
A BILL FOR AN ACT

RELATING TO ECONOMIC DEVELOPMENT.

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

1 SECTION 1. The legislature finds that imported oil
2 supplies ninety per cent of Hawaii's energy. The State's
3 dependence on oil threatens the land, air, and water.
4 Furthermore, Hawaii's current way of meeting energy needs is not
5 sustainable.

6 The legislature further finds that the Hawaii clean energy
7 initiative looks to meet seventy per cent of Hawaii's energy
8 needs by 2030 through energy efficiency and renewable energy.
9 By exercising more energy efficient practices and better
10 harnessing local energy supplies, the Hawaii clean energy
11 initiative strives to work with public and private organizations
12 at the national, state, county, and grassroots levels to achieve
13 several key objectives, including fostering and demonstrating
14 innovation in the use of clean energy technologies, creative
15 financing, and public policy to accelerate Hawaii's transition
16 to clean energy. For the Hawaii clean energy initiative to
17 optimize working relationships with private organizations toward
18 its goals, there are certain areas in the State that need the



1 particular attention of government to help attract private
2 sector investment. These incentives will encourage the
3 development, growth, and expansion of the private sector, a
4 cornerstone of our society that the people of the State have
5 grown to depend on for their health, safety, and welfare.

6 SECTION 2. Chapter 201, Hawaii Revised Statutes, is
7 amended by adding a new part to be appropriately designated and
8 to read as follows:

9 **"PART . ENERGY ZONE DESIGNATION**

10 **§201-A Definitions.** As used in this part, unless the
11 context otherwise requires:

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

14 "Director" means the director of business, economic
15 development, and tourism.

16 "Qualified business" means a business that meets the
17 eligibility requirements under section 201-D.

18 **§201-B Administration.** The department of business,
19 economic development, and tourism shall administer this part and
20 shall have the following powers and duties:

- 21 (1) To establish criteria for determining what areas
22 qualify as energy zones; provided that the criteria



1 shall be the minimum required for implementation of
2 this part;

3 (2) To monitor the implementation and operation of this
4 part;

5 (3) To conduct a continuing evaluation program of energy
6 zones;

7 (4) To assist counties in obtaining the reduction of rules
8 within energy zones;

9 (5) To submit annual reports evaluating the effectiveness
10 of the program and any recommendations for legislation
11 to the governor;

12 (6) To administer and enforce the rules adopted by the
13 department; and

14 (7) To administer this part in such a manner that the area
15 to be designated as an energy zone will most benefit
16 the area and the State.

17 **§201-C Energy zone designation.** (a) The energy resources
18 coordinator established in section 196-3 may declare an area as
19 an energy zone.

20 (b) The governor, upon the recommendation of the director,
21 shall approve the designation of up to six areas in each county
22 as energy zones for a period of twenty years. Any such area



1 shall be located in one United States census tract or two or
2 more contiguous United States census tracts in accordance with
3 the most recent decennial United States census. The census
4 tract or tracts within which each energy zone is located also
5 shall meet at least one of the following criteria:

- 6 (1) Twenty-five per cent or more of the population have
7 incomes below eighty per cent of the median family
8 income of the county;
- 9 (2) The unemployment rate is 1.5 times the state average;
10 or
- 11 (3) An area with high density or potential energy-
12 intensive production or use.

13 **§201-D Eligibility; qualified business; sale of property**
14 **or services.** Any business may be eligible to be designated a
15 qualified business for purposes of this part if the business:

- 16 (1) Begins the operation of a trade or business in an
17 eligible business activity within an energy zone;
- 18 (2) During each taxable year has at least fifty per cent
19 of its energy zone establishments' gross receipts
20 attributable to the active conduct of trade or
21 business within energy zones located within the same
22 county;



1 (3) Increases its average annual number of full-time
2 employees employed at the business' establishment or
3 establishments within energy zones located within the
4 same county by at least ten per cent by the end of its
5 first tax year of participation, and during each
6 subsequent taxable year at least maintains that higher
7 level of employment; and

8 (4) Engages in the generation of electrical energy from
9 renewable energy sources, including the use of falling
10 water, wind, solar, geothermal, wave, and seawater
11 cooling energy.

