

**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 FINANCE**

Tuesday, March 3, 2009  
6:00 p.m.  
State Capitol, Conference Room 308

in consideration of  
**HB 553 HD2**  
**RELATING TO MEDICAL ENTERPRISE ZONES.**

Chair Oshiro, Vice-Chair Lee and Members of the Committee:

The Department of Business, Economic Development, and Tourism (DBEDT) appreciates the intent of House Bill 553 HD2, 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.

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 The new chapter is based on outdated sections of 209E.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.

Thank you for the opportunity to offer testimony.

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



KURT KAWAFUCHI  
DIRECTOR OF TAXATION

SANDRA L. YAHIRO  
DEPUTY DIRECTOR

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**HOUSE COMMITTEE ON FINANCE  
TESTIMONY REGARDING HB 553 HD 2  
RELATING TO MEDICAL ENTERPRISE ZONES**

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

**DATE: MARCH 3, 2009**

**TIME: 6PM**

**ROOM: 308**

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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 House Committee on Health amended the measure by amending its 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 it is 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.

DEPARTMENT OF PLANNING AND PERMITTING  
**CITY AND COUNTY OF HONOLULU**

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MUFI HANNEMANN  
MAYOR



DAVID K. TANOUE  
DIRECTOR

ROBERT M. SUMITOMO  
DEPUTY DIRECTOR

March 3, 2009

The Honorable Marcus R. Oshiro, Chair  
and Members of the Committee on Finance  
State House of Representatives  
State Capitol  
Honolulu, Hawaii 96813

Dear Chair Oshiro and Members:

**Subject: House Bill No. 553, HD2  
Medical Enterprise Zones**

The Department of Planning and Permitting has **comments** on House Bill 553, HD2, which would establish medical enterprise zones for a limited time.

The department recognizes the critical need for medical facilities that not only provide quality care of our people, but also offer highly skilled jobs. We do not oppose the establishment of a pilot medical enterprise zone program, nor do we object to such a zone in West Maui.

However, as currently drafted, the bill does not apply only to West Maui. It has statewide eligibility. As such, we cannot support allowing the Department of Business, Economic Development and Tourism (DBEDT) to take over county planning, zoning and building programs in any designated areas on Oahu. Under proposed section -5 Rules, DBEDT must adopt rules on these responsibilities; it is not optional. This section also seems to conflict with proposed section -2(3) which states that the DBEDT will "Assist the counties in obtaining reduction of rules within medical enterprise zones". If DBEDT must establish its own development rules, is it worthwhile to assist the counties? Please note that we allow hospitals in all zoning districts, and under a single zoning permit, not only as a streamlining measure, but to provide maximum flexibility in development standards, given the needs of constantly evolving hospital complexes.

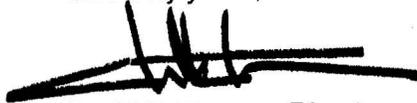
We are also concerned about proposed section -8 which would exempt qualified businesses from payment of general excise taxes. As noted in Section 1 of the bill, medical complexes can represent a significant level of economic activity. We are concerned that the proposed tax exemption would include exemption from the county surcharge. Accordingly, we would request that this new chapter and Sec 238-2.6, HRS, be amended to clearly stipulate that the qualified businesses are not exempt from the surcharge, if they are located on Oahu.

The Honorable Marcus R. Oshiro, Chair  
and Members of the Committee on Finance  
State House of Representatives  
Re: House Bill No. 553, HD2  
March 3, 2009  
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To sum, please amend House Bill 553, HD2 to narrowly apply only to West Maui.  
Alternatively, please delete provisions that grant DBEDT ability to override county  
responsibilities and clarify that businesses are not exempt from the county surcharge.

Thank you for this opportunity to comment.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'David K. Tanoue', with a horizontal line drawn through it.

David K. Tanoue, Director  
Department of Planning and Permitting

DKT: jmf  
hb553hd2-kst.doc