



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

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Statement of
THEODORE E. LIU
Director

Department of Business, Economic Development, and Tourism
before the

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS CONCERNS

March 11, 2008
8:30 A.M.

State Capitol, Conference Room 325

in consideration of
SB 2088 SD1
RELATING TO ADVANCED FLIGHT SIMULATOR TRAINING

Chair Yamashita, Vice-Chair Wakai, and Committee members:

The department supports the concept of SB 2088 SD1 which includes commercial aviation training as a qualified business for enterprise zone benefits. There have been many good ideas introduced this legislative session that support the State's economic development goals. We hope the legislature will see fit to support, pass and fund these ideas, together with the priorities of the Executive's Supplemental Budget.

This bill would allow businesses engaged in commercial aviation training for pilots, dispatchers, mechanics, or traffic controllers to be eligible to participate in the State Enterprise Zone (EZ) Partnership program. Hawaii's EZ program has been modeled after a nationally recognized tax credit program. Established in 1986, it is one of the State's few funded programs that assist for-profit businesses. The State provides tax incentives such as GET exemptions, State unemployment insurance credit, and income tax credit. The Counties may also provide additional benefits such as building

permit priority processing, building permit fee waiver, grading permit fee waiver, and property tax rebates.

By allowing commercial aviation training to become eligible for Enterprise Zone benefits, we will be encouraging new investment in Hawaii, creating more jobs with better pay for our residents and creating more opportunities for those airlines who are already here to become more profitable by building a better trained workforce of local residents. We feel that the commercial aviation training sector presents an opportunity for Hawaii to raise the level of education and skills of our resident workforce.

It is difficult to estimate the revenue impact of this bill since the eligibility of some types of transactions connected with this kind of activity may not always be clear-cut.

Thank you for the opportunity to provide these comments.

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

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HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS CONCERNS

TESTIMONY REGARDING SB 2088 SD 1 RELATING TO ADVANCED FLIGHT SIMULATOR TRAINING

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: MARCH 11, 2008

TIME: 8:30AM

ROOM: 325

This bill proposes to amend section 209E-2, HRS, to modify Hawaii Enterprise Zone law by expanding the definition of "qualified business" to include businesses engaged in advanced flight simulator training for pilots, dispatchers, mechanics, or air traffic controllers.

The Senate Committee on Economic Development & Taxation amended the measure to conform to the bill's title.

The Senate Committee on Ways & Means passed the measure unamended.

The Senate passed the measure on third reading.

The Department of Taxation (Department) has **no position** on this legislation, as all prior technical concerns were addressed.

The Department; however, points out that it is unsure what types of advanced flight simulation would be available for mechanics and questions this term's inclusion in the bill.

As amended, revenue losses for the new bill are estimated to be \$280,000 for fiscal year 2009, \$1,040,000 for fiscal year 2010, \$280,000 for fiscal year 2011 and \$220,000 per year thereafter.

For purposes of the revenue estimate, it is assumed that the bill will allow only flight simulator training for pilots to be included in the enterprise zones. (It is therefore not clear why the bill refers to 'flight simulator training' for mechanics.) With this assumption, it is estimated that under the new bill the construction of facilities for the aviation training would cost \$40 million over three years, with \$7 million being incurred in the first and third years and \$26 million being incurred

Department of Taxation Testimony

SB 2088 SD 1

March 11, 2008

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in the second year. In the fourth year and thereafter, the facility is assumed to generate \$4 million in gross receipts and to increase the enterprise zone tax credit by 4%. GET is foregone at the rate of 4% on the construction costs and on the gross receipts from the training facility.



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
House Committee on Economic Development & Business Concerns
March 11, 2008 at 8:30 a.m.

by
John Morton
Vice President for Community Colleges, University of Hawai'i

SB 2088, SD1 - RELATING TO ADVANCED FLIGHT SIMULATOR TRAINING

Chair Yamashita, Vice Chair Wakai, and Members of the Committee:

Honolulu Community College stands in support of this measure.

Honolulu Community College operates the University System's only flight training and aviation mechanic training programs. The mechanic's program was started in 1949 and the flight training program, founded in 1998, is looking forward to its 10th year of operation. Both programs have the potential for growth and the College hopes to eventually partner with airlines and/or airplane manufacturers in offering this training to countries that are in great demand for pilots and aviation mechanics.

A bill such as this would assist prospective private sector partners in making an investment in expensive flight training materials and equipment.

We look forward to further solidifying the University of Hawai'i's capacity to become a world-class flight training center.

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SUBJECT: MISCELLANEOUS, Expand enterprise zone eligibility

BILL NUMBER: SB 2088, SD-1

INTRODUCED BY: Senate Committee on Economic Development and Taxation

BRIEF SUMMARY: Amends HRS section 209E-2 to amend the definition of "qualified business" in an enterprise zone to include a business engaged in advanced flight simulator training for pilots, dispatchers, mechanics, or air traffic controllers.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: This measure proposes to expand enterprise zone laws to include a business that provides advanced flight simulator training for pilots, dispatchers, mechanics, or air traffic controllers. 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 to be exempt from the general excise tax.

