



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

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Statement of  
**THEODORE E. LIU**  
Director  
Department of Business, Economic Development, and Tourism  
before the  
**HOUSE COMMITTEE ON FINANCE**  
Thursday, April 8, 2009  
4:30 PM  
State Capitol, Conference Room 308

in consideration of  
**SB 242 SD2 HD1**  
**RELATING TO SEAWATER AIR CONDITIONING.**

Chair Oshiro, Vice-Chair Lee and Committee members:

Given the current fiscal difficulties, the Department of Business, Economic Development, and Tourism (DBEDT) opposes this measure. This bill adds Seawater Air Conditioning (SWAC) District Cooling Systems to the list of businesses eligible for the Enterprise Zone GET exemption and income tax credits for seven years. We defer to the Department of Taxation on the fiscal impact of this measure.

The list of qualified business in Chapter 209E, HRS, already includes wind energy, which was added in 2000. DBEDT recognizes that adding other alternative energy production such as SWAC District Cooling Systems would further promote the State's goal of lessening our dependency on fossil fuels.

We do note that seawater air conditioning cooling systems are site specific and all installations may not be located in one or more of the 21 Enterprise Zones across the state whose boundaries are determined by the counties. The downtown Honolulu Seawater Air Conditioning Project is located in the Urban Honolulu Zone which includes Downtown and Kaka'ako. However, not all coastal areas, including Waikiki and the Kohala coast, are within existing zones.

The employment growth requirements for the EZ program: increasing jobs by 10% and holding that level for seven years, may also be a challenging requirement for some companies to meet.

Thank you for the opportunity to offer these comments.

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Expand enterprise zone eligibility

BILL NUMBER: SB 242, HD-1

INTRODUCED BY: House Committee on Economic Revitalization, Business & Military Affairs

BRIEF SUMMARY: Amends HRS section 209E-2 to amend the definition of "qualified business" in an enterprise zone to include a business engaged in producing air-conditioning from a seawater air conditioning district cooling system.

Makes a conforming amendment to HRS section 209E-11.

EFFECTIVE DATE: January 1, 2112

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 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.

While it appears that it is the intent of the legislature to encourage new and existing businesses to expand their employment bases and increase their marketing territories, enterprise zones merely exacerbate what is already considered a poor climate in which to do business. Singling out businesses for preferential treatment merely confers preferences for those businesses at the expense of all other taxpayers.

Concurrent efforts must be made to improve Hawaii's business climate to enhance the economic prospects for all businesses. Enterprise zones are merely an abdication of government's responsibility 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.

Instead of expanding the enterprise zone program, the program should be repealed in favor of across-the-board tax relief for all businesses in Hawaii. Indeed, has there been a comprehensive evaluation of the program and do lawmakers know exactly how much enterprise zone businesses have benefitted and whether or not they have created the jobs promised when the program was first established?

Digested 4/8/09



## HAWAII BUILDING AND CONSTRUCTION TRADES COUNCIL, AFL-CIO

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**DAMIEN T. K. KIM**

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International Brotherhood of  
Electrical Workers Local 1186

**ARTHUR TOLENTINO**

Treasurer  
Sheet Metal Workers I.A. Local 283

**MALCOLM K. AHLO**

Sergeant-At-Arms  
Carpet, Upholstery, & Soft Tile  
Local 1298

**VALD CASTANARES**

Painters & Filtrators Local 675

**THADDEUS TOMEI**

Elevator Constructors Local 126

**JOSEPH BAZEMORE**

Drywall, Tapers, & Finishers  
Local 1944

**RICHARD TAGGERE**

Glassers, Architectural Metal &  
Glassworkers Local Union 1889

**LAUGHN CHONG**

Roofers, Waterproofers & Allied  
Workers United Union of Roofers  
Local 221

**MARY AYCOCK**

Rollermakers, Ironship Builders  
Local 627

**LYNN KINNEY**

District Council 60  
Painters & Allied Trades  
Local 1791

**ALANI MAHDE**

Operating Engineers Local 3

**EDWARD SEBRESOS**

Local Assoc. of  
Frost Insulators  
Insulated Workers Local 132

April 8, 2009

Honorable Representative Marcus R. Oshiro, Chair  
Honorable Representative Marilyn B. Lee, Vice Chair  
Members of the House Committee on Finance  
Hawaii State Capital  
415 South Beretania Street  
Honolulu, HI 96813

RE: IN SUPPORT OF SB 242, SD2, HD1  
RELATING TO SEAWATER AIR CONDITIONING  
Hearing: Wednesday, April 8, 2009, 4:30 p.m., Room 308

Dear Chair Oshiro, Vice Chair Lee and the House Committee on Finance:

For the Record my name is Buzz Hong the Executive Director for the Hawaii Building & Construction Trades Council, AFL-CIO. Our Council is comprised of 16-construction unions and a membership of 26,000 statewide.

