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To: The Honorable Lorraine Inouye, Chair
and Members of the Senate Committee on Transportation & Energy

The Honorable Jill Tokuda, Chair
and Members of the Senate Committee on Labor

Date: Friday, February 9, 2018
Time: 1:15 P.M.
Place: Conference Room 225, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 3077, Relating to Biofuels.

The Department of Taxation (Department) offers the following comments regarding S.B. 3077 for your consideration.

S.B. 3077 makes amendments to Hawaii Revised Statutes (HRS) section 235-110.31, which governs the nonrefundable Renewable Fuels Production Tax Credit (RFPTC). A summary of key provisions are as follows:

- Raises both the per-taxpayer cap and the aggregate cap on the RFPTC from \$3 million per taxable year to \$3.5 million per taxable year;
- Deletes the previous sunset date of December 31, 2021 and makes the RFPTC permanent;
- Adds a new section to HRS chapter 201, establishing within the Department of Business, Economic Development, and Tourism (DBEDT) a Renewable Fuel Facilitator position, with statutorily-prescribed responsibilities; and
- Effective upon its approval, with the changes to HRS section 235-110.31, applying to taxable years beginning after December 31, 2017.

The Department notes that it is able to administer the increased RFPTC caps and defers DBEDT on the establishment of the Renewable Fuel Facilitator.

Thank you for the opportunity to provide comments.



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

DAVID Y. IGE
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Statement of
LUIS P. SALAVERIA
Director
Department of Business, Economic Development, and Tourism
before the
**SENATE COMMITTEES ON
TRANSPORTATION AND ENERGY
AND
ECONOMIC DEVELOPMENT, TOURISM, AND TECHNOLOGY
AND
LABOR**

Friday, February 9, 2018
1:15 p.m.
State Capitol, Conference Room 225
in consideration of
SB3077
RELATING TO BIOFUELS.

Chairs Inouye, Wakai, and Tokuda, Vice Chairs Espero, Taniguchi, and English, and Members of the Committees.

The Department of Business, Economic Development & Tourism (DBEDT) **offers comments on SB3077**, which: (1) increases the renewable fuel tax credit cap to \$3,500,000 and makes the tax credit permanent; and (2) creates a renewable fuel facilitator position within DBEDT.

We appreciate the intent expressed by this measure regarding the establishment of a renewable fuel facilitator position within DBEDT. Should the Legislature decide to pursue a designated renewable fuel facilitator position within DBEDT, we hope consideration will be paid to the ongoing administrative needs and funding such a position should be funded using general funds as long as it does not impact other areas of the Executive Supplemental Budget request.

We defer to the Department of Budget and Finance on the impact on the State budget from this bill and the Department of Taxation on its ability to administer its duties under this bill.

Thank you for the opportunity to offer these comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Make Renewable Fuels Production Credit Permanent and Increase Cap

BILL NUMBER: SB 3077

INTRODUCED BY: INOUYE, S. Chang, Espero, Galuteria, Keith-Agaran, Kidani, K. Rhoads, Shimabukuro, Wakai

EXECUTIVE SUMMARY: Increases the renewable fuel production tax credit cap to \$3,500,000 and makes the tax credit permanent. A direct appropriation would be preferable as it would provide some accountability for the taxpayer funds being utilized to support this effort. Meaning, we as taxpayers know what we're getting and we know how much we're paying for it.

SYNOPSIS: As this bill relates to the renewable fuel tax credit in section 235-110.31, the bill replaces \$3,000,000 with \$3,500,000 wherever it appears, thereby increasing the credit cap.

The bill also amends Act 202, SLH 2016, to delete the sunset date of the credit.

EFFECTIVE DATE: Upon approval; the tax credit changes apply to taxable years beginning after December 31, 2017.

STAFF COMMENTS: Act 289, SLH 2000, established an investment tax credit to encourage the construction of an ethanol production facility in the state. Act 140, SLH 2004, changed the credit from an investment tax credit to a facility tax credit. This measure proposes to replace the ethanol facility tax credit with a renewable fuels production tax credit.

