulupono Initiative, a Hawai'i-based impact investment company 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 clean, renewable energy, and waste reduction. We believe that self-sufficiency is essential to our future prosperity, and will help shape a future where economic progress and mission-focused impact can work hand in hand.

Ulupono strongly supports HB 240 HD 1, which adds seawater air conditioning cooling systems to qualify under the State's enterprise zones program, because it aligns with our goal of producing more clean, renewable energy in Hawai'i. As Hawai'i's energy issues become more complex and challenging, we appreciate this committee's efforts to look at policies that make Hawai'i more energy efficient.

Seawater air conditioning technology is proven and will help replace the energy-intensive central refrigeration system of a traditional air-conditioning system. Honolulu Seawater Air Conditioning (HSWAC) is targeting buildings in the downtown area that could benefit from substantial savings on electricity and water consumption, system replacement costs, and maintenance costs. By using 44 degree seawater via a freshwater loop 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, which is equivalent to a 20 megawatt wind farm or a 40 megawatt solar farm. 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. HSWAC is one of the State's largest energy efficiency projects.

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, reduce sewage production up to

Investing in a Sustainable Hawai'i



84 million gallons per year, 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.

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.

Thank you for this opportunity to testify.

Respectfully,

Murray Clay
Managing Partner



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Testimony on
H.B. 240, H.D.1
RELATING TO SEAWATER AIR CONDITIONING
Before the
Hawaii State Senate
COMMITTEE ON ENERGY AND ENVIRONMENT
And
COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY
Tuesday, March 24, 2015
By
Eric Masutomi, CEO and President
Honolulu Seawater Air Conditioning, LLC

Chairs Gabbard and Wakai, and Members of the Committees:

Honolulu Seawater Air Conditioning, LLC (HSWAC) strongly supports H.B. 240, H.D. 1 which would allow seawater air conditioning district cooling systems to qualify for state enterprise zone benefits.

We do, however, recommend that the bill be amended to a) become effective upon approval, and b) as suggested by the Department of Attorney General in earlier testimony, revise the definition on page 2 to read:

""Seawater air conditioning district cooling system" means an air conditioning cooling project where at least fifty per cent of the energy required for the air conditioning system is provided by cold, deep seawater."

A proposed S.D. 1 which incorporates these changes is provided herewith for the Committees' consideration.

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 deep water cooling, a seawater air conditioning project in the Downtown Honolulu – Kakaako Enterprise Zone would generate over \$250 million of dollars in construction spending and create more than 1,000 construction jobs in 2015 through 2017. In terms of direct, permanent employment, HSWAC currently employs 5 full-time employees, along with a number of contract hires. Once operational, HSWAC will increase its full-time staff to 12 (operation and maintenance of the initial District Cooling System), with further expansion anticipated thereafter to support the development of potential new deepwater cooling systems in Hawaii and elsewhere in Asia-Pacific. The creation of such permanent, high-value jobs in the area is consistent with the purpose and intent of the Enterprise Zone program. 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 and establishing the State as a leading authority on the development and installation of seawater air conditioning systems throughout the Asia-Pacific region.

Thank you for your favorable consideration of this measure.

A BILL FOR AN ACT

RELATING TO SEAWATER AIR CONDITIONING.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

SECTION 1. The legislature finds that seawater air conditioning district cooling systems help to reduce our dependence on fossil fuels and help our economy. The twenty-five-thousand-ton seawater air conditioning district cooling system under development for downtown Honolulu can potentially reduce Oahu's dependence on imported oil.

The downtown Honolulu Seawater Air Conditioning Project will generate millions of dollars in construction-project spending. In addition, it will create a significant amount of long-term, gainful employment. Other local economic development benefits will accrue from money that stays in Hawaii and is not exported outside the state to purchase oil.

The purpose of this Act is to include seawater air conditioning district cooling systems in the definitions of "service business" in order to benefit from the State's enterprise zone program.

SECTION 2. Section 209E-2, Hawaii Revised Statutes, is amended by:

- (1) Adding a new definition to be appropriately inserted and to read as follows:

“Seawater air conditioning district cooling system” means an air conditioning cooling project where at least fifty per cent of the energy required for the air conditioning system is provided by cold, deep seawater.”

- (2) Amending the definition of “service business” to read as follows:

“Service business” means any corporation, partnership, limited liability company, or sole proprietorship that repairs ships, aircraft, or assisted technology equipment, provides telecommunications services, information technology design and production services, medical and health care services, [~~or~~] education and training services, or provides air conditioning project services from seawater air conditioning district cooling system[~~7~~] as defined in this chapter.”

SECTION 3. Statutory material to be repealed is underscored and bracketed. New material is underscored.

SECTION 4. This Act shall take effect upon its approval.

INTRODUCED BY: _____