DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
LUIS P. SALAVERIA
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON FINANCE

Friday, April 1, 2016
3:00 p.m.
State Capitol, Conference Room 308

in consideration of
SB 2652, SD2, HD1
RELATING TO TAXATION.

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

The Department of Business, Economic Development & Tourism (DBEDT) offers comments with concerns on SB 2652, SD2, HD1, which establishes a renewable fuels production tax credit, repeals the ethanol facility tax credit, and establishes a tax credit for organic food production. HD1 changes the certifying agency for the organic foods tax credit to the Department of Agriculture and other non-substantive verbiage for clarity, consistency and style.

DBEDT is concerned that Part II of this bill does not provide a clear definition of how much renewable feedstock must originate from Hawaii and be used for renewable fuel production to qualify for the full tax credit, thus allowing subsidization of non-indigenous resources. For example, a renewable fuel producer may use only 1 percent Hawaii grown renewable feedstock and blend it with another 99 percent non-Hawaii sourced renewable feedstock and still qualify for the full tax credit under the present language in the bill. Therefore, this bill will require more clarity on the administration of the tax credit and how it will be computed, especially if a blend of indigenous and non-indigenous renewable feedstock is allowed.

Further, DBEDT is also concerned about three issues regarding its responsibilities under this bill. First, DBEDT lacks the expertise and staffing to execute the required verification and certification requirement and would also require further clarity on the implementation of the verification and certification process.

Second, DBEDT lacks, and will require the necessary funding and budget allocation, to execute the responsibilities under the bill (i.e., DBEDT would require $100,000 and at least a 0.5 full time equivalent staff each year for the duration of its responsibilities under this measure).

Third, given the annual cap of $3,000,000 DBEDT would require further clarity on how to prioritize the aggregate tax credit, if all renewable fuel producers turn in the tax credit applications all at once.

Finally, regarding DBEDT's role in verifying and certifying the tax credits, DBEDT suggests that the Legislature consider having the renewable fuel producer(s) self-certify by providing required confirmation via an independent third party and impose upon participating renewable producers a performance penalty that is material enough to hold them accountable for meeting their stated self-certified renewable fuels production (i.e., a 200 percent recapture of all tax credit allocated and lifetime ban of any future tax credit participation in the State).

DBEDT defers to the Department of Taxation on the administration of the renewable fuels production tax credit.

Thank you for the opportunity to offer these comments regarding SB 2652, SD2, HD1.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR

MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

JOSEPH K. KIM
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

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

Date: Friday, April 1, 2016
Time: 3:00 P.M.
Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 2652, S.D. 2, H.D. 1, Relating to Taxation.

The Department of Taxation (Department) appreciates the intent of S.B. 2652, S.D. 2, H.D. 1, and offers the following comments for your consideration.

S.B. 2652, S.D. 2, H.D. 1, repeals the ethanol facility tax credit and establishes a renewable fuels production tax credit. The new tax credit is available at the rate of 20 cents per 76,000 British thermal units of fuel produced and has a per-taxpayer and aggregate cap of $3,000,000 per taxable year. The credit is certified by the Department of Business, Economic Development and Tourism (DBEDT). This measure additionally creates an organic foods production tax credit, which is equal to the qualified expenses of a qualified taxpayer. The organic foods production tax credit has a per-taxpayer cap of $10,000 per taxable year and an aggregate cap of $5,000,000 per taxable year. The measure has a defective effective date of July 1, 2050 and would apply to taxable years beginning after December 31, 2016. The renewable fuels production tax credit has a sunset date of December 31, 2021.

First, regarding the renewable fuels production tax credit, the Department notes that past versions of this measure have contained language that would make this credit impermissible under the Commerce Clause of the United States Constitution. The present version does not appear to contain any impermissible provisions, but the Department defers to the Department of the Attorney General for a more complete analysis of the constitutionality of this provision.

