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GOVERNOR

RICHARD C. LIM
DIRECTOR

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DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
RICHARD C. LIM
Director
Department of Business, Economic Development, and Tourism
Before the
HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

Tuesday, March 11, 2014
8:30 a.m.
State Capitol, Conference Room 325
in consideration of

SB 2195, SD2
RELATING TO RENEWABLE ENERGY.

Chair Lee, Vice Chair Thielen, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) respectfully offers comments on SB 2195, SD2, which requires the Department of Taxation in collaboration with DBEDT, to submit a joint report to the Legislature related to the renewable energy tax credits and appropriates funds to each Department to effectuate the measure.

In order for DBEDT to provide the necessary information and analysis proposed under Section 2 to the Department of Taxation for this report, we would need to develop, collect information, and complete a comprehensive economic analysis to survey renewable energy companies. DBEDT estimates that this survey would cost approximately $100,000 each year to complete.

DBEDT respectfully defers to the Department of Taxation on the availability of tax-related data and information, and the necessary activities required to effectuate the measure.

Thank you for the opportunity to provide comments on SB 2195, SD2.

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
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To: The Honorable Chris Lee, Chair
and Members of the House Committee on Energy & Environmental Protection

Date: Tuesday, March 11, 2014
Time: 8:30 a.m.
Place: Conference Room 325, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. No. 2195, S.D. 2 Relating to Renewable Energy

The Department of Taxation (Department) appreciates the intent of S.B. 2195, S.D. 2, and provides the following information and comments for the committee's consideration.

S.B. 2195, S.D. 2 requires the Department, in collaboration with the Department of Business, Economic Development and Tourism (DBEDT), submit a yearly report to the Legislature providing certain specific information related to renewable energy tax credits.

S.D. 2 amends the effective date to July 1, 2017 to provide the Department with adequate time to implement the measure. The Department appreciates the amendment to provide the Department additional time to produce the report; however, the Department notes that it is still unable to provide the information requested in paragraphs (1), as taxpayers do not report the requested information to the Department on their tax return. Therefore, the Department is unable to provide data such as the number or types of properties; instead, the Department can only provide aggregate tax data on the credit amounts claimed by taxpayers (individuals, corporations, banks and other financial institutions).

The Department is also unable to comply with paragraph (3), as much of the information requested is non-tax information and requires dynamic economic analysis that the Department does not perform. The Department defers to DBEDT regarding its ability to perform this type of analysis.

It should be noted that the general excise and income tax revenue for renewable energy industry businesses is not separately reported from all other construction industry-type taxpayers. Additionally, the renewable energy technology income tax credit under section 235-12.5, Hawaii

Revised Statutes (HRS), is claimed by the "economic owner" of the renewable energy system; in most cases, the taxpayer claiming the RETITC is not the installer.

To provide an analysis on the estimated economic benefit as required in paragraph (3), the Department suggests amending the measure to require installers of the renewable energy to report the information to DBEDT, similar to the reporting requirement in Section 2 of Act 206, Session Laws of Hawaii 2007. The installers of the renewable energy systems are best able to provide the data requested under this measure, including reporting their general excise and income taxes paid for each taxable year, and job creation data.

Thank you for the opportunity to provide comments.

Hawaii Solar Energy Association
Serving Hawaii Since 1977

Testimony of the Hawaii Solar Energy Association
In Support of SB 2195, SD 2 Relating to Renewable Energy
Before the House Committee on Energy & Environmental Protection
Tuesday, March 11, 2014

Chair Lee, Vice-Chair Thielen and members of the Committee, my name is Leslie Cole-Brooks and I am the Executive Director of the Hawaii Solar Energy Association (HSEA). We strongly support the passage of SB 2195, SD 2.

HSEA has long argued that the protracted legislative battles over the costs, benefits and effectiveness of the various the State of Hawaii tax incentives has generally been a tempest in a tea pot. This has been particularly so with respect to the renewable energy technologies income tax credit (HRS-235-12.5). Despite the heated rhetoric, it has been abundantly clear that no government agency has had the real time data required to make accurate judgments on the costs and benefits of the renewable income tax credits.

DoTax's historic brief has been to report on one side of the ledger; what things cost. Lately they have not even been able to do that on a timely basis. Not since 2005 has DoTax published its detailed annual report entitled Tax Credits Claimed By Hawaii Residents. These reports also lagged by a year or so and were inconsistent in quality and value, but, at a minimum, anyone interested could take a look at their numbers.

