

**SB 780**

**DAVID Y. IGE**  
Governor

**SHAN S. TSUTSUI**  
Lt. Governor



**SCOTT E. ENRIGHT**  
Chairperson, Board of Agriculture

**PHYLLIS SHIMABUKURO-GEISER**  
Deputy to the Chairperson

State of Hawaii  
**DEPARTMENT OF AGRICULTURE**  
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Honolulu, Hawaii 96814-2512  
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**TESTIMONY OF SCOTT E. ENRIGHT  
CHAIRPERSON, BOARD OF AGRICULTURE**

**BEFORE THE SENATE COMMITTEES ON AGRICULTURE & ENVIRONMENT,  
ECONOMIC DEVELOPMENT, TOURISM & TECHNOLOGY, & TRANSPORTATION &  
ENERGY**

**FEBRUARY 14, 2017  
10:30 A.M.  
CONFERENCE ROOM 414**

**SENATE BILL NO. 780  
RELATING TO ENTERPRISE ZONES**

Chairpersons Gabbard, Wakai, and Inouye and Members of the Committees:

Thank you for the opportunity to testify on Senate Bill No. 780 that amends Chapter 209E (State Enterprise Zone) as it affects qualified producers or processors of agricultural products and installation of renewable energy infrastructure for agricultural producers. The Department of Agriculture supports the intent of the measure that is specific to agricultural producers, has concerns about our responsibilities in the State business tax credit and the determination of a standard for agricultural self-sufficiency for the State, and offers comments.

To qualify for enterprise zone benefits, agricultural producers have to earn at least 50 percent of their gross income from agricultural or aquacultural activities. The enterprise zones for agricultural producers are to remain in effect until the constitutional mandate to increase agricultural self-sufficiency has been achieved. The Department of Agriculture and the Department of Business, Economic Development and Tourism (DBEDT) are responsible for defining the standards for agricultural self-sufficiency. The director of DBEDT is to recommend to the Governor up to 6 areas in each county as agricultural enterprise zones.



The State Business Tax Credit for agricultural producers is 80 percent of the tax credits claimed for investments in water infrastructure, farm labor housing, investments in mechanization, food processing and value added production infrastructure. The Department of Agriculture is responsible for evaluating and determining whether an agricultural producer's investments are qualified. There is no further guidance on the full extent of the Department's responsibilities with respect to this tax credit. The Department has the responsible for qualifying two existing tax credits with existing personnel. Adding a third tax credit without resources will have adverse effects upon the duties and responsibilities of the Department.

The Department supports the development of renewable energy technologies that directly reduce the electricity costs to agricultural producers. However, the proposed amendments to Chapter 209E regarding "renewable energy infrastructure for agricultural producers by renewable energy production businesses" do not establish this direct linkage of the renewable energy infrastructure to agricultural producers. The 50 percent cap on gross annual income to the agricultural producer from sources other than agricultural or aquacultural activities appears to place a limit on the renewable energy infrastructure for each agricultural producer. Since 2008, the legislature has approved measures that have expanded the use of renewable energy facilities on agricultural lands throughout the State and in some cases, becomes the primary activity on agricultural lands, or is allowed without any connection to agricultural activity. The Department advises caution of allowing the development of more renewable energy facilities on agricultural lands.

Thank you for the opportunity to submit our testimony.



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

DAVID Y. IGE  
GOVERNOR

LUIS P. SALAVERIA  
DIRECTOR

MARY ALICE EVANS  
DEPUTY DIRECTOR

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Statement of  
**LUIS P. SALAVERIA**  
**Director**

Department of Business, Economic Development, and Tourism  
Before the

**SENATE COMMITTEE ON AGRICULTURE AND ENVIRONMENT  
AND  
ECONOMIC DEVELOPMENT, TOURISM, AND TECHNOLOGY  
AND  
TRANSPORTATION AND ENERGY**

Tuesday, February 14, 2017  
10:30a.m.  
State Capitol, Conference Room 414

In consideration of  
**SB 780**  
**RELATING TO ENTERPRISE ZONES.**

Chairs Gabbard, Wakai, and Inouye, Vice-Chairs Riviere, Taniguchi, and Dela Cruz, and Members of the Committees.

