



DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

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Statement of
LUIS P. SALAVERIA
Director

Department of Business, Economic Development, and Tourism
before the

HOUSE COMMITTEE ON LABOR & PUBLIC EMPLOYMENT

Tuesday, February 16, 2016
10:00 am
State Capitol, Conference Room 309

in consideration of
HB 2486
RELATING TO ECONOMIC DEVELOPMENT.

Chair Nakashima, Vice Chair Keohokalole, and Members of the Committee on Labor and Public Employment. The Department of Business, Economic Development, and Tourism (DBEDT) offers comments on HB 2486. The measure takes certain elements of DBEDT's Enterprise Zone (EZ) program, but then expands eligibility to all businesses within three zip codes in the Kapolei area that have at least ten employees. The goal is to encourage the development of jobs in Kapolei for Kapolei residents, who will then not need to commute onto urban Honolulu.

The EZ program has proven to be an effective job creation program. In 2014, certified EZ program companies reported 1,387 new or maintained jobs statewide. This measure makes reference to a low number of companies participating in the EZ program in the Leeward Enterprise Zone, which includes part of Kapolei. We have identified 14 currently enrolled companies with Kapolei addresses out of a total of 132 currently enrolled EZ companies for Oahu. These companies with Kapolei addresses are located either in the Pearl City-Ewa-Central Oahu or the Leeward Enterprise Zones, both of which include parts of Kapolei.

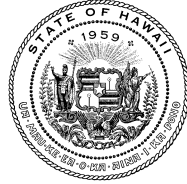
In recent years, the process to enter the EZ program and be certified by DBEDT as meeting program requirements each year has been streamlined. The enrollment application and annual company reporting can now all be done online.

Because of the broad scope of this measure, which may apply to retail establishments and other businesses beyond the currently approved EZ business activities, the financial impact may be substantial. We defer to the Department of Taxation on the fiscal impact of this recommendation.

Thank you for the opportunity to provide this written testimony.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

JOSEPH K. KIM
DEPUTY DIRECTOR

To: The Honorable Mark M. Nakashima
and Members of the House Committee on Labor & Public Employment

Date: February 16, 2016
Time: 10:00 A.M.
Place: Conference Room 309, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 2486, H.D. 1, Relating to Economic Development.

The Department of Taxation (Department) appreciates the intent of H.B. 2486, H.D. 1, and offers the following comments regarding Section 3 for your consideration.

H.B. 2486, H.D.1 creates an income tax credit for businesses that establish themselves in, or relocate to, the Kapolei area and do not participate in the Enterprise Zone program. The tax credit is subject to an aggregate cap of an unspecified amount. H.B. 2486, H.D. 1, has a defective effective date of February 19, 2022, applies to taxable years beginning after December 31, 2016, and is repealed June 30, 2027.

The Department notes the carryforward language in subsection (b) may need to be amended to carry out the bill's intent. As currently drafted, the bill only allows the credit to be carried forward in a loss year. However, because the credit is based on the taxpayer's tax liability, it can only be generated in a gain year. Therefore, any year in which the taxpayer can claim the credit, the credit cannot be carried forward. Effectively, this makes the credit impossible to be carried forward.

Lastly the Department notes the effective date should be amended. The Department suggests making the tax credit effective for tax years beginning after December 31, 2016, but not for tax years beginning after December 31, 2027. The current effective date would cut off the tax benefits for calendar year taxpayers half way through 2027.

In addition, it is not clear how the tax credit would apply to business that relocate and qualify after the first two years that the credit is available. For example, if a taxpayer relocates in 2020, would the credit be available for ten years from the point of qualification or would the credit

be cut short in 2027? If the Legislature's intent is to incentivize relocation to Kapolei in the near future, the Department suggests setting a deadline by which the relocation must occur that also corresponds to the repeal date of this measure.