HSEA has long argued that it should be DBEDT's role to balance this ledger by measuring the benefits of any tax incentive presumed to be enacted in the public interest. Sure this takes work, but it is work that must be done in support of sound public policy.

SB 2195, SD 2 will go a long way to close this dangerous information gap. Renewable energy is too important to our statutory HCEI requirements, our economy, and our ratepayers to continue guessing at what it costs and benefits all of us.

HSEA requests that SB 2195, SD 2 be amended to include information on individual adjusted gross income (AGI). In addition, the information requested should be reported by island as well as aggregated for the entire state. In the interest of clarity, we also recommend that (1) (A) Type of Technology should be broken out by Wind, PV and Solar Water Heating and whether the project was residential or commercial in nature.

HSEA also requests that the effective date revert to July 1, 2016, so that the legislature can be provided with key information on the renewable energy tax credits in the year following the expiration of the federal tax credit.

Once DoTax and DBEDT develop their methodologies and spreadsheets to parse this data it will be an invaluable tool in analyzing the cost and effectiveness of other State of Hawaii tax incentives. Thank you for the opportunity to present our views.

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HAWAII RENEWABLE ENERGY ALLIANCE

TESTIMONY OF WARREN BOLLMEIER ON BEHALF OF THE
HAWAII RENEWABLE ENERGY ALLIANCE BEFORE THE
HOUSE COMMITTEE ON ENERGY AND ENVIRONMENTAL PROTECTION

SB 2195 SD2, RELATING TO RENEWABLE ENERGY

March 11, 2014

Chair Lee, Vice-Chair Thielen and members of the Committee, I am Warren Bollmeier, testifying on behalf of the Hawaii Renewable Energy Alliance (HREA). HREA is an industry-based, nonprofit corporation in Hawaii established in 1995. Our mission is to support, through education and advocacy, the use of renewables for a sustainable, energy-efficient, environmentally-friendly, economically- sound future for Hawaii. One of our goals is to support appropriate policy changes in state and local government, the Public Utilities Commission and the electric utilities to encourage increased use of renewables in Hawaii.

The purposes of SB 2195 SD2 are to: (i) require the department of taxation, in collaboration with the department of business, economic development, and tourism, to submit a joint report to the legislature each year that is related to renewable energy technology properties, the total cost of renewable energy tax credit to the State, and the estimated economic benefit of renewable energy tax credit for each of the previous four taxable years; and (ii) appropriates funds to respective departments to submit report.

HREA **strongly supports** as it will help us keep track of the benefits and costs of the Renewable Technologies Income Tax Credit in support of our attainment of our clean energy goals.

Mahalo for this opportunity to testify.

46-040 Konane Place #3816, Kaneohe HI 96744 • www.http://hawaiirenewableenergy.org • p: 808.247.7753 • wsb@lava.net

HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION
Tuesday, March 11, 2014 – 8:30 a.m. – Room 325

Ulupono Initiative <u>Strongly Supports</u> SB 2195 SD 2 <u>with amendments</u>, Relating to Renewable Energy

Dear Chair Lee, Vice Chair Thielen and Members of the Committee:

My name is Murray Clay and I am managing partner of the Ulupono Initiative, a Hawai'i-based impact investment firm 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 renewable energy, and reduce/recycle waste. Ulupono invests in projects that have the potential to create large-scale, innovative change.

Ulupono <u>strongly supports</u> SB 2195 SD 2 <u>with amendments</u>, which appropriates funds to the Department of Taxation (DOTAX) and Department of Business, Economic Development, and Tourism (DBEDT) to determine the economic costs and benefits of renewable energy technologies.

Last session, Ulupono was apart of a coalition comprised of interested stakeholders in the solar industry. The intent was to balance the economic cost to the State budget while continuing to incentivize residents to use renewable energy sources such as solar photovoltaic. Our belief was a gradual reduction of the solar tax credits would be the best outcome for all parties. However, DOTAX's new rules and miscommunication led to an overly restrictive policy that is hurting solar companies, thousands of local construction workers, and the general public who wants to obtain photovoltaic panels for their homes.