The Department of Business, Economic Development, and Tourism (DBEDT) would like to offer the following comments:

First, this bill would extend the tax credit eligibility periods in enterprise zones for agricultural producers and for businesses providing renewable energy infrastructure to agricultural producers until the Hawaii constitutional mandate of “self-sufficiency” is fulfilled – a conceivably unidentifiable end date. Enterprise Zone benefits currently provide only manufacturers and agricultural producers an additional thirty-six (36) months of eligibility in addition to their original eighty-four (84) months of enrollment.

Second, this bill allows for “certification” for benefits based upon a two (2) percent increase in “gross volume production” for both agricultural production businesses and businesses that provide renewable energy infrastructures to agricultural producers within the same county. Agricultural producers already may combine “retail sales” revenue, an ineligible activity to all other enterprise zone companies, with eligible “wholesale” revenue in order to gain department “certification” to claim Enterprise Zone benefits. Increasing volume would not necessarily mean an increase in sales revenue or an increase in job creation.

Third, this bill adds retail service activity to the Enterprise Zone Program as an eligible activity of businesses that provide “renewable energy infrastructure” to agricultural producers. Retail activity is not currently an eligible activity given its potential impact on the State’s tax receipts. However, general and sub-contractors, licensed under Section 444, Hawaii Revised Statutes, who provide contractor services to enrolled Enterprise Zone companies, are already exempted from the General Excise Tax (GET) for work done for an Enterprise Zone company at the company’s Enterprise Zone site.

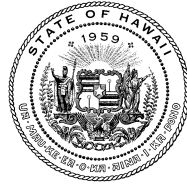
The objective of the Enterprise Zone Program is to bring new business activities and employment to areas of the State with high unemployment. The income and unemployment tax credits taper off over time. Each enrolled business must send in an annual report to DBEDT where we verify increases in the company’s full-time employee count. Objectives are clearly known and the credit recipients commit to the objectives. Initial tax relief may be substantial, but tapers off and stops at a specific time.

Passage of this bill would essentially create a new program for agricultural companies with incentives above and beyond the Enterprise Zone Program, and would cost \$125,000 per year of the biennium to implement and administer. This program would be best handled by the Department of Agriculture to provide more direct and focused attention to their agricultural funding to meet their particular needs.

Thank you for the opportunity to testify.

DAVID Y. IGE  
GOVERNOR

SHAN TSUTSUI  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
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MARIA E. ZIELINSKI  
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE  
DEPUTY DIRECTOR

To: The Honorable Mike Gabbard, Chair  
and Members of the Senate Committee on Agriculture and Environment

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

The Honorable Lorraine R. Inouye, Chair  
and Members of the Senate Committee on Transportation and Energy

Date: Wednesday, February 8, 2017  
Time: 2:50 P.M.  
Place: Conference Room 225, State Capitol

From: Maria E. Zielinski, Director  
Department of Taxation

Re: S.B. 780, Relating to Enterprise Zones

The Department of Taxation (Department) appreciates the intent of S.B. 780, which seeks to incentivize the constitutional mandate of increased agricultural self-sufficiency by expanding the definition of "eligible business activity" to include businesses that provide renewable energy infrastructure to agricultural producers and extending the tax credit eligibility period for such businesses. However, the Department has serious concerns regarding S.B. 780 due to the open-ended tax credit period for such businesses and substantial ambiguities contained in the measure. The Department otherwise defers to the Department of Business, Economic Development, and Tourism (DBEDT) on the merits of this bill, and provides the following comments for your consideration.

S.B. 780 expands the definition of an eligible business activity to include businesses that provide renewable energy infrastructure to agricultural producers, extends the tax credit eligibility periods for such businesses the Hawaii constitutional mandate of "self-sufficiency" is fulfilled, allows such a qualified business to be eligible for tax incentives by increasing the gross volume of agricultural products or gross volume of renewable energy infrastructures to agricultural producers within enterprise zones located within the same county by two percent annually, and specifies that certain kinds of agricultural investments are eligible for the business tax credit. The measure is effective upon approval, and is applies to tax years beginning after December 31, 2016.

First, the Department notes that the Enterprise Zone (EZ) program was created to provide incentives for new and established businesses to locate and expand in economically distressed areas of the State. These incentives were limited to seven years, except for qualified businesses engaged in the manufacturing of tangible personal property or the producing or processing of agricultural products, which the Legislature extended to ten years in 2009.

