



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

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

**HOUSE COMMITTEE ON ECONOMIC REVITALIZATION AND BUSINESS**

Tuesday, February 8, 2011  
8:00 a.m.  
State Capitol, Conference Room 312

in consideration of  
**HB 370**  
**RELATING TO ENTERPRISE ZONES**

Chair McKelvey, Vice Chair Choy, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) does not support the passage of House Bill 370, 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.

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**From:** Tina Desuacido [tina500@juno.com]  
**Sent:** Monday, February 07, 2011 9:22 AM  
**To:** ERBtestimony  
**Subject:** Tax Foundation Testimony  
**Attachments:** h0370-11.pdf; h0831-11.pdf; h0983-11.pdf; h1159-11.pdf; h0475-11.pdf

**TRANSMISSION OF TESTIMONY**

**DATE:** Monday, February 7, 2011

**TO:** House Committee on Economic Revitalization & Business

**FROM:** Tax Foundation of Hawaii

**Total Pages 7**

**FOR:** Rep. Angus McKelvey, Chair

**Testifier:** Lowell L. Kalapa, President - Tax Foundation of Hawaii

**(Mr. Kalapa will not appear in person at the hearing.)**

**Date of Hearing - Tuesday, February 8, 2011**

**Position: Comments**

**Time of Hearing - 8:00 am**

**HB 370 - Relating to the Enterprise Zones (2 pages)**

**HB 831 - Relating to the General Excise Tax (1 page)**

**HB 983 - Relating to the Hawaii Strategic Development Corporation (1 page)**

**HB 475 - Relating to Taxation (1 page)**

**HB 1159 - Relating to Taxation (2 pages)**

**Number of copies - 4**

**Thank you.**

# TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

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**SUBJECT:** MISCELLANEOUS, Expand eligible business activity of enterprise zones

**BILL NUMBER:** HB 370

**INTRODUCED BY:** McKelvey

**BRIEF SUMMARY:** Amends HRS section 209E-2 to amend the definition of eligible business activity to include the construction or remodeling costs associated with the development or rehabilitation of: (1) a new or existing health care facility; (2) a Historic property; (3) a new or existing single family residence; or (4) a multi-family dwelling.

Amends HRS section 209E-4 to increase the number of areas in each county that may be designated as enterprise zones from six to 12.

**EFFECTIVE DATE:** Upon approval

**STAFF COMMENTS:** The proposed measure would further extend enterprise zone benefits to include the construction or remodeling costs associated with the development or rehabilitation of a health care facility, a historic property, or a single family or multi-family dwelling.

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.

The use of enterprise zones merely exacerbates what is already considered a poor climate in which to do business. Singling out specific areas of the state merely confers preferences for those businesses located within those geographic areas at the expense of all other taxpayers who are not so favored. It should be remembered that those taxpayers who live and work in the zone will demand the same public services as those who are not as fortunate to be located in the zone. Who then will pay for these services?

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.

The impetus for the establishment of enterprise zones is to attract businesses to locate in an economically depressed area, to create jobs for those living in that community. In that sense, all other taxpayers are being asked to subsidize these preferred business.

As the measure's purpose clause notes, the genesis for this proposal is an interim task force to evaluate the value of construction activity in Hawaii. Unfortunately, where there is no demand for the facilities

enumerated in this bill, no amount of tax incentives or tax preferences will create demand for these facilities. Without the demand, who then will move forward solely on the tax preferences of an enterprise zone? Thus, this measure does not directly attack the problem of creating more construction jobs, rather it is a sop to satisfy the construction industry that something is being done to create those jobs. What it does epitomize is a lack of understanding of what makes the economy move forward and what it takes to create those badly needed jobs.

Digested 2/7/11