Second, regarding the organic foods production tax credit, the Department defers to the Department of Agriculture regarding its ability to make the necessary certifications and determinations, but requests that the certification requirement for this tax credit be maintained, as the Department does not have knowledge and expertise in to make the necessary determinations for credit certification. This certification is also necessary to administer the $5 million aggregate cap set forth in this measure.

Thank you for the opportunity to provide comments.

SUBJECT: INCOME, Renewable Fuels Facility Tax Credit, Organic Food Production Credit

BILL NUMBER: SB 2652, HD-1

INTRODUCED BY: House Committee on Energy and Environmental Protection

EXECUTIVE SUMMARY: Replaces the ethanol fuels income tax credit with a renewable fuels production income tax credit to encourage the production of such fuels. Also adds a new organic food production credit that has not been heard in the Senate. 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.

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to establish a renewable fuels production tax credit. The credit shall be allowed to taxpayers producing qualifying renewable fuels provided the credit shall not be claimed for more than five years.

The annual dollar amount of the credit shall be 20 cents per 76,000 British thermal units (BTU) of renewable fuels using the lower heating value sold for distribution in Hawaii; provided that the taxpayer's production of renewable fuels is not less than 15 billion BTUs of renewable fuels per year. Limits the amount of tax credit that may be claimed by a taxpayer to $3 million per taxable year.

Defines "credit period" and "net income tax liability." Defines "renewable fuels" as fuels produced from renewable feedstocks provided that the fuels shall be sold as a fuel, and meet the relevant ASTM International specifications for the particular fuel or other industry specifications for liquid or gaseous fuels, including but not limited to: (1) methanol, ethanol, or other alcohols; (2) hydrogen; (3) biodiesel or renewable diesel; (4) biogas; (5) other biofuels; or (6) renewable jet fuel or renewable gasoline.

Defines "renewable feedstocks" as (1) biomass crops; (2) agricultural residues; (3) oil crops, including but not limited to algae, canola, jatropha, palm, soybean, and sunflower; (4) sugar and starch crops, including but not limited to sugar cane and cassava; (5) other agricultural crops; (6) grease and waste cooking oil; (7) food wastes; (8) municipal solid wastes and industrial wastes; (9) water; and (10) animal residues and wastes, that can be used to generate energy.

Requires the department of agriculture business, economic development and tourism (DBEDT) to verify and certify each claim for the credit including the total amount of credit for each taxable year and the cumulative amount of tax credit during the credit period. DBEDT shall issue a certificate to qualifying taxpayers who shall file the certificate with the department of taxation (DOTAX).

If in any year the annual amount of certified credits reaches $3 million in the aggregate, DBEDT shall discontinue certifying credits and notify the department of taxation.

If the amount of credits exceeds the taxpayer's income tax liability, the excess of credit over liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted. All claims for a credit under this section shall be properly filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

Prior to production of any qualifying renewable fuels for the year, the taxpayer is to provide written notice of the taxpayer's intention to begin production of qualifying renewable fuels to DOTAX and DBEDT with information on the taxpayer, facility location, facility production capacity, anticipated production start date, and the taxpayer's contact information. The taxpayer shall also provide written notice to the director of taxation and the director of DBEDT within 30 days following the start of production and include the production start date and expected renewable fuel production for the next year.

In each calendar year during the credit period, the taxpayer shall provide information to the director of DBEDT on the number of BTUs of renewable fuels produced and sold during the previous calendar year, the type of fuels, feedstocks used for renewable fuels production, the number of employees of the facility and each employee's state of residency, and the projected number of BTUs of renewable fuels production for the succeeding year.

In the case of a partnership, S corporation, estate, or trust, distribution and share of the tax credit for renewable fuels production shall be determined pursuant to section 704(b) (with respect to partner's distributive share) of the Internal Revenue Code.

Directs the director of DBEDT, following each year in which a credit under this section has been claimed, to submit a written report to the governor and legislature regarding the production and sale of renewable fuels.