S.B. 780 would reduce the period back to seven years for the manufacturing of tangible personal property and make the period for the income tax incentives open-ended for qualified businesses engaged in providing renewable energy infrastructure to agricultural producers, as well as agricultural producers. This exemption will continue to apply to these businesses until the State's mandate of increased agricultural self-sufficiency is achieved, as jointly determined by DBEDT and the Department of Agriculture. This is true even if the area falls out of the economically distressed category. The Department has serious concerns over such an open-ended tax credit, which will effectively reduce the income tax rate for such businesses by 20 percent annually and eliminate the General Excise Tax (GET) on all qualified sales.

Second, although the measure states that it is expanding the definition of "qualified business activity", in reality this measure is creating a new "agricultural zone" program. The measure creates up to six new "agricultural enterprise zones" in each EZ. Once designated, the zones remain until the State's agricultural self-sufficiency has been attained. These zones do not necessarily correspond to existing enterprise zones.

Third, the definition of "agricultural producer" has the same meaning as in section 155-5.6, Hawaii Revised Statutes, which provides that it "means a farmer, cooperative association, or landowner who derives at least fifty per cent of its gross income from agricultural or aquacultural activities." Currently, DBEDT qualifies an agricultural business based on whether the business has more than 50% of its gross revenues from the wholesale sale of agricultural products. Under this measure, all agricultural sales, whether retail or wholesale, will be exempt from the GET, a significant expansion from the current policy.

Fourth, as currently drafted, a business engaged in providing renewable energy infrastructure for agricultural producers need not be located in an EZ or in an agricultural EZ. Such a business can be situated anywhere and only need to provide power from a renewable source to an agricultural producer in an agricultural EZ.

Fifth, the Department is seriously concerned over the provision on line 17 of page 11 which may be read to remove the Department of Taxation's authority to audit, examine and/or adjust any claim. The Department of Taxation suggests that the provision be clarified to state that the Department of Agriculture shall certify that the credit claim is proper, but that the Department of Taxation retains the authority to audit, examine and/or adjust such claims.

Finally, the Department notes that for agricultural producers and businesses engaged in producing renewable energy infrastructure for agricultural producers, the business tax credit is claimable only provided that the business makes any kind of investments in the following areas

during the taxable year:

- (1) Water infrastructure;
- (2) Farm labor housing;
- (3) Investments in mechanization;
- (4) Food processing and value added production infrastructure, including infrastructure for food safety compliance; and
- (5) Renewable energy production capacity

It is not clear how much of the investment must be made in the enumerated types of investments to claim the credit. For example, as drafted, the provision could be read so that a business that only made a \$1 investment in water infrastructure during the year could qualify for the credit, so long as 50% of its revenues were derived from agricultural or aquacultural activities, or providing energy from renewable sources to an agricultural producer.

Thank you for the opportunity to provide comments.





**TESTIMONY OF  
THE DEPARTMENT OF THE ATTORNEY GENERAL  
TWENTY-NINTH LEGISLATURE, 2017**

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**ON THE FOLLOWING MEASURE:**

S.B. NO. 780, RELATING TO ENTERPRISE ZONES.

**BEFORE THE:**

SENATE COMMITTEES ON AGRICULTURE AND ENVIRONMENT, ECONOMIC DEVELOPMENT, TOURISM, AND TECHNOLOGY, AND TRANSPORTATION AND ENERGY

**DATE:** Wednesday, February 8, 2017      **TIME:** 2:50 p.m.

**LOCATION:** State Capitol, Room 225

**TESTIFIER(S):** Douglas S. Chin, Attorney General, or  
Margaret S. Ahn, Deputy Attorney General

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Chairs Gabbard, Wakai, and Inouye and Members of the Committees:

The Department of the Attorney General provides the following comments.

1. Page 4, lines 1-2, adds a definition of “agricultural producer” to section 209E-2, Hawaii Revised Statutes (HRS). However, section 209E-2 already defines agricultural producer as that “as defined in section 237-5 [HRS].” These two definitions are inconsistent, and we recommend this bill be amended either by deleting the new definition or the existing definition, or by reconciling the definitions to a new single definition of “agricultural producer.”
2. Page 6, lines 8-18, adds to section 209E-4, HRS, a new subsection (c) that authorizes the designation of up to six areas in each county as “agricultural enterprise zones.” This wording indicates that “agricultural enterprise zones” are separate and distinct from regular enterprise zones. Therefore, we recommend this bill be amended to add a definition of “agricultural enterprise zones,” and to clarify whether they are subject to the same requirements for the designation of regular enterprise zones contained in section 209E-4, HRS, and, if not, what requirements must be met in order for a tract of land to be designated an “agricultural enterprise zone.”
3. Page 8, lines 8-13, adds to section 209E-9(b)(3), HRS, a new subparagraph (C) to provide that a business may qualify for enterprise zone tax benefits if the

business increases its “gross volume of renewable energy infrastructure installed for agricultural producers . . . by two per cent annually.” We recommend this bill be amended to add a definition of “renewable energy infrastructure for agricultural producers,” and to clarify how the “volume” of infrastructure shall be quantified and measured to determine the annual percentage increase.