Thank you for the opportunity to provide comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, UNEMPLOYMENT, Kapolei jobs initiative program

BILL NUMBER: HB 2486 HD 1

INTRODUCED BY: House Committee on Economic Development and Business

EXECUTIVE SUMMARY: Enacts a Kapolei jobs initiative similar to the current Enterprise Zone program under chapter 209E, but much easier to qualify for. To substantially reduce implementation cost, a designation of the area as an enterprise zone could be considered as an alternative.

BRIEF SUMMARY: Adds a new HRS chapter called Kapolei Jobs Initiative. Defines a “full-time employee” as any employee, including a leased employee and an employee under a joint employment arrangement, for whom the employer is legally required to provide employee fringe benefits. Defines a “qualified business” as a business that: (1) establishes or relocates itself within the designated geographic area (defined as the zip codes 96706, 96707, and 96709); (2) has a minimum net gain of ten full-time employees; and (3) is not participating in the state enterprise zone program pursuant to chapter 209E.

Adds a new section in HRS chapter 235 that provides for an income tax credit equal to 80% of the taxpayer’s net income tax liability (not restricted to liability attributable to activity in Kapolei) in the year of qualification, and a credit of 8% less for each of the subsequent ten years for any income tax due. Provides for an additional credit equal to 80% of the taxpayer’s unemployment insurance contributions (not restricted to those attributable to activity in Kapolei) in the year of qualification, and a credit of 8% less for each of the subsequent ten years. Provides that the credit is not refundable, but may be carried forward a maximum of ten consecutive years. Establishes an aggregate maximum of \$_____ per year that may be used by all eligible taxpayers. States that all credit claims, including amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the tax credit may be claimed. Failure to do so constitutes a waiver of the right to claim the tax credit.

In the case of a partnership, S corporation, estate, or trust, the tax credit allowable is for the qualified costs incurred by the entity for the taxable year. The cost upon which the tax credit is computed shall be determined at the entity level. Distribution and share of the tax credit shall be determined pursuant to section 704(b) (with respect to partner's distributive share) of the Internal Revenue Code.

Provides that the director of taxation shall prepare any forms that may be necessary to claim a credit under this section, may require the taxpayer to furnish information to ascertain the validity of the claim for the tax credit made, and may adopt rules under chapter 91.

EFFECTIVE DATE: Effective on Feb. 19, 2022; shall apply to taxable years beginning after December 31, 2016; and shall be repealed on June 30, 2027.

STAFF COMMENTS: The enterprise zone program in chapter 209E, HRS, was enacted as a cooperative program between the state and the counties to promote jobs in areas of high unemployment. Certain areas are designated as enterprise zones through joint action of the state and counties. In a zone, the state offers an income tax credit for the tax attributable to the eligible business conducted in the zone, which is normally applied on a sliding scale – 80% for the first year, 70% for the second, and so on until the credit is 20% for the seventh and last year in the program. It also offers an unemployment tax credit for the tax attributable to employees doing the eligible business in the zone, on the same sliding scale. Finally, the state offers a general excise tax exemption for the eligible business attributed to the zone. The counties also offer incentives, which vary by county. In return, the business commits to either maintain or increase the number of employees in the zone doing the eligible activity, depending on whether it was already in the zone upon designation or moved to the zone.

As business incentives go, the enterprise zone program is better than most. The incentive applies to a specific activity (here, creating and maintaining employment) targeted to the problem the program seeks to address. The incentive tapers off over time and then stops. It requires accountability, namely required reports to DBEDT, for a business to retain its eligibility. The business itself may need a different kind of assistance, such as financing, but the state is focusing on creating and maintaining jobs in areas that need them.

The program established by this bill, in contrast, is much easier to qualify for. All a business needs to do is move to the area and is then awarded incentives for ten years. The income tax incentive is not restricted to the activity in the zone, as the enterprise zone incentive is.

There seem to be no requirements for continued eligibility. Under the enterprise zone program, a business needs to either maintain or increase its employee count within the zone to maintain eligibility. Under the program in this bill, a business could move out of Kapolei the month after it qualifies, and still would be eligible for incentives for ten years.