Requires DOTAX to prepare the necessary forms to claim the credit, and DOTAX may require the taxpayer to furnish information to validate a claim for the credit, and may adopt rules necessary to effectuate the purpose of the law pursuant to chapter 91.

Repeals the ethanol facility tax credit under HRS section 235-110.3.

Adds a new section to HRS chapter 235, to be titled the organic foods production tax credit. The credit shall be allowed to a qualified taxpayer, and the credit amount is 100% of the taxpayer's qualified expenses, up to a maximum of $10,000.

Defines "qualified taxpayer" as a producer, handler, or handling operation, as those terms are defined in section 6502 of title 7, United States Code: (1) that sells agricultural products meeting the standards and requirements of the Organic Foods Production Act; (2) that has applied for organic certification, in accordance with the requirements of the Organic Foods Production Act;

and (3) whose gross income from the sale of organically produced agricultural products for the most recently reported fiscal year totals no more than $50,000.

Defines "qualified expenses" as expenses incurred by a qualified taxpayer to produce organically produced agricultural products, including expenses incurred to obtain organic certification from the United State Department of Agriculture, pursuant to the Organic Foods Production Act. "Qualified expenses" include: (1) application fees; (2) inspection costs; (3) fees related to equivalency agreement/arrangement requirements, travel/per diem for inspectors, user fees, sales assessments, and postage; and (4) costs for any equipment, materials, or supplies necessary for organic certification or production of agricultural products, in accordance with the qualified taxpayer's organic system plan and the organic production and handling requirements of the National Organic Program, codified at 7 Code of Federal Regulations part 205, subpart C, including but not limited to certified organic seed, cover crops, or animal feed. "Qualified expenses" shall not include any amount refunded or to be refunded to the taxpayer by the United States Department of Agriculture's organic certification cost-share program or any other similar financial assistance program.

Requires the Department of Agriculture (DOA) to verify and certify each claim for the credit including the total amount of credit for each taxable year and the cumulative amount of tax credit during the credit period. The DOA shall issue a certificate to qualifying taxpayers who shall file the certificate with the taxpayer’s tax return.

Allows DOTAX to assess and collect a fee to offset the cost of certifying tax credit claims. Fees collected will be deposited into the tax administration special fund.

If the amount of credits exceeds the taxpayer’s income tax liability, the excess of credit over liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted. All claims for a credit under this section shall be properly filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

The total amount of credits allowed shall not exceed $5 million for all qualified taxpayers in any taxable year; however, any taxpayer who is not eligible to claim the credit in a taxable year due to the $5,000,000 cap having been exceeded for that taxable year shall be eligible to claim the credit in the subsequent taxable year.

EFFECTIVE DATE: July 1, 2050; applies to taxable years beginning after December 31, 2016. The renewable fuels production tax credit sunsets on 12/31/2021.

STAFF COMMENTS:

Renewable Fuels Production Income Tax Credit: 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 ethanol facility 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.

Organic Foods Production Tax Credit: This credit appears to be an entirely new idea, that has not previously been heard in the Senate this session. The credit appears to be structured similarly to the high technology business investment tax credit, formerly in HRS section 235-110.9.

As with any other targeted tax credit, this measure picks winners and losers in the marketplace. The winners are the qualified taxpayers, and the losers are the rest of us who need to pay for the cost of government and make up for the winners. Here, the winners are small farmers producing organically produced agricultural products, not agriculture in general and not aquaculture. If the objective is to "promote the production of locally-grown food," as the bill's preamble states, is it right to put so many limits on the kind of food being produced?

One troubling aspect of this tax credit is that there has been no hearing held on this proposed credit in the Senate. If the House allows entirely new matter to be introduced after first crossover, it limits the opportunity for discussion and public comment on the matter before the Senate; and vice versa.

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 doling out such breaks for special interests, lawmakers must endeavor to make Hawaii's business climate more welcoming and conducive to nurturing entrepreneurs.