4. This bill alternates between references to the “installation” of renewable energy infrastructure, to the “providing” of renewable energy infrastructure, and to the “producing and processing” of renewable energy infrastructure. These varying terms, coupled with the lack of a definition of “renewable energy infrastructure for agricultural producers,” create an ambiguity as to what renewable energy infrastructure businesses will qualify for the enterprise zone tax benefits. We recommend this bill be amended to add a definition of “renewable energy infrastructure for agricultural producers,” and to clarify whether the qualifying business activity is “installing,” “providing,” or “producing and processing” the infrastructure.
5. Page 11, lines 4-16, adds to section 209E-10, HRS, a new subsection (e) to authorize a tax credit equal to 80 percent of the tax credit claimable under section 209E-10, as long as investments are made in certain enumerated areas. As no minimum amounts for these investments are provided in order to qualify for this tax credit, a taxpayer investing \$1 in each of the enumerated areas would feasibly qualify for the tax credit. If this is not the Legislature’s intent, we recommend this bill be amended to include minimum investment amounts and any other requirements which the Legislature deems appropriate.
6. Page 11, lines 6-7, the new subsection (e) of section 209E-10, HRS, provides, “the amount of the business tax credit” for agricultural producers and firms engaged in producing renewable energy infrastructure for agricultural producers shall be equal to 80 percent of the tax credit claimable under section 209E-10. However, page 9, lines 7-8, also amends section 209E-10(a), HRS, and provides that businesses engaged in the producing or processing of agricultural products or renewable energy infrastructure shall be entitled to the business tax credit

under section 209E-10(a). It is unclear, therefore, whether the 80 percent tax credit for agricultural businesses is in addition to, or in lieu of, the rest of the tax credits claimable under section 209E-10. We recommend that the bill be clarified.

7. Page 11, lines 17-18, provides that the Department of Agriculture shall evaluate and determine the qualification for the above-mentioned tax credit. However, the enterprise zone program and chapter 209E, HRS, are administered by the Department of Business, Economic Development, and Tourism. We recommend that this provision be amended to read, "The department may consult the department of agriculture in determining a business' qualification under this subsection."

We respectfully recommend that this bill be amended to clarify the foregoing ambiguities.

**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Tuesday, February 7, 2017 8:38 AM  
**To:** AEN Testimony  
**Cc:** warrenmcfb@gmail.com  
**Subject:** \*Submitted testimony for SB780 on Feb 8, 2017 14:50PM\*

**SB780**

Submitted on: 2/7/2017

Testimony for AEN/ETT/TRE on Feb 8, 2017 14:50PM in Conference Room 225

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Warren Watanabe	Maui County Farm Bureau	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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e-mail info@hfbf.org; www.hfbf.org

February 14, 2017

HEARING BEFORE THE  
SENATE COMMITTEE ON AGRICULTURE AND ENVIRONMENT  
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TOURISM, AND TECHNOLOGY  
SENATE COMMITTEE ON TRANSPORTATION AND ENERGY

**TESTIMONY ON SB 780**  
RELATING TO ENTERPRISE ZONES

Room 414  
10:30 AM

Aloha Chair Gabbard, Chair Wakai, Chair Inouye, and Members of the Committees:

I am Randy Cabral, President of the Hawaii Farm Bureau (HFB). Organized since 1948, the HFB is comprised of 1,900 farm family members statewide, and serves as Hawaii's voice of agriculture to protect, advocate and advance the social, economic and educational interests of our diverse agricultural community.

**HFB strongly supports SB 780 with amendments**, expanding qualification time for agricultural producers and manufacturers and clarifying terms for qualification.

In 2008, amendments were made to the Enterprise Zone (EZ) program, making it agriculture friendly. Thus, many of our agricultural producers have utilized the program to expand their operations and it has proven to be one of the most successful programs reaching a wide array of producers of all sizes across the state. The metric of not requiring increased employment but rather increase in revenue, has allowed smaller agricultural producers to enter the system.

