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# A BILL FOR AN ACT

RELATING TO STATE ENTERPRISE ZONES.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The legislature finds that the State enterprise  
2 zones program was established in 1986 for the purpose of  
3 stimulating business activity, job growth, and job retention in  
4 areas where they are needed the most. These areas, known as  
5 enterprise zones, are designated by the counties and approved by  
6 the governor. Qualified companies who establish themselves in  
7 enterprise zones receive benefits that include state tax credits  
8 and tax waivers, as well as additional incentives provided by  
9 the counties.

10           The legislature finds that the John A. Burns school of  
11 medicine and the university of Hawaii cancer center serve as the  
12 nexus of Hawaii's emerging health innovation and biotechnology  
13 sector. Incentivizing private-sector investment through  
14 enterprise zone designation will accelerate clinical research  
15 and trials, medical device development, and the  
16 commercialization of new treatments and technologies.  
17 Co-locating these activities alongside academic medicine, health



1 systems, and technology incubation resources strengthens  
2 industry clustering, attracts investments and new business  
3 development, fosters high-wage job creation for local residents,  
4 and expands access to advanced clinical services for Hawaii  
5 patients. Such growth will support the State's long-term  
6 economic diversification strategy by positioning Hawaii as a  
7 globally competitive healthcare technology hub and increasing  
8 export-oriented economic activity.

9 The legislature also finds that the university of Hawaii  
10 John A. Burns school of medicine and university of Hawaii cancer  
11 center play a vital role in advancing Hawaii's science,  
12 technology, research, and advanced manufacturing sectors. These  
13 institutions conduct cutting-edge research, clinical trials, and  
14 medical device and pharmaceutical manufacturing that contribute  
15 globally to the fields of oncology, healthcare, telemedicine,  
16 and biotechnology, and support the State's focus on fostering  
17 innovation and strengthening Hawaii's position in the  
18 science-based industries of the future.

19 The legislature further finds that supporting economic  
20 activity around these centers will attract investment, create



1 high-skilled jobs, and diversify Hawaii's economy consistent  
2 with the State's economic and workforce developments goals.

3 Accordingly, the purpose of this Act is to:

4 (1) Authorize enterprise zone designation for census  
5 tracts on state lands containing an innovation center,  
6 including the university of Hawaii John A. Burns  
7 school of medicine and the university of Hawaii cancer  
8 center; and

9 (2) Allow businesses not established in an enterprise zone  
10 to qualify for enterprise zone benefits; provided that  
11 they have entered into a binding collaboration or  
12 contract with a business that is established in the  
13 census tract that contains the university of Hawaii  
14 John A. Burns school of medicine and the university of  
15 Hawaii cancer center.

16 SECTION 2. Section 209E-2, Hawaii Revised Statutes, is  
17 amended as follows:

18 1. By adding a new definition to be appropriately inserted  
19 and to read:

20 "Affiliated collaborator" means a Hawaii-based business  
21 that:



- 1        (1) Is not established within an enterprise zone but has
- 2        entered into a written, binding agreement with a
- 3        qualified business established in the enterprise zone
- 4        that includes the university of Hawaii John A. Burns
- 5        school of medicine and the university of Hawaii cancer
- 6        center to perform an eligible business activity;
- 7        (2) Is engaged in an eligible business activity, as
- 8        defined in this section; and
- 9        (3) Conducts economic activity, including Hawaii-based
- 10       payroll, research expenditures, and clinical
- 11       operations, in the same county as the qualified
- 12       business described in paragraph (1)."

13       2. By amending the definition of "eligible business  
14 activity" to read:

15       ""Eligible business activity" means the:

16       (1) Manufacture of tangible personal property, the  
17       wholesale sale of tangible personal property as  
18       described in section 237-4, or a service business as  
19       defined in this section;

20       (2) Production of agricultural products where the business  
21       is a producer as defined in section 237-5, or the



1 processing of agricultural products, all or some of  
2 which were grown within an enterprise zone;

3 (3) Research, development, sale, or production of ~~[all]~~:

4 (A) All types of [genetically-engineered] medical,  
5 agricultural, or maritime biotechnology  
6 products[~~;~~]; and

7 (B) Medical and health care services;

8 (4) Production of electric power from wind energy for sale  
9 primarily to a public utility company for resale to  
10 the public;

11 (5) Research and development of aerospace technology; or

12 (6) Information technology design and production services;

13 provided that medical cannabis dispensary activities pursuant to  
14 chapter 329D shall not be considered an eligible business  
15 activity for the purposes of this chapter."