Digested 3/30/2016

House Committee on Finance

Hawai'i Center for Food Supports SB2652 SD2 HD1 Relating to Tax

Dear Chair Luke, Vice Chair Nishimoto, and Members of the Committee:

My name is Dr. Ashley Lukens and I am the Hawaiʻi Director for the Center for Food Safety (CFS). CFS is a nationwide public interest, sustainable agriculture nonprofit organization whose mission centers on furthering the public's right to know how their food is produced, through labeling and other means. We have over 750,000 farmer and consumer members across the country, including nearing 10,000 in Hawaiʻi. On behalf of CFS and our members, I thank you for the opportunity to speak to you today regarding this important bill.

CFS has been dedicated to addressing the human health and environmental impacts of our increased reliance on pesticide use in food production, both in the State of Hawaiʻi and nationally. We were instrumental in providing legal and communications support in the passage of numerous ordinances relating to pesticide use and disclosure, such as Kauaʻi's Bill 2491. Since 2014, as the inaugural director here in Hawaiʻi, I have worked closely with community members across the state, in all counties, and have played an instrumental role in the passage of Maui's moratorium on GE production until companies submit environmental and public health impact assessments.

I am writing in support of SB2652 SD2 HD1, relating to tax. Specifically, HCFS supports §235-B on organic foods production tax credit. Hawaiʻi desperately needs more local and safe food production, but high costs are deterring farmers from establishing and expanding organic farms. This measure would help local, organic farmers safely feed Hawaiʻi.

Organic food production costs are extremely higher than conventional food production due to many reasons. First, the cost of organic material, such as fertilizer, can be double that of conventional farming.[i] In addition to more expensive materials, organic operations are typically more labor intensive per output which limits economies of scales.[ii] Not only are more worker-hours costly but Hawaiʻi's agriculture wages are 35% higher than the US average.[iii]

Farmers are also struggling to find affordable land on these Hawaiian Islands that are overrun by residential and commercial development.[iv] Hawai'i's agriculture land costs are about four times higher than the US average.[v] This greatly inhibits local people from establishing farms in our states' limit space.

In a growing organic industry, it is important to be organic certified which brings costs that can be upwards of thousands of dollars.[vi] The US government intensely subsidizes conventional farming as opposed to the minimal subsidies allotted for organic farms. For example, in 2008,

$7.8 billion was used for subsidies for conventional farming as compared to $15 million for organic and local food production.

Although these financial concerns about organic farming are daunting, the benefits of pesticide-free food production far out-weigh the cons. Assisting organic farmers to initiative and grow their business would benefit our environment, economy, and social well-being. More organic farms would fight climate change, increase local jobs, and improve local human health but to do this, financial assistance is needed due to the reasons above.

Thank you for the opportunity to testify, and I am happy to answer any follow up questions or provide additional analysis.

Respectfully,

Ashley Lukens
Director, Hawaiʻi Center for Food Safety

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[i] Miller, E. (2013). What Are The Challenges of Organic Farming? *Hawaiʻi Tribune-Herald.* http://hawaiitribune-herald.com/sections/news/local-news/what-are-challenges-organic-farming.html?qt-popular_quick_tab=1

[ii] Food and Agriculture Organization of the United Nations. (2016). Organic FAQ. http://www.fao.org/organicag/oa-faq/oa-faq5/en/

[iii] Cox, L. (2012). Why Local Agricultural Products Cost So Much. CTHAR. http://www.ctahr.hawaii.edu/sustainag/news/articles/V10-Cox-AgCosts.pdf

[iv] Echardt, J. (2011). Affordable ag land, money, knowledge: Ingredients for cultivating Hawaii's food future. *The Hawaiʻi Independent.* http://hawaiiindependent.net/story/farmers-problems

[v] Cox, L. (2012). Why Local Agricultural Products Cost So Much. CTHAR. http://www.ctahr.hawaii.edu/sustainag/news/articles/V10-Cox-AgCosts.pdf

