

HB 553

HD2

EDT/HTH

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
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**SENATE COMMITTEES ON ECONOMIC DEVELOPMENT & TECHNOLOGY AND
HEALTH
TESTIMONY REGARDING HB 553 HD 2
RELATING TO MEDICAL ENTERPRISE ZONES**

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

DATE: MARCH 16, 2009

TIME: 2:30PM

ROOM: 016

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 Department of Taxation (Department) **opposes the revenue loss** anticipated by this measure.

NOT FACTORED INTO EXECUTIVE BUDGET

The Department 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 collections, 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.

METHODOLOGY

The revenue estimate is based on construction of a hospital that will hold 25 critical care beds and a 40-bed skilled nursing facility. It is assumed construction of the facility will begin after H.B. 553 takes effect. Construction costs are estimated to be \$51 million, incurred over 4 years beginning in fiscal year 2010 (15% the first year, 25% in years 2 and 3, and 35% in year 4). The estimates assume 10 employees per bed at an average salary of \$75,000. Gross receipts are estimated at \$100,000 per bed, beginning in 2017. Unemployment insurance payments are assumed to be 2.5% of salaries. Taxable income is assumed to equal 10% of the gross income and to be subject to tax at a rate of 6.25%.



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

LINDA LINGLE
GOVERNOR
THEODORE E. LIU
DIRECTOR
MARK K. ANDERSON
DEPUTY DIRECTOR

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Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
**SENATE COMMITTEES ON
ECONOMIC DEVELOPMENT AND TECHNOLOGY
AND
HEALTH**

Monday, March 16, 2009
2:30 p.m.
State Capitol, Conference Room 016

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

Chairs Fukunaga and Ige, and Vice-Chairs Baker and Green; Members of the Committees on Economic Development and Technology and Health.

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, we oppose its enactment at this time. We defer to the Department of Taxation to ascertain the financial impact of this measure.

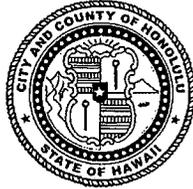
This bill among other things will give Enterprise Zone (EZ) program benefits to medical facilities outside of the EZ and create a new chapter. The new chapter is based on outdated sections of 209E. Use tax has since been removed from the chapter and leased employees have been included. Furthermore, new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

Thank you for the opportunity to offer testimony.

DEPARTMENT OF PLANNING AND PERMITTING
CITY AND COUNTY OF HONOLULU

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MUFI HANNEMANN
MAYOR



DAVID K. TANOUÉ
DIRECTOR
ROBERT M. SUMITOMO
DEPUTY DIRECTOR

March 16, 2009

The Honorable Carol Fukunaga, Chair
and Members of the Committee on Economic
Development and Technology

The Honorable David Y. Ige, Chair
and Members of the Committee on Health
State Senate
State Capitol
Honolulu, Hawaii 96813

Dear Chairs Fukunaga, Ige 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

The Honorable Carol Fukunaga, Chair
and Members of the Committee on Economic
Development and Technology

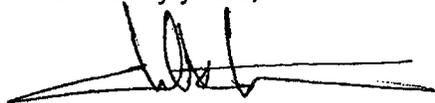
The Honorable David Y. Ige, Chair
and Members of the Committee on Health
State Senate
Re: House Bill No. 553, HD2
March 16, 2009
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concerned that the proposed tax exemption would include exemption from the county surcharge. Accordingly, we would request 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.

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', written over a horizontal line.

David K. Tanoue, Director
Department of Planning and Permitting

DKT: jmf
hb553hd2-kst2.doc

Testimony of Robert Toyofuku
On behalf of Hawaii Association for Justice
(Formerly Known as Consumer Lawyers)
In SUPPORT OF
H.B. No. 553, H.D. 2

My name is Robert Toyofuku. I am testifying on behalf of the Hawaii Association for Justice (formerly known as CLH) in Support of H.B. No. 553, HD 2.

This measure creates a pilot medical enterprise zone in West Maui to provide incentives to address the need for quality medical care in West Maui. Much of Maui's medical facilities, personnel and resources are congregated in the Wailuku – Kahului area. Residents of West Maui often face drives of 45 minutes to an hour depending on traffic conditions. Residents of other Maui neighborhoods face drives of up to 2 or more hours.

Medical enterprise zones may provide an important contribution to addressing the issue of quality medical care for many neighbor island communities. Limited access to medical care in rural areas is an issue in every state of the nation. Economic incentives to attract and retain doctors and support personnel have proven effective in other states and should be explored in Hawaii as well.

HAI appreciates this opportunity to testify in Support of H.B. 553, H.D. 2.