
A BILL FOR AN ACT

RELATING TO MEDICAL ENTERPRISE ZONES.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that many factors,
2 including demographics, education, lukewarm business and tax
3 environments, and Hawaii's unique and geographically isolated
4 location have contributed significantly to a chronic shortage of
5 medical and research facilities and health care professionals in
6 the State. The legislature further finds that the establishment
7 of medical enterprise zones in the State that provide a range of
8 county and state incentives will assist in stimulating the
9 creation of integrated campuses that will attract a critical
10 nucleus of medical and research facilities and create a large
11 number of highly skilled jobs in the medical and research
12 fields, including biotechnology, biomedicine, and pharmaceutical
13 research and development.

14 The purpose of this Act is to encourage the establishment
15 of modern medical and research facilities within the State and
16 attract highly skilled general and specialized medical,
17 research, and health care professionals to work in Hawaii by
18 establishing a medical enterprise zone program that initially



1 consists of two pilot medical enterprise zones in west Maui and
 2 Honouliuli, Oahu. Limiting potential investments in a medical
 3 enterprise zone to west Maui and Honouliuli will minimize the
 4 risk on the State and allow the State to evaluate the zone's
 5 impact without negatively affecting income streams and provide
 6 an opportunity for investment in the health industry.

7 SECTION 2. The Hawaii Revised Statutes is amended by
 8 adding a new chapter to be appropriately designated and to read
 9 as follows:

10 **"CHAPTER**

11 **MEDICAL ENTERPRISE ZONES**

12 **§ -1 Definitions.** As used in this chapter:

13 "Department" means the department of business, economic
 14 development, and tourism.

15 "Establishment" means a single physical location where
 16 medical or research services are provided in a medical or
 17 research facility. A qualified business may include one or more
 18 establishments, any number of which may be in a medical
 19 enterprise zone.

20 "Full-time employee" means any employee for whom the
 21 employer is legally required to provide employee fringe
 22 benefits.



1 "Medical enterprise zone" means any area in the State
2 declared by the department to be eligible for benefits pursuant
3 to this chapter.

4 "Medical or research facility" includes:

- 5 (1) Acute critical access hospitals;
- 6 (2) Long-term care facilities;
- 7 (3) Medical research facilities that perform primarily
8 research and development activities relating to the
9 medical sciences, pharmaceutical development, or
10 medical treatment modalities for specific human
11 diseases or disorders and may include biomedical
12 research facilities; and
- 13 (4) Offices of physicians, dentists, nurses, clinical
14 specialists, other medical or research professionals,
15 or other practitioners of the healing arts either in
16 private practice or within organized ambulatory health
17 care facilities.

18 "Qualified business" means any medical or research facility
19 that:

- 20 (1) Is authorized to do business in this State;
- 21 (2) Is located within the medical enterprise zone; and



1 (3) Meets the eligibility requirements set forth in
2 section -6.

3 "Taxes due the State" means income taxes due under chapter
4 235.

5 **§ -2 Administration.** The department shall administer
6 this chapter and have the power and duty to:

7 (1) Monitor the implementation and operation of this
8 chapter;

9 (2) Conduct continuing evaluations of the medical
10 enterprise zones program;

11 (3) Assist the counties in obtaining the reduction of
12 rules within medical enterprise zones;

13 (4) Submit annual reports to the legislature and the
14 governor evaluating the effectiveness of the program
15 and proposing any recommended legislation;

16 (5) Administer and enforce rules adopted by the
17 department; and

18 (6) Administer this chapter in a manner such that the
19 areas designated as medical enterprise zones will
20 provide the most benefit to the areas and the State.

21 **§ -3 Medical enterprise zone designation; approval.** (a)

22 After receiving:



1 (1) A description of a proposed location in a county for a
2 medical enterprise zone; and

3 (2) A general statement identifying proposed county
4 incentives to complement any state and federal
5 incentives,

6 from the governing body of the county, the department shall
7 consider and may designate the proposed area as a medical
8 enterprise zone.

9 (b) The department shall acquire from the county any
10 additional information that the department deems necessary and
11 shall approve the establishment of the medical enterprise zone
12 for a period of three years.

13 § -4 **Duplicative tax incentives; prohibition.** There
14 shall be no duplication of existing state tax incentives to
15 qualified businesses that are located in a medical enterprise
16 zone.

17 § -5 **Rules.** (a) The department, in consultation with
18 the department of taxation, shall adopt rules pursuant to
19 chapter 91 to implement this chapter, including rules relating
20 to health, safety, building, planning, zoning, and land use.
21 Rules adopted pursuant to this section shall supersede all other
22 inconsistent ordinances and rules relating to the use, zoning,



1 planning, and development of land and construction in a medical
2 enterprise zone; provided that rules adopted pursuant to this
3 section shall conform to existing law, rules, and ordinances as
4 closely as possible to comply with minimum standards for energy
5 efficiency, health, and safety.

6 (b) The department may provide by rule that lands within a
7 medical enterprise zone shall not be developed beyond existing
8 uses or that improvements thereon shall not be demolished or
9 substantially reconstructed or provide other restrictions on the
10 use of the zone.

11 **§ -6 Eligibility; qualified business; sale of property**

12 **or services.** (a) Any medical or research facility may be
13 eligible to be designated a qualified business for purposes of
14 this chapter if:

15 (1) The medical or research facility begins operations in
16 a medical enterprise zone and:

17 (A) During each taxable year has at least twenty-five
18 per cent of its medical enterprise zone
19 establishment's gross receipts attributable to
20 its operation within the medical enterprise zone;

21 (B) Increases its average annual number of full-time
22 medical or research professional employees by at



1 least twenty-five per cent by the end of its
2 first tax year of participation; and

3 (C) During each subsequent taxable year maintains the
4 level of employment established to meet the
5 requirements of paragraph (1)(B) or greater for
6 medical or research professional employees; or

7 (2) The medical or research facility:

8 (A) Is actively engaged in the operation of a medical
9 or research facility in an area immediately prior
10 to the area being designated a medical or
11 research enterprise zone;

12 (B) Meets the requirements of paragraph (1)(B); and

13 (C) Increases its average annual number of full-time
14 employees employed at the medical or research
15 facility's establishment or establishments
16 located within the medical enterprise zone by at
17 least ten per cent annually.

18 (b) After approval of the medical enterprise zone, each
19 qualified business in the medical enterprise zone shall annually
20 complete and submit to the department, on an application
21 prescribed by the department, the information necessary for the
22 department to determine whether the medical or research facility



1 qualifies or continues to qualify as a qualified business. If
2 the department determines that the medical or research facility
3 qualifies as a qualified business, the department shall approve
4 the application and notify the department of taxation and the
5 relevant governing body of the county.

6 (c) A completed application approved by the department,
7 pursuant to subsection (b), shall be prima facie evidence of the
8 eligibility of a medical or research facility for the purposes
9 of this section.

10 (d) Any operations or services provided by a medical or
11 research facility outside of the medical enterprise zone shall
12 not be included for the purposes of determining gross receipts
13 attributable to the active provision of services under
14 subsection (a).

15 **§ -7 State business tax credit.** (a) The department
16 shall certify annually to the department of taxation the
17 applicability of the tax credit provided in this section for a
18 qualified business against any income taxes imposed under
19 chapter 235. The credit shall be twenty-five per cent of the
20 tax due for the first three taxable years that the business
21 qualifies as a qualified business. Any tax credit not used in a
22 taxable year shall not be applied to future taxable years.



1 (b) When a partnership is eligible for a tax credit under
2 this section, each partner shall be eligible for the tax credit
3 in proportion to that partner's income tax liability from the
4 partnership. Any qualified business earning taxable income from
5 the provision of the qualified business's services, both within
6 and without the medical enterprise zone, shall allocate and
7 apportion its taxable income attributable to that provision of
8 services. Tax credits provided for in this section shall only
9 apply to taxable income of a qualified business attributable to
10 the services provided within the medical enterprise zone.

11 (c) In addition to any other tax credit authorized under
12 this section, a qualified business shall be entitled to a tax
13 credit against any taxes due the State in an amount equal to a
14 percentage of unemployment taxes paid pursuant to chapter 383.
15 The amount of the credit shall be equal to twenty five per cent
16 of the unemployment taxes paid for during the first three
17 taxable years that the business qualifies as a qualified
18 business.

19 (d) Tax credits provided for in subsection (c) shall only
20 apply to the unemployment tax paid on employees employed at the
21 qualified business's establishment or establishments located



1 within the medical enterprise zone. Any tax credit not used in
2 a taxable year shall not be applied to future tax years.

