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**HOUSE COMMITTEE ON HEALTH  
TESTIMONY REGARDING HB 553 HD 1  
RELATING TO MEDICAL ENTERPRISE ZONES**

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

**DATE: FEBRUARY 13, 2009**

**TIME: 8:30AM**

**ROOM: 329**

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This measure seeks to create "Medical Enterprise Zones," which operate similar to the existing Enterprise Zones administered by the Department of Business, Economic Development & Tourism.

The House Committee on Economic Revitalization, Business & Military Affairs amended the measure by instituting the Department of Business, Economic Development & Tourism as the agency charged with regulating the zones and defecting the effective date.

The Department of Taxation (Department) takes **no position** on this measure; however must **oppose the revenue loss** anticipated by this measure.

**NOT FACTORED INTO EXECUTIVE BUDGET**

The Department initially points out that this legislation has not been factored into the Executive Budget and has not been prioritized as a means of tax relief this legislative session. The Department cannot support the tax provision in this measure because it is not factored into the budget. The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either. Given the forecasted decrease in revenue projections, this measure would add to the budget shortfall.

**REVENUE IMPACT**

The tax component of this measure, assuming its effective immediately will result in the following revenue losses:

- \$306,000 in FY2010;
- \$510,000 in FY2010;
- \$510,000 in FY2012;
- \$714,000 in FY2013; and
- \$1,267,500 in FY2014.

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Statement of  
**THEODORE E. LIU**  
Director

Department of Business, Economic Development, and Tourism  
before the  
**HOUSE COMMITTEE ON HEALTH**

February 13, 2009  
8:30A.M.  
State Capitol, Conference Room 329

in consideration of  
**HB 553 HD1**  
**RELATING TO MEDICAL ENTERPRISE ZONES.**

Chair Yamane, Vice-Chair Nishimoto and Members of the Committee:

The Department of Business, Economic Development, and Tourism (DBEDT) appreciates the intent of House Bill 553 HD1, which tries to address the shortage of medical and research facilities and health care professionals in Hawaii. However, given the current fiscal situation, it would not be prudent to pursue enactment at this time. We defer to the Department of Taxation to ascertain the financial impact of this measure. Please note that while this HD 1 replaces the Dept. of Health (DOH) with DBEDT as the lead agency on this measure, Page 13, line 19, still states the "director of health", which should be corrected to "director of the department of business, economic and tourism".

This bill among other things, will give Enterprise Zone (EZ) program benefits to medical facilities outside of the EZ and create a new chapter. The new chapter is based on outdated sections of 209E. Use tax has since been removed from the chapter and leased employees have been included. Furthermore, new rules and a new legislative report will need to be created.

Regarding the pilot program, one of the EZ benefits that would be of value to the development of medical facilities is the GET exemption on construction. As an option, providing a GET credit on construction as the one given to aircraft service and maintenance facilities in HRS §237-24.9 may be a simpler and faster solution. If Maui County supports this project, they could offer construction incentives like the one offered by Honolulu County.

Honolulu County offers a waiver of building and grading permit fees and a property tax rebate from any increase due to construction for a period of two years for qualified EZ businesses.

Thank you for the opportunity to offer testimony.