The Council SUPPORTS the passage of SB 242, SD2, HD1 that allows the sale of cooling from seawater air conditioning district cooling systems to qualify for state enterprise zone benefits.

Thank you for the opportunity to submit this testimony in support of SB 242, SD2, HD1.

Sincerely,

*W. Hong/dg*

William "Buzz" Hong  
Executive Director

WBH/dg

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



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**HOUSE COMMITTEE ON FINANCE  
TESTIMONY REGARDING SB 242 SD 2 HD1  
RELATING TO SEAWATER AIR CONDITIONING**

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**

**DATE: APRIL 8, 2009**

**TIME: 4:30PM**

**ROOM: 308**

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This bill would include within the definition of "qualified business," any business engaged in producing air conditioning from a seawater air conditioning district cooling system for purposes of the State Enterprise Zone tax incentives.

The House Committee on Economic Revitalization, Business and Military Affairs amended the effective date to encourage further discussion.

The Department of Taxation (Department) **opposes the revenue loss** anticipated by this measure.

**NOT FACTORED INTO EXECUTIVE BUDGET**

Though the Department supports the intent of minimizing the State's dependency upon foreign oil and fossil fuels, the Department cannot support the tax provision in this measure because it is not factored into the budget. The Department points out that this legislation has not been factored into the Executive Budget and has not been prioritized as a means of tax relief this legislative session. The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either. Given the forecasted decrease in revenue projections, this measure would add to the budget shortfall.

**REVENUE IMPACT**

Assuming a current effective date, the revenue loss is estimated at \$3.2 million for FY10, \$1.0 million for FY11, and \$1.3 million for FY12.

# Honolulu Seawater Air Conditioning, LLC

Affiliate of Renewable Energy Innovations, LLC, the COOL GREEN & CLEAN™ Company

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Testimony on

## **S.B. NO. 242, S.D. 2, PROPOSED H.D. 2 – RELATING TO SEAWATER AIR CONDITIONING**

Before the  
House Committee on Finance  
Wednesday, April 8, 2009, 4:30 p.m., Conference Room 308

By

David Rezachek, Consultant  
Honolulu Seawater Air Conditioning LLC

Good afternoon Chair Oshiro, Vice Chair Lee, and members of the Committee. My name is David Rezachek and I am testifying on behalf of Honolulu Seawater Air Conditioning, LLC (HSWAC).

HSWAC **strongly supports** S.B 242, S.D. 2, PROPOSED H.D. 2, which allows the sale of cooling from seawater air conditioning district cooling systems to qualify for state enterprise zone benefits.

**This bill was recently amended as a PROPOSED H.D. 2 to eliminate the GET exemption for SWAC systems during the construction phase of SWAC system development. This amendment significantly increases the net fiscal benefits to the State while, at the same time, significantly reducing the amount of enterprise zone benefits provided during the period of 2009 to 2011.**

The downtown Honolulu seawater air conditioning project is a new project which will generate an estimated **\$16.2 million** in new taxes during the period from 2009 to 2011. During this same period, this project will be eligible for only **\$743,000** in enterprise zone benefits. **Therefore, the net fiscal benefit to the State during this period will be \$15.4 million.**

This project provides nearly \$22 in new taxes for every \$1 in enterprise zone benefits provided during this period.

As a result, this project will actually generate significantly more additional revenues for the State during the next three years than the original version of the bill.

If this project is not completed, there will be a net revenue loss to the State of \$16.2 million. During its lifetime, the system would generate more than \$25,000,000 in new state taxes.

The downtown Honolulu SWAC project is a near-term, “**shovel-ready**” project that can immediately help to stimulate Hawaii’s economy.

The downtown Honolulu SWAC 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.

During the lifetime of this system, local spending would amount to more than \$293 million. The calculated output based on this local spending is \$484 million. This amount of local spending would also generate \$166 million in earnings and 3,850 full-time-equivalent person-years of jobs. This is equivalent to 145 full-time jobs for 26.5 years. **An average of 484 jobs would be created over the next three years.**

In addition to helping stimulate the State's economy, the downtown Honolulu SWAC Project will provide the following benefits over its lifetime:

**Energy and Environmental Benefits Over SWAC System Lifetime**

|   |                      |                |
|---|----------------------|----------------|
| <b>Electricity Savings</b>                                      | <b>2,000,000,000</b> | <b>kWh</b>     |
| <b>Reduction in Demand for New Fossil Fuel Fired Generation</b> | <b>14,119</b>        | <b>kW</b>      |
| <b>Reduction in Crude Oil Use</b>                               | <b>5,210,000</b>     | <b>barrels</b> |
| <b>Reduction in Potable Water Use</b>                           | <b>8,530,000,000</b> | <b>gallons</b> |
| <b>Reduced Sewage Generation</b>                                | <b>3,330,000,000</b> | <b>gallons</b> |

S.B 242, S.D. 2, PROPOSED H.D. 2 adds seawater air conditioning (SWAC) district cooling systems to the definition of "qualified business" to qualify for state enterprise zone benefits in an existing enterprise zone. "Qualified business" already includes another renewable energy technology - wind. Downtown Honolulu and Kakaako (the service area for the Downtown Honolulu SWAC Project) are in an enterprise zone. This bill does not create a new enterprise zone.