3 **§ -8 State general excise and use tax exemptions.** The
4 department shall certify annually to the department of taxation
5 that any qualified business is exempt from the payment of taxes
6 pursuant to chapter 237 on the gross proceeds from the provision
7 of medical or research services and taxes pursuant to chapter
8 238 for purchases by the qualified business. The gross proceeds
9 received by a contractor licensed under chapter 444 shall be
10 exempt from taxation under chapter 237 for construction within a
11 medical enterprise zone performed for a qualified business
12 within a medical enterprise zone. The exemption in this section
13 shall extend for a period not to exceed three years after the
14 effective date of this chapter.

15 **§ -9 Local incentives.** (a) A county may propose local
16 incentives, including:

- 17 (1) Reduction of permit fees;
- 18 (2) Reduction of user fees; and
- 19 (3) Reduction of real property taxes.

20 (b) A county may also propose measures for regulatory
21 flexibility including:

- 22 (1) Special zoning districts;



- 1 (2) Permit process reform;
- 2 (3) Exemptions from local ordinances; and
- 3 (4) Other public incentives proposed in the locality's
- 4 application, which shall be binding upon the locality
- 5 upon designation of the medical enterprise zone.

6 **§ -10 Termination of medical enterprise zone.** Upon
7 designation of the area as a medical enterprise zone, the
8 proposals for regulatory flexibility, tax incentives, and other
9 public incentives specified in this chapter shall be binding
10 upon the governing body of the county for a period of three
11 years. If the governing body of the county is unable or
12 unwilling to provide any of the incentives set forth in section
13 -9 or other incentives acceptable to the department, and the
14 department has not adopted rules pursuant to section -5 that
15 supersede inconsistent ordinances and rules relating to the use,
16 zoning, planning, and development of land and construction in a
17 medical enterprise zone, then the medical enterprise zone shall
18 terminate. Qualified businesses located in the medical
19 enterprise zone shall be eligible to receive the tax incentives
20 provided by this chapter even though the zone designation has
21 terminated. No medical or research facility may become a
22 qualified business after the date of zone termination."



1 SECTION 3. The governing bodies of the county of Maui and
2 the city and county of Honolulu, pursuant to this Act, shall
3 each transmit to the director of business, economic development,
4 and tourism, no later than November 30, 2012, a description of a
5 proposed location in west Maui and a description of a proposed
6 location in Honouliuli, respectively, as pilot medical
7 enterprise zones. The director of business, economic
8 development, and tourism, pursuant to this Act, shall designate
9 the proposed areas as medical enterprise zones for a period of
10 three years.

11 SECTION 4. The department of business, economic
12 development, and tourism, in consultation with the department of
13 taxation, shall submit a written report to the legislature by
14 December 31 of each year, beginning in 2012, regarding the
15 implementation of the pilot medical enterprise zones in west
16 Maui and Honouliuli, including an evaluation of the success or
17 failure of the pilot medical enterprise zones in fulfilling
18 their intended purposes.

19 SECTION 5. It is the intent of this Act not to jeopardize
20 the receipt of any federal aid nor to impair the obligation of
21 the State or any agency thereof to the holders of any bond
22 issued by the State or by any agency, and to the extent, and



1 only to the extent, necessary to effectuate this intent, the
2 governor may modify the strict provisions of this Act, but shall
3 promptly report any modification with reasons therefore to the
4 legislature at its next regular session thereafter for review by
5 the legislature.

6 SECTION 6. This Act does not affect rights and duties that
7 matured, penalties that were incurred, and proceedings that were
8 begun, before its effective date.

9 SECTION 7. If any provision of this Act, or the
10 application thereof to any person or circumstance is held
11 invalid, the invalidity does not affect other provisions or
12 applications of the Act, which can be given effect without the
13 invalid provision or application, and to this end the provisions
14 of this Act are severable.

15 SECTION 8. This Act shall take effect on January 1, 2112;
16 provided that this Act shall apply to taxable years beginning
17 after December 31, 2011, and shall be repealed on January 1,
18 2115.



Report Title:

Medical Enterprise Zones; Pilot Project in West Maui

Description:

Establishes medical enterprise zones in the State to encourage the development of medical and research services. Establishes a qualified income tax credit of twenty-five percent for three years. Creates seven-year pilot medical enterprise zones in West Maui and Honouliuli. Effective January 1, 2112. Repealed January 1, 2115. (HB116 HD2)

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