16 SECTION 3. Section 209E-4, Hawaii Revised Statutes, is  
17 amended by amending subsection (b) to read as follows:

18 "(b) The governor, upon the recommendation of the  
19 director, shall approve the designation of up to ~~[six]~~ eight  
20 areas in each county as enterprise zones for a period of twenty  
21 years. Any such area shall be located in one United States



1 census tract or two or more contiguous United States census  
2 tracts in accordance with the most recent decennial United  
3 States Census. The census tract or tracts within which each  
4 enterprise zone is located also shall meet at least one of the  
5 following criteria:

6 (1) Twenty-five per cent or more of the population have  
7 incomes below eighty per cent of the median family  
8 income of the county; [~~or~~]

9 (2) The unemployment rate is 1.5 times the state  
10 average[~~-~~]; or

11 (3) Contain the university of Hawaii John A. Burns school  
12 of medicine or the university of Hawaii cancer  
13 center."

14 SECTION 4. Section 209E-9, Hawaii Revised Statutes, is  
15 amended to read as follows:

16 **"§209E-9 Eligibility; qualified business; sale of property**  
17 **or services.** (a) Any business firm may be eligible to be  
18 designated a qualified business for purposes of this chapter if  
19 the business:

20 (1) Begins the operation of a trade or business in an  
21 eligible business activity within an enterprise zone;



- 1           (2) During each taxable year has at least fifty per cent  
2           of its enterprise zone establishments' gross receipts  
3           attributable to the active conduct of trade or  
4           business within enterprise zones located within the  
5           same county; and
- 6           (3) Either:
- 7           (A) Increases its average annual number of full-time  
8           employees employed at the business' establishment  
9           or establishments within enterprise zones located  
10          within the same county by at least ten per cent  
11          by the end of its first tax year of  
12          participation, and during each subsequent taxable  
13          year at least maintains that higher level of  
14          employment; or
- 15          (B) Increases its gross sales of agricultural crops  
16          produced, or agricultural products processed  
17          within enterprise zones located within the same  
18          county by two per cent annually.
- 19 For business firms engaged in producing or processing  
20 agricultural products, receipts from value-added products made  
21 from crops grown within enterprise zones located within the same



1 county and sold at retail pursuant to the limits of subsection  
2 (e) shall count toward the gross receipts requirement under  
3 paragraph (2).

4 (b) A business firm may also be eligible to be designated  
5 a qualified business for purposes of this chapter if the  
6 business:

7 (1) Is actively engaged in the conduct of a trade or  
8 business in an eligible business activity in an area  
9 immediately prior to the area being designated an  
10 enterprise zone;

11 (2) Meets the requirements of subsection (a) (2); and

12 (3) Either:

13 (A) Increases its average annual number of full-time  
14 employees employed at the business' establishment  
15 or establishments within enterprise zones located  
16 within the same county by at least ten per cent  
17 by the end of the first year of operation, and by  
18 at least fifteen per cent by the end of each of  
19 the fourth, fifth, sixth, and seventh years of  
20 operation, and for businesses eligible for tax  
21 credits extending past the seventh year, at least



1 maintains that higher level of employment during  
2 each subsequent taxable year; provided that the  
3 percentage increase shall be based upon the  
4 employee count at the beginning of the initial  
5 year of operation within the enterprise zone or  
6 zones; or

7 (B) Increases its gross sales of agricultural crops  
8 produced, or agricultural products processed  
9 within enterprise zones located within the same  
10 county by two per cent annually.

11 (c) After designation of an enterprise zone, each  
12 qualified business firm in the zone shall submit annually to the  
13 department an approved form supplied by the department that  
14 provides the information necessary for the department to  
15 determine if it may certify the applicability of the tax credits  
16 and exemptions provided in this chapter for the business firm.  
17 The approved form shall be submitted by each business to the  
18 governing body of the county in which the enterprise zone is  
19 located, then forwarded to the department by the governing body  
20 of the county.



1 (d) The form referred to in subsection (c) shall be prima  
2 facie evidence of the eligibility of a business for the purposes  
3 of this section.

4 (e) Tangible personal property shall be sold at an  
5 establishment of a qualified business within an enterprise zone  
6 and the transfer of title to the buyer of the tangible personal  
7 property shall take place in an enterprise zone located within  
8 the same county in which the tangible personal property is sold.  
9 Services shall be sold at an establishment of a qualified  
10 business engaged in a service business within an enterprise  
11 zone.

12 (f) For any fiscal year that includes September 11, 2001,  
13 a business may use its average annual number of full-time  
14 employees as of August 31, 2001--rather than its average annual  
15 number at the end of its fiscal year including September 11,  
16 2001--if necessary to meet the requirements of subsection (a) (3)  
17 and (4) or (b) (3). A business may also use its average annual  
18 number of full-time employees at the end of its fiscal year that  
19 includes September 11, 2001, as its base number of full-time  
20 employees if necessary to meet the requirements of  
21 subsection (a) (3) and (4) or (b) (3) in future fiscal years.



