

STAND. COM. REP. NO.

2497

Honolulu, Hawaii

FEB 15 2008

RE: S.B. No. 3167

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 Economic Development and Taxation, to which was referred S.B. No. 3167 entitled:

"A BILL FOR AN ACT RELATING TO KAKAAKO,"

begs leave to report as follows:

The purpose of this measure is to provide tax relief to taxpayers in the Kakaako Community Development District whose property is designated, for county property tax purposes, I-1, limited industrial, or I-2, intensive industrial.

Testimony in support of this measure was submitted by the Hawaii Business League, U. Okada & Co., Ltd., and fourteen individual citizens. Testimony in opposition of this measure was submitted by the Department of Taxation. Comments on this measure were submitted by the Hawaii Community Development Authority and the Tax Foundation of Hawaii.

Your Committee finds that providing tax relief to small businesses and small property owners in the Kakaako Community Development District located in an I-1 or I-2 district, and who are faced with escalating county industrial property tax increases, major infrastructure needs and other issues affecting their ability to continue providing a wide range of industrial, wholesaling, commercial and related services in the central Kakaako area is urgently needed. To a certain degree, tax increases are also an indirect result of higher-density condominium and retail development authorized by the state zoning agency, Hawaii Community Development Authority (HCDA). In recent

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years, many of the businesses have found themselves in a Catch-22 dilemma in which they cannot achieve resolution of their needs due to the complex layers of state/county governance affecting Kakaako land use and development.

One approach the small businesses pursued previously was to seek county zoning jurisdiction over central Kakaako - a move that could have provided an opportunity to shape an industrial-zoned district to address many of these businesses' needs. However, with much of central Kakaako now being targeted for major retail/commercial growth through HCDA's mauka area land use changes, tax relief - in the form of an industrial tax credit - is the major issue facing small businesses today.

Accordingly, it is the intent of your Committee to support an industrial use tax credit to assist small business taxpayers in the Kakaako Community Development District that own I-1 or I-2 zoned properties in being able to continue their light industrial, wholesaling, or service and commercial operations.

Your Committee received a fiscal impact statement from the Department of Taxation that this measure, as introduced, would result in a revenue loss to the State of \$1,300,000 in fiscal year 2009 and \$2,500,000 annually thereafter. Their methodology is as follows:

The Hawaii Community Development Authority reports that the Kakaako district is approximately six hundred acres. In the 2006 State of Hawaii Data Book, industrial land in Honolulu totaled approximately 3,790 acres as of 1998. Assuming that figure is constant over time and that fifteen per cent of the acres in Kakaako qualifies for the credit, then three per cent of all the land in Honolulu is designated as industrial. According to the Real Property Tax Valuations prepared by the Real Property Assessment Division, approximately \$83,200,000 was collected from industrial land in fiscal year 2008. The three per cent estimate multiplied by the total Real Property Tax Valuations equals \$2,500,000 each year.

Your Committee has amended this measure by:

- (1) Providing a blank cap to the maximum real industrial property tax credit to be allowed each taxable year;



- (2) Adding recapture rules for a previously claimed credit on land that no longer qualifies for the credit;
- (3) Referencing the City and County of Honolulu zoning designations of I-1 and I-2 in section 4, number 2;
- (4) Providing an effective date of December 31, 2050, to facilitate further discussion of this measure; and
- (5) Making technical, nonsubstantive amendments for the purpose of clarity.

As affirmed by the record of votes of the members of your Committee on Economic Development and Taxation that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 3167, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 3167, S.D. 1, and be referred to the Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Economic
Development and Taxation,



CAROL FUKUNAGA, Chair



The Senate
Twenty-Fourth Legislature
State of Hawaii

Record of Votes
Committee on Economic Development and Taxation
EDT

Bill / Resolution No.:* <i>SB 3167</i>	Committee Referral: <i>EDT, WAM</i>	Date: <i>2/14/08</i>		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Fr. commit 2313				
Members	Aye	Aye (WR)	Nay	Excused
FUKUNAGA, Carol (C)	✓			
ESPERO, Will (VC)	✓			
BAKER, Rosalyn H.	✓			
ENGLISH, J. Kalani				✓
IGE, David Y.	✓			
SLOM, Sam	✓			
TOTAL	<i>5</i>			<i>1</i>
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: <i>Will Espero</i>				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes