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Testimony on
H.B. 240
RELATING TO SEAWATER AIR CONDITIONING

Before the
House of Representatives
COMMITTEE ON FINANCE
Wednesday, February 25, 2015

By
Eric Masutomi, CEO and President
Honolulu Seawater Air Conditioning, LLC

Chair Luke, Vice Chair Nishimoto, and Members of the Committee.

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

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.

With proper maintenance, the infrastructure supporting these systems has a useful life of more than 60 years. In addition to the compelling environmental and renewal energy benefits associated with deep water cooling, a seawater air conditioning project in the Downtown Honolulu – Kakaako Enterprise Zone would generate close to \$250 million of dollars in construction spending and create more than 1,000 construction jobs in 2015 through 2017. In addition, it would create a long-term, gainful employment and establish the State as a leading authority on the development and installation of seawater air conditioning systems throughout the Asia-Pacific region. 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.

Thank you for your favorable consideration of this measure.

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Thank you for this opportunity to testify.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
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MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Wednesday, February 25, 2015
Time: 2:45 P.M.
Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. No. 240 Relating to Seawater Air Conditioning

The Department of Taxation (Department) appreciates the intent of H.B. 240 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.

Thank you for the opportunity to provide comments



DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

Statement of
LUIS P. SALAVERIA
Director

Department of Business, Economic Development, and Tourism
before the

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS

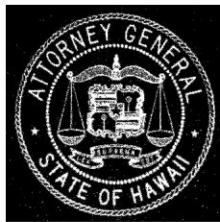
Tuesday, February 10, 2015
9:00 AM
State Capitol, Conference Room 312

in consideration of
HB 240
RELATING TO SEAWATER AIR CONDITIONING.

Chair Kawakami, Vice-Chair Kong and Members of the Committee. 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.

While the intent of this bill supports the State’s goal of transitioning from our dependence on fossil fuels to renewable resources, we are unsure as to the number of sustainable jobs that will be created in the targeted employment areas designated as enterprise zones. 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.



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

ON THE FOLLOWING MEASURE:

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

BEFORE THE:

HOUSE COMMITTEE ON FINANCE

DATE: Wednesday, February 25, 2015 **TIME:** 2:45 p.m.

LOCATION: State Capitol, Room 308

TESTIFIER(S): Russell A. Suzuki, Attorney General, or
Margaret S. Ahn, Deputy Attorney General

Chair Luke and Members of the Committee:

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.

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 620; HB 240 (Identical)

INTRODUCED BY: SB by Kim by request; HB by Saiki

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: Upon approval

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.

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:

SB 620; HB 240 - Continued

- 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 2/9/15



Email: communications@ulupono.com

HOUSE COMMITTEE ON FINANCE
Tuesday, February 10, 2015 — 9:00 a.m. — Room 312

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

Dear Chair Luke, Vice Chair Nishimoto, 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 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, 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 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.

Investing in a Sustainable Hawai'i

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



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

ON THE FOLLOWING MEASURE:
H.B. NO. 240, RELATING TO SEAWATER AIR CONDITIONING.

BEFORE THE:
HOUSE COMMITTEE ON FINANCE

LATE

DATE: Wednesday, February 25, 2015 **TIME:** 2:45 p.m.

LOCATION: State Capitol, Room 308

TESTIFIER(S): Russell A. Suzuki, Attorney General, or
Margaret S. Ahn, Deputy Attorney General

Chair Luke and Members of the Committee:

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Thank you for the opportunity to testify on this bill.



HOUSE COMMITTEE ON FINANCE

February 25, 2015, 2:45 P.M.

Room 308

LATE

TESTIMONY IN SUPPORT OF HB 240

Chair Luke and members of the Finance Committee:

The Blue Planet Foundation supports HB 240, to qualify seawater air conditioning under the state's enterprise zones program.

As we consider strategies for kicking Hawai'i's 5-million-gallon-per-day oil habit, our tendency is to focus on alternative sources of fuel and electricity. We look to clean, renewable energy sources to replace dirty fossil fuel generation. We also look for ways to reduce the amount we use—and waste—through efficiency and conservation. What we often overlook is the reality that fuel and electricity are merely means to an end. Electricity is not what we really want. What we really want is light when it's dark, hot water for a shower, and a comfortable temperature indoors. What if we could cut out the middleman and put abundant natural resource to work in place of fuel and electricity? Seawater air conditioning puts this concept into action.

Air conditioning is a voracious consumer of electricity. On O'ahu, the cooling of commercial buildings year-round is responsible for a whopping 20 percent of the island's electricity demand. Using technology that has already been proven in many other places around the world, seawater air conditioning can solve this problem by using cool seawater, instead of electricity, to cool buildings. The benefits are enormous. Each year, the proposed seawater air conditioning system can:

- Save millions of kWh of electricity;
- Eliminate the need to burn more than one hundred thousand barrels of oil;
- Stop the waste of hundreds of millions of gallons of fresh water.

Tangible benefits like these make seawater air conditioning exactly the type of smart local energy solutions that can benefit the state as intended in the enterprise zone program.

Thank you for this opportunity to testify.