



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

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GOVERNOR

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Statement of  
**RICHARD C. LIM**  
Director

Department of Business, Economic Development, and Tourism  
before the

**HOUSE COMMITTEE ON ECONOMIC REVITALIZATION & BUSINESS**

Tuesday, February 14, 2012  
State Capitol, Conference Room 312  
8:30 a.m.

in consideration of

**HB 116, HD1 (HSCR 188)**  
**RELATING TO MEDICAL ENTERPRISE ZONES.**

Chair McKelvey, Vice Chair Choy, Committee Members.

The Department of Business, Economic Development, and Tourism (DBEDT) supports the intent of House Bill 116, HD1, which attempts to address the shortage of medical and research facilities and healthcare professionals in Hawaii by establishing a single pilot medical enterprise zone in West Maui. We, however, defer to the Department of Taxation to ascertain the loss of tax revenues as a result of this measure.

Thank you for the opportunity to provide these comments.



# TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** MISCELLANEOUS, Medical enterprise zone

**BILL NUMBER:** HB 116, HD-1

**INTRODUCED BY:** House Committee on Health

**BRIEF SUMMARY:** Adds a new chapter to the HRS to establish a pilot medical enterprise zone in West Maui. The governing body of the county of Maui shall transmit to the director of business, economic development, and tourism (DBEDT) by November 30, 2011, a description of a proposed location in West Maui. The director of DBEDT shall designate the proposed area as a medical enterprise zone for three years.

A medical or research facility may be eligible to be designated a qualified business if the facility: (1) begins the operation of a medical or research facility within a medical enterprise zone; (2) during each taxable year has at least 25% of its medical enterprise zone establishment's gross receipts attributable to its operation within the medical enterprise zone; (3) increases its average annual number of full-time medical or research professional employees by at least 25% by the end of its first tax year of participation; and (4) during each subsequent taxable year at least maintains that higher level of employment for medical or research professional employees.

Requires each qualified business in the zone to annually complete and submit to DBEDT information necessary to determine whether the medical or research facility qualifies or continues to qualify as a qualified business. If the department determines that the medical or research facility qualifies as a qualified business, the department shall approve the completed form and forward copies of the completed and approved form to the department of taxation and the governing body of the county.

DBEDT shall certify annually to the department of taxation the applicability of the tax credit provided in this chapter for a qualified business against any income taxes imposed under title 14 that are due the state. The credit shall be 25% of the taxes due for the first three taxable years that the business qualifies as a qualified business.

If a partnership is eligible for a tax credit under this section, each partner shall be eligible for the tax credit provided for in this section on the partner's income tax return in proportion to the partner's income tax liability from the partnership. Any qualified business earning taxable income from the provision of the qualified business' services, both within and without the medical enterprise zone, shall allocate and apportion its taxable income attributable to that provision of services. Tax credits provided for in this section shall only apply to taxable income of a qualified business attributable to the services provided within the medical enterprise zone.

In addition to any tax credit authorized under this section, a qualified business shall be entitled to a tax credit against any taxes due the state in an amount equal to a percentage of unemployment taxes paid pursuant to chapter 383. The amount of the credit shall be equal to 25% of the unemployment taxes paid

during the first three taxable years that the business qualifies as a qualified business. These tax credits shall only apply to the unemployment tax paid on employees employed at the qualified business' establishment or establishments located within the medical enterprise zone.

DBEDT shall certify annually to the department of taxation that any qualified business is exempt from the payment of general excise taxes on the gross proceeds from the provision of medical or research services. The department shall also certify annually to the department of taxation that any qualified business is exempt from the use tax for purchases by the qualified business. The gross proceeds received by a contractor licensed under chapter 444 shall be exempt from the general excise tax for construction within a medical enterprise zone performed for a qualified business within a medical enterprise zone. The exemption shall extend for a period not to exceed three years after the effective date of this act.

Allows any county to propose local incentives, including: (1) reduction of permit fees; (2) reduction of user fees; and (3) reduction of real property taxes. A county may also propose measures for regulatory flexibility including but not limited to: (1) special zoning districts; (2) permit process reform; (3) exemptions from local ordinances; and (4) other public incentives proposed in the locality's application, which shall be binding upon the locality upon designation of the medical enterprise zone.

Upon designation of the area as a medical enterprise zone, the proposals for regulatory flexibility, tax incentives, and other public incentives specified in this chapter shall be binding upon the governing body of the county to the extent indicated and for a period of three years. If the governing body of the county is unable or unwilling to provide any of the incentives or other incentives acceptable to the department, and the department has not adopted rules that supersede inconsistent ordinances and rules relating to the use, zoning, planning, and development of land and construction in a medical enterprise zone, then the medical enterprise zone shall terminate. Qualified businesses located in the medical enterprise zone shall be eligible to receive the state tax incentives provided by this chapter even though the zone designation has terminated.

