

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

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

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

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~~[or]~~; 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~~[, the]~~;

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

(3) The engaging in a service business by a qualified business~~[, 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.