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, during the operational phase only, will effectively reduce the costs of such systems to customers and will help introduce this promising technology to Hawaii.

Thank you for this opportunity to testify.

**Attachment: S.B 242, S.D. 2, PROPOSED H.D. 2**

**Report Title:**

Enterprise Zones; Seawater Air Conditioning Cooling System

**S.B 242, S.D. 2, PROPOSED H.D. 2**

**Description:**

Allows the sale of cooling from seawater air conditioning district cooling systems to qualify for state enterprise zone benefits. (SB242 SD2)

THE SENATE  
TWENTY-FIFTH LEGISLATURE, 2009  
STATE OF HAWAII

**S.B. NO.** 242  
S.D. 2  
**PROPOSED**  
H.D. 2

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# 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 by as much as one hundred seventy-four thousand barrels annually.

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 is not exported outside the state to purchase oil, but rather, is circulated in the local economy.

During the lifetime of this system, local spending would exceed \$294,000,000. The calculated output based on this local spending is \$456,000,000. This amount of local spending would also generate \$149,000,000 in earnings and three thousand five hundred sixteen full-time-equivalent person-years of jobs. This is equivalent to one hundred thirty-three full-time jobs for twenty-six and a half years.

Furthermore, this project will generate additional revenues for the State over its more than twenty-five-year life. The downtown Honolulu seawater air conditioning project is a new project that will generate an estimated \$8,252,000 in additional tax revenue during the period from 2009 to 2011. During this same period, this project will be eligible for \$5,116,000 in enterprise zone benefits.

Therefore, the net fiscal benefit to the State during this period will be \$3,135,000. If this project is not completed, there will be a net revenue loss to the State of \$3,135,000. During its lifetime, the system would generate \$24,000,000 in new state taxes.

The purpose of this Act is to assist seawater air conditioning district cooling systems by allowing the systems to benefit from the State's enterprise zone program.

SECTION 2. Section 209E-2, Hawaii Revised Statutes, is amended by amending the definition of "qualified business" to read as follows:

"Qualified business" means any corporation, partnership, or sole proprietorship authorized to do business in the [~~State~~] state that is qualified under section 209E-9, subject to the state corporate or individual income tax under chapter 235, and is:

- (1) Engaged in manufacturing, the wholesale sale of tangible personal property as defined in section 237-4, or a service business as defined in this chapter;
- (2) Engaged in producing agricultural products where the business is a producer as defined in section 237-5, or engaged in processing agricultural products, all or some of which were grown within an enterprise zone;
- (3) Engaged in research, development, sale, or production of all types of genetically-engineered

medical, agricultural, or maritime biotechnology products; ~~[or]~~

(4) Engaged in producing electric power from wind energy for sale primarily to a public utility company for resale to the public~~[r]~~; or

(5) Engaged in producing air conditioning from a seawater air conditioning district cooling system."

SECTION 3. Section 209E-11, Hawaii Revised Statutes, is amended to read as follows:

**"§209E-11 State general excise exemptions.** The department shall certify annually to the department of taxation that any qualified business is exempt from the payment of general excise taxes on ~~[the]~~:

(1) The gross proceeds from the manufacture of tangible personal property~~[r the]~~;

(2) The wholesale sale of tangible personal property~~[r the]~~;

(3) The engaging in a service business by a qualified business~~[r or the]~~;

(4) The engaging in research, development, sale, or production of all types of genetically-engineered medical, agricultural, or maritime biotechnology products; or

(5) The production of air conditioning from a seawater air conditioning district cooling system;

provided that agricultural businesses other than those engaged in the production of genetically-engineered agricultural products shall not be exempt from the payment of general excise taxes on the gross proceeds of agricultural retail sales. The gross proceeds received by a contractor licensed under chapter 444 shall be exempt from the general excise tax for construction within an enterprise zone performed for a qualified business within an enterprise zone; provided that such gross proceeds received by a contractor licensed under chapter 444 in connection with the construction of a seawater air conditioning district cooling system shall not be exempt from the general excise tax. The exemption shall extend for a period not to exceed seven years; provided that if a force majeure event occurs, then the period of time shall be tolled until the force majeure event ceases."

SECTION 4. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 5. This Act shall take effect on January 1, 2112.