



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

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NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

**REVISED TESTIMONY
Feb. 6, 2014**

Statement of
RICHARD C. LIM
Director

Department of Business, Economic Development & Tourism
before the

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

Friday, February 7, 2014

8:35 a.m.

State Capitol, Conference Room 312

in consideration of

HB 1593
Relating to Taxation.

Chair Tsuji, Vice Chair Ward, and Members of the Committee.

HB 1593 adds new eligible business activities under the state enterprise zones law in Chapter 209E, HRS, of construction or remodeling costs of development or rehabilitation of new or existing single family residences, multi-family dwellings, health care facilities and historical properties, and increases the number of areas in each county that may be designated as an Enterprise Zone from six to twelve.

The Department of Business, Economic Development and Tourism (DBEDT) defers to the Department of Taxation on the tax implications and impact of the amendments to Section 2.

DBEDT supports the amendment to Section 3 which increases the number of eligible areas in each county which may be designated as state enterprise zones from six to twelve because allowing more eligible areas is consistent with the goal of job growth, but defers to the Department of Taxation to determine the revenue impact.

Thank you for the opportunity to testify on this bill.

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



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To: The Honorable Clift Tsuji, Chair
and Members of the House Committee on Economic Development and Business

Date: Friday, February 07, 2014
Time: 8:35 a.m.
Place: Conference Room 312, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. No. 1593 Relating to Taxation

The Department of Taxation (Department) defers to the Department of Business, Economic Development, and Tourism (DBEDT) on the merits of this measure and offers the following comments for your consideration.

H.B. 1593 expands the definition of "eligible business activity" under the Enterprise Zone program contained in chapter 209E, Hawaii Revised Statutes (HRS), to include the construction or remodeling costs associated with the development or rehabilitation of a: (1) new or existing health care facility, as defined in section 323D-2, HRS; (2) historic property; (3) new or existing single family residence; or (4) multi-family dwellings. The measure also increases the number of areas in each county that may be designated as an enterprise zone from six to twelve. The measure would take effect upon its approval.

The Department notes that expanding the definition of "eligible business activity" and increasing the number of enterprise zones, as set forth in this measure, would likely have a substantial impact on the tax revenues of the State. Currently, large swaths of all islands are already in an enterprise zone. For example, on Oahu, Haleiwa and part of Waialua (the area immediately surrounding the old Waialua Sugar mill site), Mililani Technology Park and parts of Wahiawa, Waipahu (old Oahu Sugar mill site), Pearl City (Manana parcel), Waipio (business park), Waiawa (including all of Kapolei, most of Campbell Industrial Park, Ewa, and Kunia), Urban Honolulu (airport area, Kalihi, Iwilei, downtown, Ala Moana), and Leeward Oahu are all enterprise zones.

Increasing the number of zones could potentially envelope virtually all of the islands. An enterprise zone can be comprised of one or more contiguous United States census tracts (in accordance with the most recent decennial United States Census data), if it meets one of the

following criteria:

- (1) Twenty-five per cent or more of the population in the tract(s) have income below eighty per cent of the median family income of the county; or
- (2) The unemployment rate in the tract(s) is 1.5 times the state average.

In addition, by expanding the definition of "eligible business activity" as set forth in the measure, revenues related to construction activity would be exempt from the general excise tax and any income tax that a qualified business may owe.

Thank you for the opportunity to provide comments.

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Expand eligible business activity of enterprise zones

BILL NUMBER: SB 2338; HB 1593 (Identical)

INTRODUCED BY: SB by Kouchi by request; HB by Souki by request

BRIEF SUMMARY: Amends HRS section 209E-2 to amend the definition of eligible business activity to include the construction or remodeling costs associated with the development or rehabilitation of a: (1) new or existing health care facility; (2) historic property; (3) new or existing single family residence; or (4) multi-family dwelling.

Amends HRS section 209E-4 to increase the number of areas in each county that may be designated as enterprise zones from six to 12.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: The proposed measure would further extend enterprise zone benefits to include the construction or remodeling costs associated with the development or rehabilitation of a health care facility, a historic property, or a single family or multi-family dwelling.

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 within the zone to be exempt from the general excise tax.

The use of enterprise zones merely exacerbates what is already considered a poor climate in which to do business. Singling out specific areas of the state merely confers preferences for those businesses located within those geographic areas at the expense of all other taxpayers who are not so favored. It should be remembered that those taxpayers who live and work in the zone will demand the same public services as those who are not as fortunate to be located in the zone. Who then will pay for these services?

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.

The impetus for the establishment of enterprise zones is to attract businesses to locate in an economically depressed area, to create jobs for those living in that community. In that sense, all other taxpayers are being asked to subsidize these preferred businesses.

