

**Testimony to the Senate Committee on Ways and Means  
Thursday, March 29, 2012  
9:00 AM  
Conference Room 211**

**RE: HOUSE BILL NO. 2872, HD 3, SD1, RELATING TO AEROSPACE HIGH TECHNOLOGY DISTRICTS**

**Chair Ige, Vice Chair Kidani, and members of the committees.**

My name is Charles Ota and I am the Vice President for Military Affairs at The Chamber of Commerce of Hawaii (The Chamber). I am here to state The Chamber's support of House Bill No. 2872, HD 3, SD1, Relating to Aerospace High Technology Districts.

The measure proposes to authorize aerospace high technology parks as a permitted use within an agricultural district on land whose soil is classified with the overall (master) productivity rating class C, D, or E, and requires parks to obtain a special permit.

The Chamber's Military Affairs Council (MAC) serves as the liaison for the state in matters relating to the U.S. military and provides oversight for the State's multi-billion dollar defense industry.

The US military's eminent presence in Hawaii would help greatly in developing a high technology aerospace industry. The military has abundant resources in high technology and could serve as a strong partner in developing an aerospace industry in Hawaii. This kind of initiative would offer great potential for sustainable long-term economic growth, helping to drive investment to Hawaii and create job opportunities for Hawaii's talented generation of young scientists, engineers, and researchers.

The University of Hawaii at Hilo with its Imiloa Campus and the proximity of Hawaii Island within our island chain would appear to favor Hawaii Island in serving as the focus of such an effort.

We support the proposal to permit the use of use of lower productivity agricultural lands to develop aerospace high technology parks.

We believe it critically important to take full advantage of Hawaii's available resources and diversify the economy through aerospace high technology.

Thank you very much for the opportunity to testify in strong support of this measure.



# UNIVERSITY OF HAWAII SYSTEM

## Legislative Testimony

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Testimony Presented Before the  
Senate Committee on Ways and Means  
Thursday, March 29, 2012 at 9:00am

by

Dr. Donald Straney, Ph.D.  
Chancellor, University of Hawai'i at Hilo

### HB 2872 HD3 SD1 – RELATING TO AEROSPACE HIGH TECHNOLOGY DISTRICTS

Chair Ige, Vice Chair Kidani and Members of the Committee:

The University of Hawai'i at Hilo supports the concept of HB 2872 HD3 SD1, which authorizes the establishment of an aerospace high technology district in Hilo. This measure also provides tax incentives to qualified businesses.

The University feels that aerospace is just one of several economic sectors that would benefit from similar treatment. The bill identifies the park as lying within three (3) miles of the Hilo Airport and at a specific tax map key location; these are different locations. The University would not support transferring part of the University of Hawai'i at Hilo campus for this use.

The University of Hawai'i wants to clarify that the 'Imiloa Astronomy Center in Hilo is not a technology park but a museum and was not funded by the American Recovery and Reinvestment Act of 2009, as stated in the committee report (SSCR 2997).

Thank you for the opportunity to submit testimony on this bill.

# TAXBILLSERVICE

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**SUBJECT:** INCOME, GENERAL EXCISE, USE. MISCELLANEOUS, Aerospace high technology district

**BILL NUMBER:** HB 2872, SD-1

**INTRODUCED BY:** Senate Committees on Public Safety, Government Operations, and Military Affairs, and Economic Development and Technology and Water, Land, and Housing

**BRIEF SUMMARY:** Adds a new chapter to the HRS to establish an aerospace high technology district in the county of Hawaii extending to three miles out from downtown Hilo. The department of business, economic development, and tourism (DBEDT) shall administer this chapter and designate the area to be an aerospace high technology district.

Directs DBEDT, in consultation with the department of taxation, to adopt rules to implement this chapter, including rules relating to health, safety, building, planning, zoning, and land use. Such rules shall supersede all other inconsistent ordinances and rules relating to the use, zoning, planning, development of land, and construction in an aerospace high technology district.

An aerospace facility may be eligible to be designated a qualified business for purposes of this chapter if: (1) the aerospace facility begins operations in an aerospace high technology district and: (a) has at least 25% of gross receipts attributable to operations within the aerospace high technology district in a taxable year; (b) increases its average annual number of full-time aerospace professional employees by at least 25% by the end of its first taxable year of participation; and (c) in each subsequent taxable year maintains or exceeds the level of employment described in paragraph (b); or (2) the facility: (a) is actively engaged in the operation of an aerospace facility in an area immediately prior to the area being designated as an aerospace high technology district; (b) meets the requirements of paragraph (1)(b); and (c) increases its average annual number of full-time employees employed at the aerospace facility's establishment or establishments located within the aerospace high technology district by at least 10% annually.