Many of our producers are reaching the end of their qualification cycle. HB784 was drafted upon request of these producers. The program has helped them expand their business but they have yet to reach their potential. Recent regulatory challenges pose risk on their positive direction. They felt without the enterprise zone benefits, they could actually regress. This would be counter to the State's policy of increased levels of self sufficiency.

To simplify the intent of this measure, we suggest the following language to replace the existing content:

**§209E-9 Eligibility; qualified business; sale of property or services**

(2) During each taxable year has at least fifty per cent of its enterprise zone establishments' gross receipts attributable to the active conduct of trade or business within enterprise zones located within the same county; **except for businesses involved in manufacturing or producing or processing of agricultural products, at least fifty percent of its' enterprise zone**

**establishments' production must occur within the enterprise zones located within the same county** The purpose of the Enterprise Zone is stated as:

**§209E-1 Purpose.** It is declared that the health, safety, and welfare of the people of this State are dependent upon the continual encouragement, development, growth, and expansion of the private sector, and that there are certain areas in the State that need the particular attention of government to help attract private sector investment. Therefore, it is the purpose of this chapter to stimulate business, agricultural, and industrial growth in areas that would result in neighborhood revitalization of those areas by means of regulatory flexibility and tax incentives. [L 1986, c 78, pt of §1; am L 2008, c 143, §2]

As stated, the intent is to stimulate private investment to stimulate business, agricultural and industrial growth. It targets locations that need assistance to increase economic activity. Unfortunately, many of these areas are not the same as the population centers which are needed to purchase goods and services. The greatest economic gain will be obtained with actual export outside of the state. As written, this measure does not recognize this opportunity. It is therefore recommended, that the requirement of gross receipts attributable to take place within the EZ be deleted.

Other changes within the chapter similarly referencing "gross receipts" or sale within the EZ will also be required.

**§209E-10 State business tax credit.** (a) The department shall certify annually to the department of taxation the applicability of the tax credit provided in this chapter for a qualified business against any taxes due the State. Except for the general excise tax, the credit shall be eighty per cent of the tax due for the first tax year, seventy per cent of the tax due for the second tax year, sixty per cent of the tax due for the third year, fifty per cent of the tax due the fourth year, forty per cent of the tax due the fifth year, thirty per cent of the tax due the sixth year, and twenty per cent of the tax due the seventh year. For qualified businesses engaged in the manufacturing of tangible personal property or the producing or processing of agricultural products, the credit shall continue after the seventh year at the rate of twenty per cent of the tax due for each of the subsequent **three six** tax years. Any tax credit not usable shall not be applied to future tax years.

This change will authorize qualified businesses engaged in the manufacturing of tangible personal property or the producing or processing of agricultural products to participate in the EZ program for an additional three years beyond the current period. This will encourage continued investments by the private sector, critical to expansion of the economy. Similar changes will be required associated with the other credits authorized in the chapter.

Both changes above are a good investment by government. The private sector will make investments. Tax credits, representing a portion of the investments provide the incentive encouraging such investments..

HFB respectfully requests **your support of this measure along with the changes suggested** above. We look forward to working with all of you to improve the implementation of the EZ program.

Thank you for the opportunity to provide testimony on this measure.



# Hawaii Floriculture and Nursery Association

Testimony for the Twenty Ninth Legislature, 2017  
State of Hawaii

COMMITTEE ON AGRICULTURE AND ENVIRONMENT

Senator Mike Gabbard, Chair  
Senator Gil Riviere, Vice Chair

COMMITTEE ON ECONOMIC DEVELOPMENT, TOURISM, AND TECHNOLOGY

Senator Glenn Wakai, Chair  
Senator Brian T. Taniguchi, Vice Chair

COMMITTEE ON TRANSPORTATION AND ENERGY

Senator Lorraine R. Inouye, Chair  
Senator Donovan M. Dela Cruz, Vice Chair

Tuesday, February 14, 2017  
10:30 a.m.  
Conference Room 414  
State Capitol  
415 South Beretania Street

A bill for an act

**SB 780 RELATING TO ENTERPRISE ZONES.**

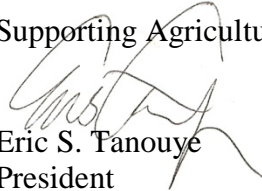
My name is Eric S. Tanouye and I am the President for the Hawaii Floriculture and Nursery Association. HFNA is a statewide umbrella organization with approximately 300 members. Our membership is made up with breeders, hybridizers, propagators, growers, shippers, wholesalers, retailers, educators, and the allied industry, which supports our efforts in agriculture.