As the measure's purpose clause notes, the genesis for this proposal is an interim task force to evaluate the value of construction activity in Hawaii. Unfortunately, where there is no demand for the facilities enumerated in this bill, no amount of tax incentives or tax preferences will create demand for these facilities. Without the demand, who then will move forward solely on the tax preferences of an enterprise zone? Thus, this measure does not directly attack the problem of creating more construction jobs, rather it is a sop to satisfy the construction industry that something is being done to create those jobs. What it does epitomize is a lack of understanding of what makes the economy move forward and what it takes to create those badly needed jobs.

Digested 2/6/14

HISTORIC HAWAII FOUNDATION

To: Rep. Clift Tsuji, Chair
Rep. Gene Ward, Vice Chair
Committee on Economic Development & Business

From: Kiersten Faulkner
Executive Director, Historic Hawai'i Foundation

Committee Date: Friday, February 7, 2014
8:35 a.m.
Conference Room 312

Subject: **HB 1593, Relating to Taxation**

On behalf of Historic Hawai'i Foundation (HHF), I am writing in **support of HB 1593**, Relating to Taxation, **with suggested amendments**.

HB 1593 would add rehabilitation of historic structures to the list of eligible business activities that qualify for tax credits in designated enterprise zones.

Preservation tax credit programs have proven to be successful incentives for rehabilitating older structures and returning them to useful life. Preserving and using historic buildings are ways to enhance community character, provide an alternative to waste of embedded energy and building materials, provide an alternative to sprawl, encourage heritage tourism and generally spur economic development in older neighborhoods and commercial districts.

In addition to the historic preservation benefits, these programs have also proven to provide economic development benefits. In 2008, Historic Hawai'i Foundation released a white paper reviewing economic benefits realized by states that use a historic preservation tax credit, and found that increased direct tax revenues offset tax credit expense.

Historic Hawai'i Foundation's review found that in the 34 states that have a rehabilitation tax credit, all of them determined that the fiscal return was greater than the state's forgone taxes, often returning three to five times more revenue to the state in new taxes and significant new investment. The rehabilitation tax credit also was successful in creating new jobs, increasing loan demand and deposits in local financial institutions, enhancing property values and generating sales. In addition to these direct fiscal impacts, the tax credit also has proven benefits related to environmental sustainability, affordable housing, tourism and visitation, and neighborhood revitalization.

Historic Hawai'i Foundation

680 Iwilei Road, Suite 690 • Honolulu, HI 96817 • Tel: 808-523-2900 • FAX: 808-523-0800 • www.historichawaii.org

Historic Hawai'i Foundation was established in 1974 to encourage the preservation of historic buildings, sites and communities on all the islands of Hawai'i. As the statewide leader for historic preservation, HHF works to preserve Hawai'i's unique architectural and cultural heritage and believes that historic preservation is an important element in the present and future quality of life, environmental sustainability and economic viability of the state.

Since 1974, Historic Hawai'i Foundation has been a statewide leader for historic preservation. HHF's 850 members and numerous additional supporters work to preserve Hawaii's unique architectural and cultural heritage and believe that historic preservation is an important element in the present and future quality of life, economic viability and environmental sustainability of the state.

As an incentive for reinvestment in our neighborhoods and communities, historic property tax credits make sense. As an economic development program, it also makes fiscal sense for the state.

HHF also offers technical amendments to the bill:

- Section 2. 1: Definition of "historic property". We recommend that (1) "Over fifty years old; and" be deleted and the definition include only (2) "Listed on the National Register of Historic Places or the Hawai'i Register of Historic Places."

While the majority of designated historic properties exceed the age threshold of 50 years, there are exceptions for buildings and sites of exceptional significance. If these properties have been designated on the National or State Registers of Historic Places, they should not be ineligible for the enterprise zone credit merely because they have not yet attained the age of 50 years old.

- Section 2 (5) (B): the qualifying business activity related to rehabilitation of historic property should make it clear that such rehabilitation is to be consistent with standards and guidelines for the appropriate treatment of historic properties.

This section should be amended to read: "Historic properties, where the development or rehabilitation is consistent with the Secretary of the Interior's Standards for the Treatment of Historic Properties (CFR Title 36 Part 68)"

With these suggested amendments, Historic Hawai'i Foundation supports HB 1593.

Thank you for the opportunity to comment.

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ward2-Robin

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, February 06, 2014 8:25 AM
To: edbtestimony
Cc: smenor-mcnamara@cochawaii.org
Subject: Submitted testimony for HB1593 on Feb 7, 2014 08:35AM
Attachments: 2-07-2014 House EDB HB 1593 - Taxation (Enterprise Zones).docx

Follow Up Flag: Follow up
Flag Status: Flagged

HB1593

Submitted on: 2/6/2014

Testimony for EDB on Feb 7, 2014 08:35AM in Conference Room 312

Submitted By	Organization	Testifier Position	Present at Hearing
Sherry Menor-McNamara	Chamber of Commerce Hawaii	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.

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