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Governor



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Chairperson, Board of Agriculture

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**TESTIMONY OF SANDRA LEE KUNIMOTO
CHAIRPERSON, BOARD OF AGRICULTURE**

**BEFORE THE HOUSE COMMITTEES ON AGRICULTURE AND ECONOMIC
REVITALIZATION, BUSINESS AND MILITARY AFFAIRS
THURSDAY, FEBRUARY 5, 2009
10:30 AM
CONFERENCE ROOM 312**

**HOUSE BILL NO. 1682
RELATING TO STATE ENTERPRISE ZONES**

Chairpersons Tsuji and McKelvey and Members of the Committees:

Thank you for the opportunity to comment on House Bill No. 1682. The purpose of this bill is to improve the state enterprise zone program by allowing limited liability companies to be included under the definitions of "qualified businesses" and "service businesses," by extending the enterprise zone tax credits and exemptions for businesses engaged in the manufacturing of tangible personal property or in the producing or processing of agricultural products for an additional seven years, and by allowing the receipts, sales and employees of a business's establishments in all enterprise zones located within the same county to count towards qualification requirements.

The Hawaii Department of Agriculture (HDOA) supports the intent of this measure as we believe that agriculture producers would benefit from an extension of enterprise zone tax credits and neighborhood revitalization programs that create agricultural jobs.



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

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Statement of
THEODORE E. LIU
Director

Department of Business, Economic Development, and Tourism
before the

**HOUSE COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS,
AND MILITARY AFFAIRS
AND
HOUSE COMMITTEE ON AGRICULTURE**

Thursday, February 5, 2009
10:30 A.M.
State Capitol, Conference Room 312

in consideration of
HB 1682
RELATING TO STATE ENTERPRISE ZONES

Chairs McKelvey and Tsuji, Vice-Chairs Choy and Wooley and Committee members:

This bill extends EZ tax credits and exemptions for businesses engaged in the manufacturing of tangible personal property or in the producing or processing of agricultural products, for an additional seven years. It also allows the receipts, sales, and employees of a business's establishments in all enterprise zones located within the same county to count towards qualification requirements. The Department appreciates the intent of this measure; however, given the current fiscal difficulties, we oppose its enactment at this time.

Thank you for the opportunity to offer these comments.

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

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**HOUSE COMMITTEES ON ECONOMIC REVITALIZATION, BUSINESS, &
MILITARY AFFAIRS AND AGRICULTURE**

**TESTIMONY REGARDING HB 1682
RELATING TO STATE ENTERPRISE ZONES**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: FEBRUARY 5, 2009

TIME: 10:30 AM

ROOM: 312

In addition to making technical amendments, this legislation extends the income tax credit and general excise tax exemption for qualified businesses engaged in the manufacturing of tangible personal property or in the production or processing of agricultural products within an enterprise zone for an additional seven years.

Given the current economic situation, the Department opposes the tax provisions in this measure due to their budgetary impact. The Department also offers **comments** on this legislation.

FINANCIAL CONCERNS—Under the current law, qualified businesses operating within an enterprise zone are given income tax credits ranging from 80% of their income tax liabilities in the first year of becoming a qualified business, to 20% in the seventh year (the percentage tax credit incrementally decreases by 10% per year for the second through the sixth years). Qualified businesses receive an additional income tax credit equal to a percentage of unemployment taxes paid during the first seven years of operations (using the same percentage schedule noted above). Moreover, subject to limited exceptions, qualified businesses are **fully** exempt from general excise tax for the first seven years of operating as a qualified business within an enterprise zone. This measure would extend the income tax credits (applying a 20% rate) and general excise tax exemption for qualified businesses that are manufacturers of tangible personal property or producers or processors of agricultural products for an additional seven years. The Department cannot support this measure at this time as the extension of such credits and exemption would result in significant revenue losses, exacerbating the budget shortfall.

OTHER COMMENTS – If this measure proceeds forward, the Department suggests that the amendment to subparagraph 3(A) of subsection (b), §209E-9, HRS, which addresses the extension of the credits, be clarified so that the "higher level of employment" that must be satisfied

**Testimony before the
House Committees on

Economic Revitalization, Business, & Military Affairs
and
Agriculture**

H.B. 1682 – Relating to State Enterprise Zones

Thursday, February 5, 2009
10:30 am, Conference Room 312

By Arthur Seki
Director of Technology
Hawaiian Electric Company, Inc.