While the idea of providing a tax credit to encourage such activities may have been acceptable a few years ago when the economy was on a roll and advocates could point to credits like those to encourage construction and renovation activities, what lawmakers and administrators have learned in these past few years is that unbridled tax incentives, where there is no accountability or limits on how much in credits can be claimed, are irresponsible as the cost of these credits goes far beyond what was ever intended. Instead, lawmakers should consider repealing the production credit and look for other types of alternate energy to encourage through the appropriation of a specific number of taxpayer dollars. At least lawmakers would have a better idea of what is being funded and hold the developers of these alternate forms of energy to a deliberate timetable or else lose the funds altogether. A direct appropriation would be preferable to the tax credit as it would: (1) provide some accountability for the taxpayers' funds being utilized to support this effort; and (2) not be a blank check.

Ethanol was the panacea of yesterday; lawmakers have since learned that there are more minuses to the use of ethanol than there are pluses. Ethanol production demands more energy to produce than using a traditional petroleum product to produce the same amount of energy, and the demand for feedstock that is used to produce ethanol basically redirects that feedstock away from traditional uses, causing products derived from the feedstock to substantially increase in price. It

may make sense to encourage development of other alternative fuels that will not have these issues, but doing it in open-ended fashion by way of a tax credit is an invitation to abuse.

An appropriation of taxpayer dollars for such untried and unproven technologies would be far more accountable than the tax credit as such technologies would have undergone the scrutiny of lawmakers. Providing a tax incentive is an indicator that lawmakers are unwilling to do the hard research and unwilling to impose strict discipline in the expenditure of hard-earned tax dollars. The tax incentive approach represents nothing more than a hope and a wish that some breakthrough will be made, no matter how inefficient it may be, that some alternative to fossil fuel will be found. In the meantime, those tax dollars will be wasted on some unproven folly. If this were an appropriation, taxpayers would then know who to hold accountable for the waste of those tax dollars.

These, along with numerous other proposals targeted at specific types of business activity, are truly an indictment of what everyone has known and acknowledged since before Hawaii became a state, that is, the climate imposed by government regulations and taxation makes it difficult to survive without some kind of subsidy such as tax credits from government. Once those subsidies disappear, so will the businesses. Instead of throwing out such breaks for special interests, lawmakers must endeavor to make Hawaii's business climate more welcoming and conducive to nurturing entrepreneurs.

Digested 2/6/2018

THE SENATE
THE TWENTY-NINTH LEGISLATURE
REGULAR SESSION OF 2018

COMMITTEE ON TRANSPORTATION AND ENERGY

Senator Lorraine R. Inouye, Chair
Senator Will Espero, Vice Chair

COMMITTEE ON LABOR

Senator Jill N. Tokuda, Chair
Senator J. Kalani English, Vice Chair

DATE: Friday, February 9, 2018
TIME: 1:15 pm
PLACE: Conference Room 225
State Capitol
415 South Beretania Street

Hawaii Bioeconomy Trade Organization
Position: Strong Support

We give testimony in strong support for **SB3077**. Biofuels could significantly advance the state's clean energy goals. Biofuels use organic matter to produce a predictable supply of green energy that can be stored in presently used power plants and consumed locally by air, marine and ground transportation. Additionally, biofuels can be locally produced, directly creating job growth in Hawaii's energy, farming, and manufacturing industries. In May of 2016, the Sustainable Biodiesel Alliance provided a Pacific Biodiesel plant with the first United States-based certification of sustainability for a biodiesel plant. This certification demonstrates that investing in biofuel technology will lead to increases in the technology's efficiency, profitability, and sustainability as a renewable energy source.

In 2016, the legislature passed and Governor David Ige signed into law Act 202, which created a nonrefundable tax credit for the production of renewable fuels, including biodiesel, to be implemented over the next five years. According to Pacific Biodiesel President Robert King, the measure will encourage investment in renewable fuel production in Hawaii, create jobs, provide clean energy security, and fight climate change. In 2017, the legislature unanimously adopted Senate Concurrent Resolution 121, calling for a Hawaii Green Fuels Initiative to increase jobs and local food and biofuel feedstock production across the state.