While it appears that it is the intent of the legislature to utilize the enterprise zone concept to encourage new and existing businesses to expand their employment bases and increase their marketing territories, or in this case, provide advanced flight simulator training, enterprise zones merely exacerbate what is already considered a poor climate in which to do business. Singling out businesses for preferential treatment merely confers preferences for those businesses at the expense of all other taxpayers.

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. Concurrent efforts must be made to improve Hawaii's business climate to enhance the economic prospects for all businesses.

Instead of expanding the enterprise zone program, the program should be repealed in favor of across-the-board tax relief for all businesses in Hawaii. For example, the consultant to the current Tax Review Commission suggested that all business-to-business transactions be exempt from the general excise tax as a means of reducing not only the cost of doing business in Hawaii but the overall cost of living.

It should be remembered that while this measure attempts to confer favorable tax treatment under Hawaii laws, one must ask what happens to them under the federal income tax laws? With no state tax liability, more of the businesses' income is exposed to the federal income tax where the rates are much higher.

Before further corrupting the economic marketplace with added versions of the enterprise zone concept, an evaluation of the current zones should be undertaken. Instead of expanding the enterprise zone program, the program should be repealed in favor of across-the-board tax relief for all businesses in Hawaii.

Digested 3/10/08

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March 10, 2008

**To: EDB: Committee on Economic Development and Business
Concerns**

For hearing on March 11, 2008 at 8:30 AM Room 316

Testimony of Captain Robert R. Bumgarner
Managing Director, Global Aeronautics LLC

In favor of:

S. B. No. 2088 SD1

Relating to Advanced Flight Simulator Training

It is my pleasure to testify in favor of Senate Bill 2088, which is intended to provide targeted tax incentives to aviation training companies that make a substantial investment in the advanced training technologies needed to train airline pilots and others for high-demand positions in the aviation industry.

For the past three years, my company has supported Honolulu Community College (HCC) in developing airline-oriented courseware designed to prepare students for training in advanced jet flight simulators. Early last year, I introduced Alteon Training LCC, a wholly owned training subsidiary of the Boeing Commercial Airplane Company, to the HCC project. In May, 2007, Alteon and HCC executed a letter of intent to evaluate formation of a joint training partnership that will provide, among other things, entry for HCC into Alteon's worldwide training network and promotion of HCC's training activities to airline customers of Boeing and Alteon.

Testimony of Captain Robert R. Bumgarner
Favoring S. B. 2088
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Alteon has subsequently made two visits to HCC's training facility at Kalaeloa Airport and is now prepared to enter into a training contract.

Alteon has also expressed an interest in allowing HCC to conduct major portions of its airline jet training program and mechanic training program. The investment by Alteon in flight simulators for this project is likely to exceed \$16,000,000. I believe that S.B. 2088 is needed to establish a sound business case for such an investment by Alteon.

When fully developed, I estimate that this project will generate more than 100 new jobs at the Kapolei and Honolulu International Airport facilities of H.C.C. It will also establish Hawaii as one of the finest centers for professional aviation training in the Pacific region.

I urge you to pass this important bill.

With respect,

/s/ Capt. Robert R. Bumgarner

From: Linda Elento, B.S. Aviation Business Administration
Embry-Riddle Aeronautical University, Hickam Air AFB
(808) 235-7610

To: ECONOMIC DEVELOPMENT & BUSINESS CONCERNS COMMITTEE
Rep. Kyle Yamashita, Chair
Rep. Glenn Wakai, Vice Chair

Re: EDB March 11, 2008, 8:30am
SB2088, SD1 In Support
Relating to Advanced Flight Simulator Training.

New opportunities for education and businesses supporting flight will sustain aviation-related business as defined in this bill. Partnerships between private organizations, including Embry-Riddle Aeronautical University, and our university system, for example, await the financial incentives to take flight in Hawaii.

Embry-Riddle Aeronautical University leads the world in aviation and locally serves military personnel, dependents and civilians. In 1991 being non-military, I earned the Bachelor of Science, Aviation Business Administration, at ERAU's Hickam and Kaneohe campuses, even though I knew choices of aviation jobs were very limited in Hawaii. Local airlines and global airlines that Hawaii serves as a base would benefit economically and contribute to peak performance, efficiency and to a qualified workforce.

If our state dreams to expand our mission to space, we need to start with measures that would bring qualified aviation businesses to Hawaii, which will stir interest, and keep our aviation students here instead of them leaving for the mainland. In comparison, I believe the cruise industry does not have the economic benefits that increased general and commercial aviation business would bring to Hawaii.

Thank you for the opportunity to submit testimony in support of SB2088, SD1.