Chairs McKelvey and Tsuji, Vice Chairs Choy and Wooley and members of the Committees:

My name is Arthur Seki—I am the Director of Technology at Hawaiian Electric Company. I am testifying on behalf of Hawaiian Electric Company (HECO) and its subsidiaries, Maui Electric Company (MECO) and Hawaii Electric Light Company (HELCO) hereinafter collectively referred to as HECO.

HECO supports H.B. 1682, which amends the state enterprise zone language and opens the area for renewable energy activities. Land availability and incentives for renewable energy development continue to be issues.

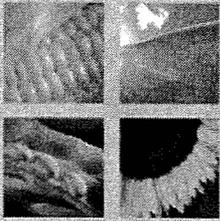
HECO offers these recommendations for your consideration:

1. Page 3, line 4—“Production of electric power from wind energy...” Replace wind energy with “renewable energy”. This will help all types of renewable energy development that may occur in the state enterprise zones.
2. Allow areas offshore to be included in the state enterprise zone for ocean energy development such as wave energy. As you may know, there are a number of ocean energy projects in Hawaii:
 - Ocean Power Technology (New Jersey) continues its wave buoy demonstration project off Kaneohe Marine Corp Base. A third buoy was deployed in June 2007. This demonstration includes an underwater electrical cable installed

about 1 mile off Kaneohe Marine Base. HECO engineers provided technical review and support for the interconnection design of this electrical system.

- OceanLinx (Australia) continues their development of a small wave farm off Pauwela Point on the northeast coast of Maui.
- Hawaii Natural Energy Institute was recently awarded a multi-year, multi-million dollar grant as a National Marine Renewable Energy Research Center. This Center will facilitate the development and implementation of commercial wave energy systems and assist the private sector in moving ocean thermal energy conversion systems beyond proof-of-concept to pre-commercialization, long-term testing. HECO is an industry partner in this program.

Thank you for the opportunity to present this testimony.



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Hawaii Crop Improvement Association

Growing the Future of Worldwide Agriculture in Hawaii

Testimony By: Alicia Maluafiti
HB 1682, Relating to State Enterprise Zones
House EBM/AGR Committees
Thursday, Feb.5, 2009
Room 312, 10:30 am

Position: Strong Support

Chairs McKelvey and Tsuji, and Members of the House EBM/AGR Committees:

My name is Alicia Maluafiti, Executive Director of the Hawaii Crop Improvement Association. The Hawaii Crop Improvement Association (HCIA) is a nonprofit trade association representing the agricultural seed industry in Hawaii. Now the state's largest agricultural commodity, the seed industry contributes to the economic health and diversity of the islands by providing high quality jobs in rural communities, keeping important agricultural lands in agricultural use, and serving as responsible stewards of Hawaii's natural resources.

Although HCIA member companies do not participate in EZ tax credits and exemptions, we strongly believe that agriculture enterprise zones, and the proposed extensions of the credits to include manufacturers and processors of agricultural products are of benefit to other qualified agribusinesses.

Measures such as this support the nurturing and growth of Hawaii's agriculture industry.

Thank you for the opportunity to testify.

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COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS, & MILITARY AFFAIRS

Rep. Angus L.K. McKelvey, Chair

COMMITTEE ON AGRICULTURE

Rep. Cliff Tsuji, Chair

Date of Hearing: Thursday, February 5, 2009
Time: 10:30 am

RE: House Bill 1682 – Relating to State Enterprise Zones

Chair McKelvey, Chair Tsuji and Members of the Committees, my name is Brooks Takenaka, Assistant Manager at United Fishing Agency, Ltd., (aka Honolulu Fish Auction) located at Pier 38 on Nimitz Highway in Honolulu.

We support HB 1682.

During this difficult economic time, extending the tax credit after the seventh year at 20% of the tax due for each of the subsequent seven tax years (page 10, lines 17 to 21) would assist the qualified businesses.

The tax credits have allowed us to stay competitive in the national and international markets. We are located now in a better location and have been able to build a larger facility which in turn has allowed us to upgrade our services and increase employment.

With the continuing economic climate, we ask for your support of this measure. Mahalo for this opportunity to share our views.