A qualified business shall be entitled to the income tax credits under HRS section 235-\_\_\_, excise tax exemption under HRS section 237-\_\_\_, and use tax exemption under HRS section 238-\_\_\_. Delineates local incentives that a county may establish for businesses located in the aerospace high technology district.

Adds a new section to HRS chapter 235 to provide that DBEDT shall certify annually to the department of taxation the applicability of the tax credit for a qualified business located in an aerospace high technology district equal to 25% of the income tax due for the first three taxable years that the business qualifies as a qualified business. Any tax credit not used in a taxable year shall not be applied to future taxable years. If a partnership is eligible for a tax credit, each partner shall be eligible for the tax credit in proportion to that 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

aerospace high technology district, shall allocate and apportion its taxable income attributable to the respective location of the provision of services within or without the district.

Also provides that a qualified business shall be entitled to an income tax credit in an amount equal to 25% of the unemployment taxes paid for during the first three taxable years that the business qualifies as a qualified business; provided that the tax credits shall only apply to the unemployment tax paid on employees employed at the qualified business' establishment or establishments located within the aerospace high technology district. Any tax credit not used in a taxable year shall not be applied to future tax years.

Adds a new section to HRS chapter 237 to provide that DBEDT shall certify annually to the department of taxation the qualified businesses that shall be exempt from the general excise tax on the gross proceeds from the provision of aerospace services; provided that the gross proceeds received by a contractor licensed under HRS chapter 444 shall be exempt from general excise taxation for construction within an aerospace high technology district performed for a qualified business located in an aerospace high technology district.

Adds a new section to HRS chapter 238 to provide that DBEDT shall certify annually to the department of taxation that any qualified business that shall be exempt from the payment of use taxes on the gross proceeds from the provision of aerospace services; provided that the gross proceeds received by a contractor licensed under HRS chapter 444 shall be exempt from the use tax for construction within an aerospace high technology district performed for a qualified business located in an aerospace high technology district.

The director of DBEDT shall designate tax map keys 1-6-146, 1-6-148, 1-6-151, and 1-6-03 on the island of Hawaii as the pilot aerospace high technology district for a period of ten years. Requires DBEDT, in consultation with the department of taxation, to submit a report to the legislature by December 31 of each year, beginning in 2012, regarding the implementation of the pilot aerospace high technology district in Hawaii county, including an evaluation of the success or failure of the pilot aerospace high technology district in fulfilling its intended purposes.

This act shall be repealed on June 30, 2015

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: This measure proposes to establish a pilot aerospace high technology district on the island of Hawaii similar in concept to an enterprise zone wherein businesses are attracted and encouraged to relocate to the zone through tax incentives and other appropriate measures. The proposed measure also adopts preferential treatment under the income tax and unemployment tax and exemptions from the general excise and use tax for eligible businesses located in the aerospace high technology district.

While it appears that it is the intent of the legislature to encourage the development of aerospace high technology businesses, 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. The creation of such

districts is 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.

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 cost in addition to the loss of revenues.

Instead of singling out certain areas of the state for preferential treatment, an across-the-board tax relief for all businesses in Hawaii should be considered. For example, the consultant to the 2007 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.

Lawmakers need to stop and think when it comes to proposals like this. By "giving away the store" while not reducing the cost of government or the size of government, all other taxpayers including the constituents, will be asked to make up the lost revenues by paying higher taxes while continuing to labor under the draconian business climate for which Hawaii has become known. Legislative colleagues need to ask why they need to pass such "give-aways" to encourage these businesses to locate here and do the same elements which make Hawaii unattractive to the aerospace industry also apply to all other enterprises.

Digested 3/28/12



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Statement of  
**RICHARD C. LIM**  
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Department of Business, Economic Development & Tourism  
before the  
**SENATE COMMITTEE ON WAYS AND MEANS**

Thursday, March 29, 2012  
9:00 a.m.

State Capitol, Conference Room 211

in consideration of  
**HB 2872, HD3, SD1**

RELATING TO AEROSPACE HIGH TECHNOLOGY DISTRICTS.

Chair Oshiro, Vice Chair Kidani and members of the Committee.

HB 2872, HD3, SD1 authorizes DBEDT to create an aerospace district within three miles of downtown Hilo in partnership with the University of Hawaii at Hilo and the County of Hawaii that would operate as an enterprise zone for aerospace businesses and provides educational and employment opportunities for UH students.

The department **supports the intent** of HB 2872, HD3, SD1 to facilitate the development of an aerospace high technology district in Hilo, but we are concerned about the cost implications generated by this measure.

The bill requires DBEDT and the County of Hawaii to adopt rules or ordinances to implement the development of an aerospace high technology district. Therefore, the initial phase of the development would take some time to complete, prior to aerospace facilities being able to qualify for tax benefits and local incentives.

Thank you for the opportunity to testify on this bill.