The Hawaii Floriculture and Nursery Association (HFNA) **SUPPORTS** Senate **Bill 780**.

We strongly support this measure and its purpose of helping to provide support for Agriculture in the form of tax credits. This will allow farmers to remain profitable and helps to keep the price of agriculture products down, which in turn helps purchasers of Agriculture with-in the State.

We thank you for your consideration of SB780. If you have any questions at this time, I would be happy to discuss them and can be reached by phone at 808-959-3535 ext 22, cell 960-1433 and email [eric@greenpointnursery.com](mailto:eric@greenpointnursery.com).

Supporting Agriculture and Hawaii,

  
Eric S. Tanouye  
President

Hawaii Floriculture and Nursery Association

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Expand enterprise zone eligibility

BILL NUMBER: HB 784; SB 780 (Identical)

INTRODUCED BY: HB by CREAGAN, LOPRESTI, TAKAYAMA; SB by GABBARD, ESPERO, S. Chang, Riviere

EXECUTIVE SUMMARY: This bill proposes to significantly expand enterprise zone benefits to agricultural businesses and those that sell them clean energy. The expansion of benefits from ten years to an indefinite period of time is of concern. The benefits to providers of renewable energy infrastructure may already claim significant benefits because contractors providing infrastructure to an enterprise zone business are already exempt from GET.

BRIEF SUMMARY: Amends HRS section 209E-1 to add to the purpose of the chapter enabling investments to meet the constitutional mandate of agricultural self-sufficiency.

Amends HRS section 209E-2 to amend the definition of “eligible business activity” in an enterprise zone to include the installation of renewable energy infrastructure for agricultural producers by renewable energy production businesses.

Amends HRS section 209E-4 to provide that the usual twenty-year limit for enterprise zones doesn’t apply to agricultural producers and those businesses engaged in providing renewable energy infrastructure for agricultural products. Provides that up to six areas in each county shall be designated as agricultural enterprise zones until the constitutional mandate of agricultural self-sufficiency has been fulfilled. Requires the department of agriculture in consultation with DBEDT to define the standards for agricultural self-sufficiency.

Amends HRS section 209E-9 to add, as a condition of continuing to qualify for enterprise zone benefits, increase in its gross volume of agricultural products processed or gross volume of renewable energy infrastructure installed for agricultural producers within agricultural enterprise zones located within the same county by two per cent annually.

Amends HRS section 209E-10 to repeal the extended eligibility for enterprise zone benefits for manufacturers, instead giving them a seven-year benefits period; extend eligibility for agricultural producers from ten years to “until the State’s mandate of increased agricultural self-sufficiency is achieved,” and grants eligibility for businesses engaged in renewable energy infrastructure for agricultural producers for the same indefinite period as for agricultural producers.

Also provides that any unused credit may be carried to future tax years. Unused credit cannot be carried forward under current law.

Also provides that while most eligible businesses can take a credit of 80% of eligible taxes the first year, 70% the second year, and so on until it reaches 20% for the seventh (and subsequent)



years, agricultural businesses and renewable energy businesses servicing them are entitled to 80% as long as investments in the following areas are made during the taxable year: (1) water infrastructure; (2) farm labor housing; (3) investments in mechanization; (4) food processing and value added production infrastructure, including infrastructure for food safety compliance; and (5) renewable energy production capacity.

**EFFECTIVE DATE:** Upon approval, applies to taxable years beginning after December 31, 2016.

**STAFF COMMENTS:** This measure proposes to expand enterprise zone laws as they relate to agricultural businesses and providers of renewable energy infrastructure.

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 and for construction contractors building infrastructure for such businesses. 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 *as it now exists* 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.

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 changes proposed by this bill fundamentally change the character of the program, not only for the renewable energy installers and agricultural businesses, but for most if not all of the businesses in the program.

All qualified businesses could potentially benefit from the change in the credit to one that can be carried forward.

Manufacturers seem to get the short end of the stick because their ten-year credit is reduced to seven years.

Agricultural producers and renewable energy installers appear to be the big winners, getting a credit of indefinite duration at an amount that can stay at 80% of covered taxes for multiple years.