Increasing biofuel production may heighten food security for Hawaii. Currently, nearly ninety per cent of Hawaii's food is imported, making Hawaii's population especially vulnerable to shipping and food supply disruptions resulting from natural disasters and other global events. Research conducted by the World Bank in 2010 and ABF Economics in 2013 found no direct correlation between biofuels and elevated food prices. Therefore, investing in biofuel production will improve agricultural development and crop yields that are important to Hawaii's food security without increasing costs for consumers.

The combination of the tax credit increase along with the elimination of the sunset will allow for a more definitive investment into the State and the Bioeconomy sector.

Furthermore, the addition of a Biofuels or Bioeconomy Facilitator at the State as well as City and County levels will provide opportunity to help develop and advance these projects to completion. Specifically, the desire to streamline the permitting process similarly as we did for the Solar PV sector.

Key Addition: We recommend that there be language added to address the time line for each permit reviewing agency. We would recommend that this timeline for review and comment be no more than 30 days. This would give the developers the guidance needed to revise or modify their projects in a timely manner in an effort to build the projects to completion. We have found instances where projects have been stalled for more than a year as the plans sit with one agency.

Many thanks for your time and consideration

Carl Campagna
Executive Director
Hawaii Bioeconomy Trade Organization
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Testimony to the Senate Committee on Transportation and Energy

Friday, February 9, 2018 1:15 p.m.
Conference Room 225, State Capitol
RE: Senate Bill 3077

Chair Inouye, Vice Chair Espero and Members of the Committee on Transportation and Energy

Hawaii Gas **supports** SB3077 and provides the following comments:

HB3077 proposes 1) to increase the renewable fuels production tax credit (PTC) by \$500,000 from \$3.0 million to \$3.5 million and to make the PTC permanent and 2) to create a renewable fuel facilitator position within the department of business, economic development, and tourism.

As Hawaii's only regulated gas utility, Hawaii Gas (HG) has been focused on initiatives to develop Renewable Natural Gas (RNG) in Hawaii. This year, HG is excited to implement its first RNG project on Oahu which sources RNG from the City and County of Honolulu's Honouliuli Wastewater Treatment Plant. HG is also focused on expanding its use of RNG, including RNG from additional wastewater treatment plants and landfills. However, the amount of RNG that can be produced is small, and will take many years to procure. Based on HG's studies to date, the only path to further scale local production of RNG is through sourcing the RNG from energy crops. HG is in the process of testing various energy crops before it makes significant investments in technology, land and other resources. These types of endeavors are expensive and a PTC helps to offset the costs, which are impactful to ratepayers. In our research, we have identified numerous obstacles in the path towards RNG, including but not limited to land and water resources, lack of farming incentives, very little federal and state incentives compared to the investment required. The renewable natural gas market has not enjoyed the same generous financial incentives that helped to accelerate the renewable power market, and therefore a permanent PTC is a sign that the Legislature is committed to supporting the endeavors to developing renewable fuels in Hawaii, including RNG. In addition, increasing the diversity of fuel sources, including renewable biofuels, such as RNG, upon which critical infrastructure systems can depend, will help support the overall reliability and resiliency of



those systems in the event of natural or manmade disasters.

Thank you for the opportunity to testify on SB 3077.

SB-3077

Submitted on: 2/6/2018 12:56:24 PM

Testimony for TRE on 2/9/2018 1:15:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Javier Mendez-Alvarez		Support	No

Comments:

SB-3077

Submitted on: 2/7/2018 12:40:14 PM

Testimony for TRE on 2/9/2018 1:15:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Margaret Maupin		Support	No

Comments:

SB-3077

Submitted on: 2/7/2018 2:30:07 PM

Testimony for TRE on 2/9/2018 1:15:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
pat gegen		Support	No

Comments:

SB-3077

Submitted on: 2/9/2018 11:41:58 AM

Testimony for TRE on 2/9/2018 1:15:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
James McCay		Support	No

Comments: