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**HOUSE COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS &
MILITARY AFFAIRS
TESTIMONY REGARDING HB 424
RELATING TO SEAWATER AIR CONDITIONING**

*****WRITTEN TESTIMONY ONLY*****

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: JANUARY 26, 2010
TIME: 8:30AM
ROOM: 312

This bill would include within the definition of "qualified business," any business engaged in producing air conditioning from a seawater air conditioning district cooling system for purposes of the State Enterprise Zone tax incentives.

The Department of Taxation (Department) **opposes the revenue loss** anticipated by this measure.

NOT FACTORED INTO EXECUTIVE BUDGET

Though the Department supports the intent of minimizing the State's dependency upon foreign oil and fossil fuels, the Department cannot support the tax provision in this measure because it is not factored into the budget. The Department points out that this legislation has not been factored into the Executive Budget and has not been prioritized as a means of tax relief this legislative session. The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either. Given the forecasted decrease in revenue projections, this measure would add to the budget shortfall.

REVENUE IMPACT

Assuming a current effective date, the revenue loss is estimated at \$3.2 million for FY11, \$1.0 million for FY12, and \$1.3 million for FY13.



**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 REVITALIZATION, BUSINESS, AND
MILITARY AFFAIRS**

Tuesday, January 26, 2010
8:30 AM
State Capitol, Conference Room 312

in consideration of
HB 424
RELATING TO SEAWATER AIR CONDITIONING.

Chair McKelvey, Vice-Chair Choy and Members of the Committee:

The Department of Business, Economic Development, and Tourism (DBEDT) supports the intent of this measure, which adds Seawater Air Conditioning (SWAC) District Cooling Systems to the list of businesses eligible for the Enterprise Zone GET exemption and income tax credits for seven years. However, given the current fiscal difficulties, it may not be prudent to enact this measure at this time. We defer to the Department of Taxation and Budget & Finance on the fiscal impact of this measure.

The list of qualified business in Chapter 209E, HRS, already includes wind energy, which was added in 2000. DBEDT recognizes that adding other alternative energy production

such as SWAC District Cooling Systems would further promote the State's goal of lessening our dependency on fossil fuels.

We do note that seawater air conditioning cooling systems are site specific and all installations may not be located in one or more of the 21 Enterprise Zones across the state whose boundaries are determined by the counties. The downtown Honolulu Seawater Air Conditioning Project is located in the Urban Honolulu Zone which includes Downtown and Kaka'ako. However, not all coastal areas, including Waikiki and the Kohala coast, are within existing zones.

The employment growth requirements for the EZ program: increasing jobs by 10% and holding that level for seven years, may also be a challenging requirement for some companies to meet.

Thank you for the opportunity to offer testimony.

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SUBJECT: MISCELLANEOUS, Expand enterprise zone eligibility

BILL NUMBER: SB 242; HB 424 (Identical)

INTRODUCED BY: SB by Gabbard and Green and 1 Democrat; HB by Morita, Coffman, C. Lee, Thielen & 2 Democrats

BRIEF SUMMARY: Amends HRS section 209E-2 to amend the definition of "qualified business" in an enterprise zone to include a business engaged in producing air-conditioning from a seawater air conditioning district cooling system.

Makes a conforming amendment to HRS section 209E-11.

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. 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 encourage new and existing businesses to expand their employment bases and increase their marketing territories, 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.

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.

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. Indeed, has there been a comprehensive evaluation of the program and do lawmakers know exactly how much enterprise zone businesses have benefitted and whether or not they have created the jobs promised when the program was first established?

Digested 1/25/10