

STAND. COM. REP. NO.

3146

Honolulu, Hawaii

MAR 20 2008

RE: H.B. No. 2739
H.D. 1
S.D. 2

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2008
State of Hawaii

Madam:

Your Committee on Economic Development and Taxation, to which was referred H.B. No. 2739, H.D. 1, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO STATE ENTERPRISE ZONES,"

begs leave to report as follows:

The purpose of this measure is to protect and support the growth of Hawaii's agriculture industry by amending the enterprise zones law to allow more farmers to qualify for the associated tax incentives.

Testimony in support of this measure was submitted by the Department of Business, Economic Development, and Tourism, Department of Taxation, Hawaii Aquaculture Association, Hawaii Agriculture Research Center, and Hawaii Farm Bureau Federation. Comments on this measure were submitted by the Department of Agriculture and Tax Foundation of Hawaii.

Your Committee finds that currently, there are more than 5,500 farms in Hawaii, but as of 2006, only forty-four participated in the enterprise zone program. In 2005, only twelve of these forty-four qualified for benefits. This measure would allow more farmers to participate in enterprise zone benefits by adjusting the enterprise zone qualification criteria to recognize some of the unique weather and employment challenges that agricultural businesses face in Hawaii.



Your Committee received a fiscal impact statement from the Department of Taxation. No fiscal impact on projected revenue losses to the State was cited because of the effective date of this measure. However, the Department of Taxation did project a fiscal impact that assumed this measure would be approved before June 30, 2008. Those projections reported a revenue loss to the State of \$800,000 in fiscal year 2009, \$2,400,000 in fiscal year 2010, \$800,000 in fiscal year 2011, and \$550,000 each year thereafter. Their methodology is as follows:

It is estimated that the construction of facilities for the agricultural and processing facilities would cost \$100,000,000 over three years, with \$20,000,000 being incurred in the first and third years and \$60,000,000 being incurred in the second year. In the fourth year and thereafter, the facilities are assumed to generate \$50,000,000 in gross receipts and to increase the enterprise zone tax credit by twenty per cent. General excise taxes are foregone at the rate of four per cent of the construction costs and at one-half of one per cent on the gross receipts from the new agricultural and processing facilities.

Your Committee has amended this measure by:

- (1) Expanding the qualified businesses that are eligible for the tax incentives to include businesses that increase their gross sales from agricultural crops or agricultural products by two per cent annually;
- (2) Deleting the reference that eligible businesses include those businesses that increase their number of employees from the initial year of operations;
- (3) Adding that receipts from value-added products grown from an enterprise zone count toward the gross receipt requirement; and
- (4) Clarifying in section 209E-11, Hawaii Revised Statutes, that the seven-year period of eligibility for the exemption from general excise tax for construction within an enterprise zone shall be tolled for the duration of a force majeure event.

As affirmed by the record of votes of the members of your Committee on Economic Development and Taxation that is attached to this report, your Committee is in accord with the intent and



purpose of H.B. No. 2739, H.D. 1, S.D. 1, as amended herein, and recommends that it be referred to the Committee on Ways and Means, in the form attached hereto as H.B. No. 2739, H.D. 1, S.D. 2.

Respectfully submitted on
behalf of the members of the
Committee on Economic
Development and Taxation,



CAROL FUKUNAGA, Chair



The Senate
 Twenty-Fourth Legislature
 State of Hawaii

Record of Votes
Committee on Economic Development and Taxation
EDT

Bill / Resolution No.:	Committee Referral:	Date:
HB 2739 HDI SDI	AHW, EDT, WAM	3/18/08

The committee is reconsidering its previous decision on this measure.
 If so, then the previous decision was to: _____

The Recommendation is:

Pass, unamended 2312
 Pass, with amendments 2311
 Hold 2310
 Recommit 2313

Members	Aye	Aye (WR)	Nay	Excused
FUKUNAGA, Carol (C)	✓			
ESPERO, Will (VC)	✓			
BAKER, Rosalyn H.				✓
ENGLISH, J. Kalani	✓			
IGE, David Y.	✓			
SLOM, Sam				✓
TOTAL	4			2

Recommendation: Adopted Not Adopted

Chair's or Designee's Signature: 

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*Only one measure per Record of Votes