Directs DBEDT, in consultation with the department of taxation, to submit a written report to the legislature by December 31 of each year beginning in 2012 regarding the implementation of the pilot medical enterprise zone in West Maui, including an evaluation of the success or failure of the pilot medical enterprise zone to fulfill its intended purpose.

This act shall be repealed on January 1, 2053.

**EFFECTIVE DATE:** January 1, 2050, applicable to tax years beginning after December 31, 2010

**STAFF COMMENTS:** This measure proposes to establish a medical enterprise zone in West Maui. 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, including unemployment taxes, for a period of three years and also the sales of items sold by such businesses are 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. In this case, it is the provision of medical care in rural communities of the state and in this case specifically West Maui.

As the legislature has learned in recent years, the hurdles to the provision of quality health care in rural areas of the state go far beyond financial challenges that these tax incentives would seem to attempt to abate. Medical tort reform, provision of adequate support staff and the high cost of medical infrastructure are but a few of the issues facing the provision of medical care in rural communities.

Finally, while this proposal attempts to provide oversight to the administration of the tax incentives, one must ask the question of who pays for this oversight? This is an additional cost that will be incurred by both the department of taxation and DBEDT. Thus, the incentive does not come free of costs in addition to the lost revenues.

It is interesting to note that SHPDA, the state health planning and development agency, awarded a certificate of need to Newport Hospital Corporation to develop a West Maui hospital a year or so ago; however, it has been on hold due to the lack of financing. Therefore, rather than an incentive, this proposal takes on the aura of a subsidy to perhaps make the numbers pencil out. As such, this measure would grant a tax preference at the expense of all other taxpayers who must continue to pay the heavy burden of taxes to keep the state's doors open. As such, this measure cannot be justified.

Digested 2/13/12





## **HAWAII MEDICAL ASSOCIATION**

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**TO: Committee on Economic Revitalization and Business**  
Rep. Angus L. K. McKelvey, Chair  
Rep. Isaac W. Choy, Vice Chair

**DATE:** Tuesday, Feb. 14, 2012  
**TIME:** 8:30 a.m.  
**PLACE:** CR 312

**FROM:** Hawaii Medical Association  
Dr. Roger Kimura, MD, President  
Dr. Linda Rasmussen, MD, Legislative Co-Chair  
Dr. Joseph Zobian, MD, Legislative Co-Chair  
Dr. Christopher Flanders, DO, Executive Director  
Lauren Zirbel, Community and Government Relations

**Re: HB 116 RELATING TO MEDICAL ENTERPRISE ZONES**

### **In Support**

**Chairs & Committee Members:**

The Hawaii Medical Association supports HB 116.  
Hawaii is currently experiencing a patient access to medical care crisis due to an inadequate supply of physicians statewide.

Economic incentives that reduce the financial burden on a medical practice can serve as a meaningful incentive to practice in rural areas.

Financial burdens include:

- Overhead as high as 75% of gross income;
- High medical malpractice insurance premiums (premiums vary by medical specialty);
- Increasing manpower, office rent and other business expense demands;
- Inadequate payment for services from private and public health plans; and
- For new physicians, the average student loan debt is \$157,944.

In addition, we would like the committee to note that it will take many different kinds of incentives to make Hawaii competitive with other jurisdictions. The physician shortage is national and is expected to last for the next several decades. To recruit and retain physicians in Hawaii the state must become competitive for physician services on a national level.

Thank you for allowing us to testify on this matter.

#### **OFFICERS**

**PRESIDENT - ROGER KIMURA, MD, PRESIDENT ELECT - STEVE KEMBLE, MD**  
**IMMEDIATE PAST PRESIDENT – MORRIS MITSUNAGA, MD, SECRETARY - THOMAS KOSASA, MD, TREASURER –**  
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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Monday, February 13, 2012 1:04 PM  
**To:** ERBtestimony  
**Cc:** pluta@maui.net  
**Subject:** Testimony for HB116 on 2/14/2012 8:30:00 AM

Testimony for ERB 2/14/2012 8:30:00 AM HB116

Conference room: 312  
Testifier position: Support  
Testifier will be present: No  
Submitted by: Joseph D Pluta  
Organization: West Maui Improvement Foundation Inc.  
E-mail: [pluta@maui.net](mailto:pluta@maui.net)  
Submitted on: 2/13/2012

Comments:

Aloha:

On behalf of the West Maui Improvement Foundation Inc., I wish to re affirm the testimony we provided on January 27, 2011 in SUPPORT of HB116.

Now, more than ever, the need and benefits enabled by this bill, are prudent and vital to stimulating and preserving opportunities for the critical healthcare access issues being faced by West Maui residents and visitors. The State Director of Health, Planning and Development Agency determinations for issuance of a certificate of need approval March 13, 2009; makes a statement of findings and fact which clearly justifies and makes the case for the adoption of this bill.