[vi] United States Department of Agriculture. (2016). FAQ: Becoming a Certified Operation. https://www.ams.usda.gov/services/organic-certification/faq-becoming-certified

Testimony of the
Hawaii Energy Policy Forum
Before the
House Committee on Finance
April 1, 2016 at 3:00 pm in Conference Room 308

In **SUPPORT** OF **SB 2652 HD1** Relating to Taxation

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

The Hawaii Energy Policy Forum ("HEPF"), created in 2002, is comprised of over 40 representatives from Hawaii's electric utilities, oil and natural gas suppliers, environmental and community groups, renewable energy industry, and federal, state and local government, including representatives from the neighbor islands. Our vision, mission, and comprehensive "10 Point Action Plan" serve as a guide to move Hawaii toward its preferred energy goals. It is for that reason that we support the fuels-related provisions of SB 2652 HD1.

Sections 2 and 3 of SB 2652 HD1 (proposed) repeal the current ethanol facility tax credit, which would have allowed up to $12 million per year for up to eight years for local ethanol production facilities, and replaces it with a renewable fuel production tax credit with a maximum cap of $3 million per year for five years.

Renewable fuels can be used in vehicles as well as in power generation equipment and therefore will play an important role in Hawaii's ability to reach its 100% renewable energy future.

Therefore, the Forum supports Sections 2 and 3 of SB 2652 HD1.

Section 4 of the bill establishes an organic foods production tax credit. We defer to others on that portion of the bill.

Thank you for the opportunity to testify.

This testimony reflects the position of the Forum as a whole and not necessarily of the individual Forum members or their companies.

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Email: communications@ulupono.com

HOUSE COMMITTEE ON FINANCE
Friday, April 1, 2016 — 3:00 p.m. — Room 308

Ulupono Initiative Strongly Supports SB 2652 SD 2 HD 1 with Amendments, Relating to Taxation

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 firm that strives to improve the quality of life for the people of Hawai‘i by working toward solutions that create more locally produced food; increase affordable, clean, renewable energy; and reduce waste. 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 SB 2652 SD 2 HD 1, which establishes a renewable fuels production tax credit, because it aligns with our goal of increasing the production of clean, renewable energy in Hawai‘i.

In recent years Hawai‘i has seen significant growth in renewable energy adoption moving the State towards its renewable energy goals. However, while the state locally produces about 14% renewable electricity, renewable fuels are far less than 1% of fuel use. Electricity represents approximately 40% of energy use in the state while transportation fuels account for a larger share at 51%. This is disturbing as this means we are making the least amount of progress to date in renewable production for the largest share of the state's energy use.

This important bill could be made more effective in achieving Hawai‘i's renewable energy goals with two amendments:

1. On page 4, line 21, the per taxable year limit be put to at least $6 million per taxable year, which is equivalent to 30 million gallons per year of production. It is important to note that renewable fuel facilities as large as 50 million gallons per year of capacity have been proposed for Hawai‘i. Furthermore, ethanol imports alone, at a 10% blend with gasoline, amounted to more than 45 million gallons last year. If we want to replace a meaningful portion of imported fuels with locally produced renewable fuels, at least $6 million per taxable year is a reasonable

amount that balances enough incentive for developers while minimizing cost for the State.

2. On page 6, line 10, the aggregate limit should be increased to $18 million. In truth, any aggregate limit will make biofuels production facilities much more difficult to finance since the developer can never be sure his/her project will be completed in time to receive the credit – before the aggregate limit is reached. This means developers will not be able to include such benefits in their financing decisions. Nevertheless, understanding that the committee would prefer to have a limit to reduce the risk of an unexpectedly large tax credit claim, an $18 million limit seems reasonable. This would then allow up to three 30 million gallon per year facilities in Hawaiʻi if amendment #1 above was also adopted. That would be 90 million gallons per year in aggregate or about double the amount of imported ethanol. This would also allow for production facilities on more than one island – for example, one 30 million gallon per year facility on three different islands.