Last session, DOTAX and DBEDT had different economic figures, which led to uncertainty. This bill would help both departments determine the most accurate figure by working together. The intent is for organizations like Ulupono to use the data by DOTAX and DBEDT to help inform stakeholders of the most balanced, yet economically feasible, course of action.

We recommend the effective date for this bill be moved up to July 1, 2015. Without a shared agreement between DOTAX and DBEDT, the solar industry is losing business and many Hawai'i workers are losing their jobs. To meet our State's renewable energy goals, we need to work together to support projects that create more renewable energy.

Thank you for this opportunity to testify.

Respectfully,

Murray Clay
Managing Partner

Email: communications@ulupono.com

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Report on renewable energy tax credits

BILL NUMBER: SB 2195, SD-2

INTRODUCED BY: Senate Committee on Ways and Means

EXECUTIVE SUMMARY: Requires the department of taxation and the department of business, economic development and tourism (DBEDT) to submit an annual report to the legislature on renewable energy technology properties including the cost to the state of the renewable energy tax credits. Given that these tax credits are a back door expenditure of public dollars, the granting of these preferences should be subjected to the same scrutiny as appropriated tax dollars.

BRIEF SUMMARY: Directs the department of taxation, in collaboration with DBEDT, to submit a joint report to the convening of each regular session of the legislature on the following: (1) the number of renewable energy technology properties that have qualified for a tax credit in each of the previous four taxable years by type of technology and type of entity; (2) the total cost of the tax credit to the state during the past four taxable years by type of technology and type of entity; and type of tax credit and whether the credit is refundable or nonrefundable; and (3) the estimated economic benefit attributable to the renewable energy tax credit in each of the previous four taxable years, including the impact on the economy and jobs.

Appropriates $_______ in general funds to the department of taxation and $_______ DBEDT for fiscal year 2015 to submit a joint report to the legislature related to renewable energy technology properties, the total cost of renewable energy tax credit to the state, and the estimated economic benefit of renewable energy tax credits for each of the previous four taxable years.

Requires the department of taxation to submit any proposed legislation to amend this act to the 2015 legislature.

EFFECTIVE DATE: July 1, 2017

STAFF COMMENTS: The proposed measure would require the department of taxation and DBEDT to submit an annual report to the legislature on renewable energy technology properties including the cost to the state of the renewable energy tax credits. Given that these tax credits are a back door expenditure of public dollars, the granting of these preferences should be subjected to the same scrutiny that the appropriation and expenditure of tax dollars are subjected to under the procurement code.

When judging targeted tax incentives such as this one, we recommend revisiting the criteria proposed by the 2001-2003 Tax Review Commission:

(i) *Cost-benefit studies*. Cost-benefit studies should be required prior to inaugurating new or revised tax credit programs. Policy makers should use only those programs with quantifiable and demonstrable benefits over costs. Such costs and benefits should not only look at fiscal and economic effects, but should examine social ones as well.

(ii) *Periodic evaluations* of all tax incentive programs should be required.

(iii) *Truth and disclosure reporting* separate and apart from a taxpayer's tax returns should generally be required of all taxpayers benefitting from tax incentive programs, making public all aspects of these subsidies for private investment.

(iv) *Strategic planning*. Embed tax incentives in strategic plans, leveraging as much of the State's scarce resources as possible. Rather than promoting diverse incentives in search of a cohesive strategy, the State should employ only incentives that make strategic sense.

(v) *Public participation*. Encourage public participation in and comment on tax incentive use to foster public accountability. There should at least be as much public discussion over generous multi-million dollar business incentive tax credits as there is over $50,000 renovations to school libraries.

(vi) *Sunset provisions* should be required to ensure that the above processes will be implemented before an incentive can be extended. It should be demonstrated to the Legislature that the targeted benefit to the State was in fact received, what the tax cost of that benefit was, and whether the continuation of the tax incentive is appropriate and necessary.

(vii) *Enforcement*. Given the magnitude and the complexity of these business incentive tax credits, the small chance of audit, ambiguous statutory requirements as to what can be claimed as a credit, there must be legislative oversight of these credits. In addition, the Department of Taxation must be given sufficient resources to police these credits.

In any event, taxpayers deserve to know how much is being provided in these tax incentives and what is the present justification. While appropriations are made to the department of taxation and DBEDT, consideration should be given to ensuring that sufficient staff is also provided for the study.

Digested 3/10/14