SB 770

EDT

NEIL ABERCROMBIE
GOVERNOR OF HAWAII

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES

POST OFFICE BOX 621
HONOLULU, HAWAII 96809

Testimony of
WILLIAM J. AILA, JR.
Chairperson

Before the Senate Committee on
ECONOMIC DEVELOPMENT AND TECHNOLOGY

Wednesday, February 2, 2011
Time 1:45 P.M.
State Capitol, Conference Room 016

In consideration of
SENATE BILL 770
RELATING TO ENTERPRISE ZONES

Senate Bill 770 seeks to expand on Senate Concurrent Resolution 132 Senate Draft 1 (2009) which established established a task force to determine the contributions of the construction industry in Hawaii and develop a series of proposals for the State to preserve and create new jobs in the construction industry. The purpose of Senate Bill 770 is specifically to streamline the review process for construction jobs. The Department of Land and Natural Resources (Department) is opposed to the language change to Section 209D-2, Hawaii Revised Statutes (HRS), which would limit a historic property to a structure that is; 1) Over 50 years old; and 2) listed on the National Register of Historic Places or the Hawaii Register of Historic Places. Currently, Section 209D-2, HRS, does not contain a definition of a historic property.

The Department is concerned about this change for two reasons:

A. Inconsistency in definitions could lead to confusion over the law, and this particular change would eliminate everything but buildings and structures from the definition of a historic site. Thus, aviation artifacts, including crashed planes would be eliminated. Native Hawaiian sites, such as heiau, terraces, house foundations and fishponds could also be eliminated from definition of a historic site. Finally, burial sites would certainly not qualify under this definition.

B. The bill proposes to greatly limit the stock of historic housing in Hawaii. While many houses over fifty years old do not qualify for the Registers, it may be that the Task Force overlooked historic reconstruction as one area of the construction industry in Hawaii. The Department notes that there is a shortage of historic restoration specialists (that in itself a very specialized occupation) in Hawaii, and thus has limited quality historic reconstruction. Promoting expertise in this area could expand construction opportunities. Furthermore, historic housing has proven to adapt easily to affordable housing in other states.

Finally, while the Department understands frustration over permit delays, we do not believe that simply allowing the demolition of any house over 50 years old and not on the Hawaii or National Registers promotes and understanding and appreciation of Hawaii's history. A better approach would be to understand the context of Hawaii's housing inventory, and identify significant buildings that should go on the Registers so that when demolition becomes an issue we have a better understanding of what we want to demolish. The Legislature may want to consider funding or requiring context studies in the enterprise zones.

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR

FREDERICK D. PABLO
INTERIM DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1530
FAX NO: (808) 587-1584

SENATE COMMITTEES ON ECONOMIC DEVELOPMENT & TECHNOLOGY AND ENERGY & ENVIRONMENT

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING SB 770 RELATING TO ENTERPRISE ZONES

TESTIFIER:	**FREDERICK D. PABLO, INTERIM DIRECTOR OF TAXATION (OR DESIGNEE)**
COMMITTEE:	**EDT-ENE**
DATE:	**FEBRUARY 2, 2011**
TIME:	**1:15PM**

POSITION: **NO POSITION; CONCERNED WITH COSTS**

This measure expands the definition of "eligible business activity" to include the construction and preservation of certain historic properties, healthcare facilities, and certain residences.

The Department of Taxation (Department) takes **no position** on this measure; however has **concerns regarding its revenue loss**.

DEFERRAL TO DBEDT—The Department defers to the Department of Business, Economic Development & Tourism on whether the enterprise zone incentives should be expanded to historic preservation, healthcare facilities, and single- and multi-family residences.

NOT FACTORED INTO BUDGET—The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either.

REVENUE IMPACT & METHODOLOGY—This measure will result in a revenue loss of approximately $450,000 million per year starting in FY 2012.

Qualified companies in the State's enterprise zones received about $1.5 million in tax credits in 2006. It is assumed that this proposal would expand enterprise zone activity by 30%. ($1.5 million * 30% = $450,000).

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
INTERIM DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: www.hawaii.gov/dbedt

Telephone: (808) 586-2355
Fax: (808) 586-2377

Statement of
RICHARD C. LIM
Interim Director
Department of Business, Economic Development, and Tourism
before the

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

Wednesday, February 2, 2011
1:45 PM
State Capitol, Conference Room 016

in consideration of
SB 770
RELATING TO ENTERPRISE ZONES.

Chair Fukunaga, Vice Chair Wakai, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) does not support the passage of Senate Bill 770, which adds the following to eligible Enterprise Zone Program businesses: new or existing health care facilities, historic properties, new or existing single-family residences, and multi-family dwellings. Given our state's fiscal difficulties, it may not be prudent to pursue enactment at this time. We defer to the Department of Taxation on the fiscal impact of this measure.

The primary goals of the EZ program are to create full-time jobs in areas that most need revitalization. The employment growth requirements for the EZ program: increasing jobs by 10% and holding that level for four years, then increasing those employment levels to 15% for the remaining three years, may also be a challenging requirement for these proposed new additional entities to meet.

We are concerned that historic properties, and single and multi-family dwellings will not create the long-term, full-time jobs intended. New and existing health care facilities, while creating jobs, usually bill for services at retail (4%), which would not be exempted.

Construction exemption from GET for licensed general contractors and licensed sub-contractors for work done for eligible EZ businesses already exists. Adding "construction or remodeling costs associated with the development or rehabilitation of health care facilities, historic properties single family residences and multi-family residences" would not be an eligible activity, but an additional benefit, currently not provided for in the statute.

Thank you for the opportunity to provide these comments.