

Honolulu, Hawaii

MAR 14 2008

RE: H.B. No. 2739
H.D. 1
S.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2008
State of Hawaii

Madam:

Your Committee on Agriculture and Hawaiian Affairs, to which was referred H.B. No. 2739, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO STATE ENTERPRISE ZONES,"

begs leave to report as follows:

The purpose of this measure is to support the growth of Hawaii's agriculture industry by amending the enterprise zones ("EZ") law to allow more farmers to qualify for EZ tax incentives.

Specifically, this measure:

- (1) Provides continued EZ eligibility for farmers whose businesses are damaged by force majeure events and extends the eligibility period for the loss;
- (2) Allows agricultural product processing businesses to qualify for EZ incentives;
- (3) Includes as full-time employees, leased or joint employees that allow the agriculture industry to address seasonal workforce needs;
- (4) Requires that, in order to be designated as a qualified business for purpose of EZ incentives, a business increase its average annual number of full-time employees within an EZ by ten per cent during the first



year of operation and by fifteen per cent during the fourth through seventh year of operation;

- (5) Allows agricultural businesses to count retail sales of value-added products made from crops grown within the EZ, towards the minimum fifty per cent of gross receipts from business within the zone needed to qualify for EZ incentives; and
- (6) Provides that agricultural businesses shall not be exempt from the payment of general excise taxes on the gross proceeds of agricultural retail sales.

Testimony in support of this measure was submitted by the Hawaii Crop Improvement Association. Testimony in support of the intent of this measure was submitted by the Department of Agriculture, Department of Taxation, Department of Business, Economic Development and Tourism, Hawaii Farm Bureau Federation, Hawaii Agriculture Research Center, and Hawaii Aquaculture Association. The Tax Foundation of Hawaii submitted comments regarding this measure.

Your Committee finds that currently there are more than 5,500 farms in Hawaii, but as of 2006, only forty-four participated in the EZ program. In 2005, only twelve of these forty-four qualified for benefits. This measure would allow more farmers to participate in EZ benefits by adjusting EZ qualification criteria to recognize some of the unique weather and employment challenges that agricultural businesses face in Hawaii.

Your Committee has amended this measure by:

- (1) Amending the required qualifications for being designated as a qualified business for the purpose of EZ incentives;
- (2) Requiring that in order to be designated as a qualified business for purpose of EZ incentives, that a business increase its average annual number of full-time employees within an EZ by ten per cent during the first year of operation, or have an annual two per cent increase in gross sales of agricultural crops or products produced within the EZ;



- (3) Clarifying that agricultural businesses not engaged in genetically-engineered agricultural production shall not be exempt from the payment of general excise taxes on the gross proceeds of agricultural retail sales; and
- (4) By making technical nonsubstantive amendments for the purposes of clarity and style.

As affirmed by the record of votes of the members of your Committee on Agriculture and Hawaiian Affairs that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2739, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 2739, H.D. 1, S.D. 1, and be referred to the Committee on Economic Development and Taxation.

Respectfully submitted on
behalf of the members of the
Committee on Agriculture and
Hawaiian Affairs,



JILL TOKUDA, Chair



The Senate
 Twenty-Fourth Legislature
 State of Hawaii

Record of Votes
Committee on Agriculture and Hawaiian Affairs
AHW

Bill / Resolution No.:* HB 2739, HD1	Committee Referral: AHW, EDT, WAM	Date: 11 March 2009
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The committee is reconsidering its previous decision on this measure.
 If so, then the previous decision was to: _____

The Recommendation is:

Pass, unamended 2312 Pass, with amendments 2311 Hold 2310 Recommit 2313

Members	Aye	Aye (WR)	Nay	Excused
TOKUDA, Jill N. (C)	✓			
ENGLISH, J. Kalani (VC)	✓			
GABBARD, Mike	✓			
HEE, Clayton				✓
KOKUBUN, Russell S.	✓			
SLOM, Sam	✓			
TOTAL	5			1

Recommendation: Adopted Not Adopted

Chair's or Designee's Signature: 

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*Only one measure per Record of Votes