Furthermore, we also request that on page 4, line 14, the production tax credit remain equal to 20 cents per seventy six thousand British thermal units throughout the remaining legislative process. We feel that is a reasonable figure that would incentivize production while limiting impact to the State's budget.

We strongly believe that this bill has the potential to open the door for significant renewable energy growth in Hawaiʻi.

As Hawaiʻi's energy issues become more complex and challenging, we appreciate this committee's efforts to look at policies that support renewable energy production.

Ulupono has no comments on Part III of this bill.

Thank you for this opportunity to testify.

Respectfully,

Murray Clay
Managing Partner

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Testimony of ERIK KVAM
Director of Renewable Energy Action Coalition of Hawaii
e-mail: Erik.Kvam@REACHawaii.org

In SUPPORT of SB 2652 RELATING TO TAXATION

Before the
HOUSE COMMITTEE ON FINANCE

Friday, April 1, 2016 3:00 p.m.

Aloha Chair Luke, Vice-Chair Nishimoto and members of the Committee.

My name is Erik Kvam. I am a Director of Renewable Energy Action Coalition of Hawaii (REACH). REACH is a trade association whose vision is a Hawaiian energy economy based 100% on renewable sources indigenous to Hawaii.

REACH is in **SUPPORT** of **SB 2652**.

Hawaii is far behind in achieving its renewable goals for transportation. Transportation fuels account for about two-thirds of all the energy consumed in Hawaii. Virtually all of Hawaii's energy for transportation comes from imported fuels.

Without renewable fuel production from sources indigenous to Hawaii, Hawaii will have virtually no fuel available for critical transportation needs when imported fuels stop flowing to Hawaii.

REACH **SUPPORTS SB 2652 –** creating a production tax credit of so-many cents per 76,000 BTUs of renewable fuels produced from sources indigenous to Hawaii -- to encourage the development of renewable fuel production from sources indigenous to

Hawaii. REACH **SUPPORTS SB2652**, so that Hawaii has the transportation fuels it needs when imported fuels stop flowing to Hawaii.

Thank you for providing this opportunity to testify.

PACIFIC BIODIESEL TECHNOLOGIES

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Testimony on Senate Bill 2652, SD2 HD1 Relating to Taxation
SUPPORT

House Finance Committee
Representative Sylvia Luke, Chair
Hearing April 1, 2016 at 3:00 p.m., Conference Room 308

Dear Chair Luke and Finance Committee Members,

The management, investors and 70+ employees of the Pacific Biodiesel Technologies thank you for hearing Senate Bill 2652 SD2 HD1. This bill is crucial to the expansion of the biofuels industry in Hawaii, especially since our state is so far behind in transportation renewable energy use. We testify in strong support of this measure, with a couple of suggested amendments.

While we support the intent of the agricultural credits in Part III, we strongly suggest the removal of this specific credit to another bill that would be a more appropriate vehicle. We ask you to please pass SB2652, SD2 HD1, to support the continued efforts of renewable fuel producers throughout the State of Hawaii.

A refundable credit is more useful to support operations, especially in the early years of a new business. We support reinstating the refundable credit language.

Mahalo,

Robert O. King

Robert King, President
Pacific Biodiesel Technologies, LLC
bking@biodiesel.com

HAWAI'I GAS
THE CLEAN ENERGY COMPANY

Testimony to the House Committee on Finance
Friday, April 1, 2016 3:00pm
Conference Room 308, State Capitol
RE: Senate Bill 2652 SD2 HD1

Chair Luke, Vice Chair Nishimoto, and Members of the Committee on Finance:

Hawaii Gas strongly supports SB 2652 SD2 HD1, which establishes a five-year renewable fuels production tax credit and repeals the ethanol facility tax credit; allows qualifying taxpayers to claim an income tax credit equal to 20 cents per seventy-six thousand British thermal units of renewable fuel, capped at $3,000,000 per taxable year; caps the credit at $3,000,000 per year in aggregate; requires DBEDT to certify all tax credits and submit a report regarding the production and sale of renewable fuels to the governor and legislature each year; and directs DOTAX to create forms for the tax credit.