1       (g) An affiliated collaborator may be treated as a  
2 qualified business for the limited purpose of receiving state  
3 and county enterprise zone benefits; provided that:

4       (1) The affiliated collaborator shall have a written,  
5 binding agreement with a qualified business  
6 established in the enterprise zone that includes the  
7 university of Hawaii John A. Burns school of medicine  
8 or the university of Hawaii cancer center;

9       (2) The affiliated collaborator shall maintain a valid  
10 binding agreement for the duration of its eligibility;  
11 provided that the affiliated collaborator's  
12 eligibility for enterprise zone benefits shall  
13 terminate upon the expiration, termination, or breach  
14 of the agreement; and

15       (3) The affiliated collaborator's eligibility for  
16 enterprise zone benefits under this subsection shall  
17 not exceed seven years."

18       SECTION 5. Section 209E-10, Hawaii Revised Statutes, is  
19 amended to read as follows:

20       "**§209E-10 State business tax credit.** (a) The department  
21 shall certify annually to the department of taxation the



1 applicability of the tax credit provided in this chapter for a  
2 qualified business against any taxes due the State. Except for  
3 the general excise tax, the credit shall be eighty per cent of  
4 the tax due for the first tax year, seventy per cent of the tax  
5 due for the second tax year, sixty per cent of the tax due for  
6 the third year, fifty per cent of the tax due the fourth year,  
7 forty per cent of the tax due the fifth year, thirty per cent of  
8 the tax due the sixth year, and twenty per cent of the tax due  
9 the seventh year. For qualified businesses engaged in the  
10 manufacturing of tangible personal property or the producing or  
11 processing of agricultural products, the credit shall continue  
12 after the seventh year at the rate of twenty per cent of the tax  
13 due for each of the subsequent three tax years. Any tax credit  
14 not usable shall not be applied to future tax years.

15 (b) When a partnership is eligible for a tax credit under  
16 this section, each partner shall be eligible for the tax credit  
17 provided for in this section on the partner's income tax return  
18 in proportion to the amount of income received by the partner  
19 from the partnership. Any qualified business having taxable  
20 income from business activity, both within and without the  
21 enterprise zone, shall allocate and apportion its taxable income



1 attributable to the conduct of business. Tax credits provided  
2 for in this section shall only apply to taxable income of a  
3 qualified business attributable to the conduct of business  
4 within enterprise zones located within the same county.

5 (c) In addition to any tax credit authorized under this  
6 section, any qualified business shall be entitled to a tax  
7 credit against any taxes due the State in an amount equal to a  
8 percentage of unemployment taxes paid. The amount of the credit  
9 shall be equal to eighty per cent of the unemployment taxes paid  
10 during the first year, seventy per cent of the taxes paid during  
11 the second year, sixty per cent of the taxes paid during the  
12 third year, fifty per cent of the taxes paid during the fourth  
13 year, forty per cent of the taxes paid during the fifth year,  
14 thirty per cent of the taxes paid during the sixth year, and  
15 twenty per cent of the taxes paid during the seventh year. For  
16 qualified businesses engaged in the manufacturing of tangible  
17 personal property or the producing or processing of agricultural  
18 products, the credit shall continue after the seventh year in an  
19 amount equal to twenty per cent of the taxes paid during each of  
20 the subsequent three tax years.



1 (d) Tax credits provided for in subsection (c) shall only  
2 apply to the unemployment tax paid on employees employed at the  
3 qualified business' establishment or establishments within  
4 enterprise zones located within the same county. Any tax credit  
5 not usable shall not be applied to future tax years.

6 (e) An affiliated collaborator certified under this  
7 chapter shall be eligible for enterprise zone benefits only with  
8 respect to income, gross receipts, and payroll that are directly  
9 attributed to and derived from each certified partnership,  
10 collaboration, or binding agreement with a qualified business  
11 established in the enterprise zone that includes the university  
12 of Hawaii John A. Burns school of medicine or the university of  
13 Hawaii cancer center."

14 SECTION 6. Statutory material to be repealed is bracketed  
15 and stricken. New statutory material is underscored.

16 SECTION 7. This Act shall take effect on July 1, 3000.



**Report Title:**

Enterprise Zones; University of Hawaii John A. Burns School of Medicine; University of Hawaii Cancer Center; Affiliated Collaborators

**Description:**

Increases the number of enterprise zones that may be nominated by each county. Authorizes enterprise zone designation for census tracts that contain the University of Hawaii John A. Burns School of Medicine and the University of Hawaii Cancer Center. Allow businesses not established in an enterprise zone to qualify for enterprise zone benefits; provided that they have entered into a binding collaboration or contract with a business that is established in the census tract that contains the University of Hawaii John A. Burns School of Medicine or the University of Hawaii Cancer Center. Effective 7/1/3000. (HD2)

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