None of these effects appear to have anything to do with the policy justification of the credit in the first place, which was to encourage businesses to hire workers in areas with high unemployment.

In addition, for agricultural producers and renewable energy installers, there is an added alternative criterion for continuation of the credit, namely a 2% increase in installed capacity or production volume, that has little to do with employment either.

Finally, we question whether extension of all the enterprise zone benefits to renewable energy installers are necessary in light of the existing provision exempting contractors from the GET for contracting activity for a qualified business within the zone (HRS section 209E-11).

**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Monday, February 13, 2017 9:07 AM  
**To:** AEN Testimony  
**Cc:** director@bettercropshawaii.com  
**Subject:** \*Submitted testimony for SB780 on Feb 14, 2017 10:30AM\*

**SB780**

Submitted on: 2/13/2017

Testimony for AEN/ETT/TRE on Feb 14, 2017 10:30AM in Conference Room 414

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
BENNETTE MISALUCHA	Hawaii Crop Improvement Association	Support	No

**Comments:**

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Wednesday, February 8, 2017 8:19 AM  
**To:** AEN Testimony  
**Cc:** jimmygomes@hawaii.rr.com  
**Subject:** \*Submitted testimony for SB780 on Feb 8, 2017 14:50PM\*

**SB780**

Submitted on: 2/8/2017

Testimony for AEN/ETT/TRE on Feb 8, 2017 14:50PM in Conference Room 225

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Jimmy Gomes	Ulupalakua Ranch	Support	No

Comments:

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Friday, February 3, 2017 5:32 PM  
**To:** AEN Testimony  
**Cc:** gordines@kauaiflowers.com  
**Subject:** \*Submitted testimony for SB780 on Feb 8, 2017 14:50PM\*

**SB780**

Submitted on: 2/3/2017

Testimony for AEN/ETT/TRE on Feb 8, 2017 14:50PM in Conference Room 225

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
John R. Gordines	Individual	Support	No

Comments:

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Tuesday, February 7, 2017 1:16 PM  
**To:** AEN Testimony  
**Cc:** gregf@haleakalaranch.com  
**Subject:** \*Submitted testimony for SB780 on Feb 8, 2017 14:50PM\*

**SB780**

Submitted on: 2/7/2017

Testimony for AEN/ETT/TRE on Feb 8, 2017 14:50PM in Conference Room 225

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Gregory Friel	Individual	Support	No

Comments:

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Monday, February 13, 2017 11:53 AM  
**To:** AEN Testimony  
**Cc:** irisiwami@yahoo.com  
**Subject:** \*Submitted testimony for SB780 on Feb 14, 2017 10:30AM\*

**SB780**

Submitted on: 2/13/2017

Testimony for AEN/ETT/TRE on Feb 14, 2017 10:30AM in Conference Room 414

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Iris Iwami	Individual	Support	No

Comments:

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Personal Testimony Presented before the  
Senate Committee on Agriculture and Environment  
Committee on Economic Development, Tourism and Technology  
Committee on Transportation and Energy  
Tuesday, February 14, 2017 at 10:30 pm  
by  
Douglas L. Vincent, Ph.D., P.A.S.

SB 780 Relating to Enterprise Zones

Personal Testimony in Support of SB 780

Chairs Gabbard, Wakai and Inouye, Vice Chairs Riviere, Taniguchi and Dela Cruz and members of the committees

My name is Douglas L. Vincent and I am a Professor and Animal Scientist in the College of Tropical Agriculture and Human Resources in the Department of Human Nutrition, Food and Animal Sciences. I am currently a faculty member at the University of Hawaii at Manoa since 1985. But to be clear about this testimony, my personal testimony does not represent the position of the University of Hawaii nor the College of Tropical Agriculture and Human Resources.

Since 1985, I have worked to support Hawaii's farmers and ranchers. I support this bill and urge its passage. Extension of the qualification of the period for the enterprise zones helps farmers be successful.

I urge support of SB 780.

Thank you for the opportunity to provide testimony.



**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Monday, February 13, 2017 7:28 AM  
**To:** AEN Testimony  
**Cc:** stoltzfus74@yahoo.com  
**Subject:** \*Submitted testimony for SB780 on Feb 14, 2017 10:30AM\*

**SB780**

Submitted on: 2/13/2017

Testimony for AEN/ETT/TRE on Feb 14, 2017 10:30AM in Conference Room 414

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
David Stoltzfus	Individual	Support	No

Comments:

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