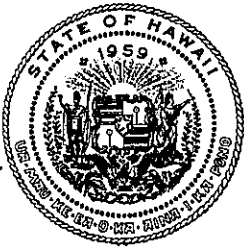


# **SB 257**

## **RELATING TO ENTERPRISE ZONES**

Includes research and development activities occurring at an aerospace facility in the definition of "eligible business activity" relating to enterprise zones.

PSM/EDT, WAM



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

DAVID Y. IGE  
GOVERNOR

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Statement of  
**LUIS P. SALAVERIA**  
Director

Department of Business, Economic Development, and Tourism  
before the

**SENATE COMMITTEES ON PUBLIC SAFETY, INTERGOVERNMENTAL AND  
MILITARY AFFAIRS, AND ECONOMIC DEVELOPMENT AND TECHNOLOGY**

Wednesday, February 18, 2015  
2:50 pm  
State Capitol, Conference Room 016

in consideration of  
**SB 257**  
**RELATING TO ENTERPRISE ZONES.**

Chairs Espero and Wakai, and Vice Chairs Baker and Slom and Members of the Committees. The Department of Business, Economic Development, and Tourism (DBEDT) supports the intent of this bill, which will add research and development activities occurring at an aerospace facility in the definition of "eligible business activity" relating to enterprise zones, provided that its passage does not replace or adversely impact priorities indicated in the Executive Budget.

The primary mission of DBEDT's Enterprise Zone program is to encourage the development of long-term, full-time jobs for residents in Hawaii's economically disadvantaged areas. DBEDT supports the development and growth of the aerospace industry in Hawaii since this can create sustainable, skilled jobs for Hawaii residents. It should be noted that some of the categories included in "activities in an aerospace facility" are already eligible for the Enterprise Zone program, such as manufacturing, information technology design and production, and aviation repair and maintenance.

We defer to the Department of Taxation on the fiscal impact of this recommendation.

Thank you for the opportunity to provide these comments.

DAVID Y. IGE  
GOVERNOR

SHAN TSUTSUI  
LT. GOVERNOR



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To: The Honorable Will Espero, Chair  
and Members of the Senate Committee on Public Safety, Intergovernmental and  
Military Affairs

The Honorable Glenn Wakai, Chair  
and Members of the Senate Committee on Economic Development and  
Technology

Date: Wednesday, February 18, 2015  
Time: 2:50 P.M.  
Place: Conference Room 016, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: S.B. 257, Relating to Enterprise Zones

The Department of Taxation (Department) appreciates the intent of S.B. 257, and provides the following information and comments for your consideration.

S.B. 257 adds research and development activities occurring in an aerospace facility to the list of business activities for participation in an Enterprise Zone. This measure is effective upon approval.

The Enterprise Zone program is administered by the Department of Business, Economic Development, and Tourism (DBEDT); the Department defers to DBEDT regarding the merits of including the listed activities in the Enterprise Zone program.

Although the Enterprise Zone program is administered by DBEDT, the Department retains final authority over the tax benefits extended as part of the program. The Department notes that the definition of "aerospace facility" included in this measure is overly broad and conflicts with the activities intended as eligible business activities.

The first sentence of paragraph (5) states that the "research and development activities" occurring in aerospace facilities would be deemed eligible business activities of the Enterprise Zone program. This sentence directly conflicts with the definition of "aerospace facility" which

is also included in paragraph (5); the definition seems to include activities, rather than describe the facility itself. The Department suggests clarifying the definition of "aerospace facility" in order to prevent taxpayer confusion and to provide DBEDT and the Department with ease of administration.

Thank you for the opportunity to provide comments.

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Expand enterprise zone eligibility

BILL NUMBER: SB 257

INTRODUCED BY: Espero, Kidani, Wakai, 2 Democrats and 1 Republican

BRIEF SUMMARY: Amends HRS section 209E-2 to amend the definition of “eligible business activity” in an enterprise zone to include research and development activities occurring in an aerospace facility.

Provides that “aerospace facility” shall include aerospace, processing, manufacturing, research, or instructional enterprises for aerospace high technology, commercial or experimental rocketry, satellite, lunar, nextgen avionics, solid waste resource recovery systems, enterprises for the development, processing, or transmission of alternative energy, industrial parks under chapter 206M, retail, including food serving establishments, and wholesale, industry, processing, transportation, or manufacturing enterprises, the primary purpose of which is to serve or provide products to the aerospace high technology enterprises or their employees.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: This measure proposes to expand enterprise zone laws to include research and development activities that occur in an aerospace facility.

The enterprise zone program was enacted as a cooperative program between the state and the counties to promote jobs in areas of high unemployment. Certain areas are designated as enterprise zones through joint action of the state and counties. In a zone, the state offers an income tax credit for the tax attributable to the eligible business conducted in the zone, which is normally applied on a sliding scale – 80% for the first year, 70% for the second, and so on until the credit is 20% for the seventh and last year in the program. It also offers an unemployment tax credit for the tax attributable to employees doing the eligible business in the zone, on the same sliding scale. Finally, the state offers a general excise tax exemption for the eligible business attributed to the zone. The counties also offer incentives, which vary by county. In return, the business commits to either maintain or increase the number of employees in the zone doing the eligible activity, depending on whether it was already in the zone upon designation or moved to the zone.

As business incentives go, the enterprise zone program is better than most. The incentive applies to a specific activity (here, creating and maintaining employment) targeted to the problem the program seeks to address. The incentive tapers off over time and then stops. It requires accountability, namely required reports to DBEDT for a business to retain its eligibility. The business itself may need a different kind of assistance, such as financing, but the state is here focusing on creating and maintaining jobs in areas that need them.

SB 257 - Continued

One criticism of the program is that the designated eligible activities do not seem to have a common thread running through them except that the various activities seem to have been the Flavor of the Month at one time or other. Eligible activities at present are:

- Agricultural production or processing
- Manufacturing
- Wholesaling/Distribution
- Aviation or maritime repair or maintenance
- Telecommunications switching and delivery systems
- Information technology design and production
- Medical research, clinical trials, and telemedicine
- For-profit training programs in international business management or environmental remediation
- Biotechnology research, development, production, or sales
- Repair or maintenance of assisted technology equipment
- Certain types of call centers
- Wind energy producers

The enterprise zone program has been around since 1986. Has there been a comprehensive evaluation of the program and do lawmakers know exactly how much bang they have gotten for their bucks? If the program works, great; if it doesn't work, scrap it. In either event, concurrent efforts must be made to improve Hawaii's business climate to enhance the economic prospects for all businesses.

Before this measure is adopted, research and development should be defined to clarify what activities qualify.

Digested 2/13/15