12 **§201-E State business tax credit.** (a) The department
13 shall certify annually to the department of taxation the
14 applicability of the tax credit provided in this part for a
15 qualified business against any taxes due the State, except as
16 provided in subsections (c) and (d). Except as applied to the
17 general excise tax, the credit shall be equal to eighty per cent
18 of the tax due for the first tax year, seventy per cent of the
19 tax due for the second tax year, sixty per cent of the tax due
20 for the third year, fifty per cent of the tax due the fourth
21 year, forty per cent of the tax due the fifth year, thirty per
22 cent of the tax due the sixth year, and twenty per cent of the



1 tax due the seventh year. Any tax credit not usable shall not
2 be applied to future tax years.

3 (b) When a partnership is eligible for a tax credit under
4 this section, each partner shall be eligible for the tax credit
5 provided for in this section on the partner's income tax return
6 in proportion to the amount of income received by the partner
7 from the partnership. Any qualified business having taxable
8 income from business activity, both within and without the
9 energy zone, shall allocate and apportion its taxable income
10 attributable to the conduct of business. Tax credits provided
11 for in this section shall only apply to taxable income of a
12 qualified business attributable to the conduct of business
13 within energy zones located within the same county.

14 (c) In addition to any tax credit authorized under this
15 section, any qualified business shall be entitled to a tax
16 credit against any taxes due the State in an amount equal to a
17 percentage of unemployment taxes paid. The amount of the credit
18 shall be equal to eighty per cent of the unemployment taxes paid
19 during the first year, seventy per cent of the taxes paid during
20 the second year, sixty per cent of the taxes paid during the
21 third year, fifty per cent of the taxes paid during the fourth
22 year, forty per cent of the taxes paid during the fifth year,



1 thirty per cent of the taxes paid during the sixth year, and
2 twenty per cent of the taxes paid during the seventh year.

3 (d) Tax credits provided for in subsection (c) shall only
4 apply to the unemployment tax paid on employees employed at the
5 qualified business' establishment or establishments within
6 energy zones located within the same county. Any tax credit not
7 usable shall not be applied to future tax years.

8 **§201-F State general excise exemptions.** The department
9 shall certify annually to the department of taxation that any
10 qualified business is exempt from the payment of general excise
11 taxes on the gross proceeds from an eligible business activity
12 as defined in this part. The gross proceeds received by a
13 contractor licensed under chapter 444 shall be exempt from the
14 general excise tax for construction within an energy zone
15 performed for a qualified business within an energy zone or a
16 business that has been approved by the department to enroll into
17 the energy zone program.

18 **§201-G Local incentives.** (a) Any county that contains at
19 least one energy zone may propose local incentives, including
20 but not limited to:

- 21 (1) Reduction of permit fees;
22 (2) Reduction of user fees; and



1 (3) Reduction of real property taxes.

2 (b) The counties also may submit proposals for regulatory
3 flexibility, including but not limited to:

4 (1) Special zoning districts;

5 (2) Permit process reform;

6 (3) Exemptions from local ordinances; and

7 (4) Other public incentives proposed in the locality's
8 application, which shall be binding upon the locality
9 upon designation of the energy zone.

10 **§201-H Termination of energy zone.** Upon designation of an
11 area as an energy zone, the proposals for regulatory
12 flexibility, tax incentives, and other public incentives
13 specified in this part shall be binding upon the State or county
14 to the extent and for the period of time specified by the energy
15 resources coordinator. If the State or county is unable or
16 unwilling to provide any of the incentives set forth in section
17 209E-12 or other incentives acceptable to the department, the
18 energy zone shall terminate. Qualified businesses located in
19 the energy zone shall be eligible to receive the state tax
20 incentives provided by this part even though the zone
21 designation has terminated. No business may become a qualified
22 business after the date of zone termination."



1 SECTION 3. In codifying the new sections added by section
2 of this Act, the revisor of statutes shall substitute
3 appropriate section numbers for the letters used in designating
4 the new sections in this Act.

5 SECTION 4. This Act shall take effect on July 1, 2050, and
6 shall apply to taxable years beginning after December 31, 2014.

7



Report Title:

Energy Zone Designation; Department of Business, Economic Development, and Tourism

Description:

Allows the energy resources coordinator and governor to designate areas as energy zones. Provides a state business tax credit to qualifying businesses in energy zones. Takes effect 7/1/2050. (SD1)

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