This Bill represents an important step in developing a local biofuels market that will diversify our fuel supply and help us meet our renewable energy goals. Biofuels such as biogas and hydrogen provide a firm source of energy unlike electricity generated from intermittent solar and wind resources. They can also be used to displace the oil-derived synthetic natural gas used on Oahu, and for ground and marine transportation.

For these reasons, biofuels are an important part of the overall energy system that is needed to achieve Hawaii's renewable energy future.

Thank you for the opportunity to testify.

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, March 31, 2016 12:26 PM
To: FINTestimony
Cc: jgalatro@biodiesel.com
Subject: *Submitted testimony for SB2652 on Apr 1, 2016 15:00PM*

SB2652
Submitted on: 3/31/2016
Testimony for FIN on Apr 1, 2016 15:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Joy Galatro	Individual	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

LATE

HREA

HAWAII RENEWABLE ENERGY ALLIANCE

Directors

Jody Allione
Project Development Consultant

Joe Boivin
Hawaii Gas

Kelly King
Pacific Biodiesel

Warren S. Bollmeier II
WSB-Hawaii

TESTIMONY IN **SUPPORT**

WARREN BOLLMEIER ON BEHALF OF THE
HAWAII RENEWABLE ENERGY ALLIANCE BEFORE THE
HOUSE COMMITTEE ON FINANACE

SENATE BILL 2652 SD2 HD1

FRIDAY, APRIL 1, 2016 3 PM

Chair Luke, Vice Chair Nishimoto and Members of the Committee on Finance

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 SB2652 SD2 HD1 are to establish a five-year renewable fuels production tax credit and repeal the ethanol facility tax credit and establish an organic foods production tax credit.

HREA **strongly supports** this measure with the following comments:

1) Biofuels can diversify Hawaii's fuel mix, which can increase system reliability and reduce risk.
2) Intermittent Wind and Solar can be better managed with complementary firm power from Biofuels.
3) Biofuels can displace oil and be utilized in the transportation sector.
4) Biogas production is limited in Hawaii and is there are no incentives to produce biogas, which is a proven technology in other parts of the world.
5) SB2652 SD1 HD1 appears to be a version that corrects the AG issues from a previously passed but Governor vetoed bill in the 2015 Legislative Session (SB349 SD2 HD2 CD1) (GM1332)
6) We have no comments on the organic foods production tax credit.

Recommendation: We recommend passing the measure.

Mahalo for this opportunity to testify.

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Rep. Sylvia Luke, Chair Finance Committee and Honorable Members of the Finance Committee.

SB 2652, SD2, HD1 should be supported:

The goal of the State of Hawaii is having renewable and alternative sources replace where and when possible carbon based fuels. SB2652 seeks to advance this process by way of a renewable fuel production tax credit among other provisions.

1. It broadens the foundation of fuel availability in Hawaii.
2. It lessons dependence on fossil fuels.
3. Will advance necessary support for a bio-fuel/bio-gas industry in Hawaii at a crucial juncture regarding viability.
4. It is especially timely in terms of reducing gasoline consumption for transportation.

Attention should be given to the suggestion by the Department of Business and Economic Development (DBED) that a renewable fuels production tax credit needs to be defined in terms of a percentage that must be originated in and from Hawaii. Any eligibility, if any, for a blend of local and out-of-state fuel must be clarified.

If a cap is established who is eligible and what amount can be awarded needs to be clarified. The method of verifying and certifying claims that requirements have been met needs to be clarified.

SB2652 is timely and focused. Passage will be a clear step forward toward Hawaii's renewable fuel goals.

Respectfully;

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