Next, there is no requirement that the creditable income tax and unemployment tax be tied to Kapolei. The credit applies to income tax liability and unemployment tax liability whether or not it is attributable to activity in Kapolei or employees in Kapolei.

Rather than attempting to address the problems and inconsistencies in this bill, the legislature may wish to consider enhancements or corrections to the enterprise zone program in order to achieve the program goals while making sure that the recipients' benefits are tied to their activity in the designated geographic area.



Chamber of Commerce HAWAII
The Voice of Business

**Testimony to the House Committee on Labor & Public Employment
Tuesday, February 16, 2016 at 10:00 A.M.
Conference Room 309, State Capitol**

RE: HOUSE BILL 2486 HD1 RELATING TO ECONOMIC DEVELOPMENT

Chair Nakashima, Vice Chair Keohokalole, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports the intent** of HB 2486 HD1, which establishes a Kapolei jobs initiative program that offers tax incentives to increase the number of businesses willing to establish or relocate themselves in the Kapolei region.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

Job growth in Kapolei appears to be lagging behind population growth. The purpose of this new legislation is to increase the number of jobs in Kapolei, reduce traffic congestion, and realize the State's policy of directing growth to Kapolei. Job creation in the Kapolei region is a quality-of-life, community-building concern affecting employers and employees alike as households in the Kapolei region continue to grow.

Thank you for the opportunity to testify.

The Honorable Mark M. Nakashima, Chair

The Honorable Jarrett Keohokalole, Vice Chair

and Members of the Committee on Labor & Public Employment

Hawaii State Capitol

415 South Beretania Street

Honolulu, Hawaii 96813

Dear Chair Nakashima, Vice Chair Keohokalole and Committee Members:

RE: HB2486 – RELATING TO ECONOMIC DEVELOPMENT:

Establishing a Kapolei Jobs Initiative to Increase the number of Jobs for businesses to establish themselves or relocate to the Kapolei region

On behalf of the Kapolei Chamber of Commerce, I am writing in SUPPORT of HB2486 which will establish a Kapolei Jobs Initiative to increase the number of jobs for businesses to establish themselves or relocate to the Kapolei region. This initiative will realize the State's long standing policy of redirecting growth to the second urban core, creating jobs in the Kapolei region and reducing traffic congestion. More jobs in the Kapolei Region are needed to keep pace with Kapolei's population growth. This is evident in the traffic congestion caused by the number of people who still have to commute to downtown Honolulu for work every day. Job creation in the Kapolei region is a quality-of-life, community-building concern affecting employers and employees alike. My family and I know firsthand what the traffic is like as we live on the leeward coast and more jobs in Kapolei will help to redirect traffic off of the main corridor into downtown, and allow for people to live and work in their community. Furthermore, this initiative will support existing businesses because it improves the business climate for all and brings more potential customers for existing businesses in the area, which is a positive for all. I encourage you to support this bill that will bring jobs to the Kapolei region affecting the lives of many.

Sincerely,

Joann Kealiinohomoku

Manager | HMSA Center at Pearl City

PO Box 860 Honolulu HI 96808 | 1132 Kuala St #400 Pearl City, HI 96782

Office 808.983.7238 | Fax 808.454.0506 | Mobile 808.227.4843

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An Independent Licensee of the Blue Cross and Blue Shield Association.

LABtestimony

From: mailinglist@capitol.hawaii.gov
Sent: Sunday, February 14, 2016 7:57 AM
To: LABtestimony
Cc: rustonu@gmail.com
Subject: *Submitted testimony for HB2486 on Feb 16, 2016 10:00AM*

HB2486

Submitted on: 2/14/2016

Testimony for LAB on Feb 16, 2016 10:00AM in Conference Room 309

Submitted By	Organization	Testifier Position	Present at Hearing
Ruston Utu	Individual	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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LATE

February 15, 2016

Representative Mark M. Nakashima, Chair
Representative Jarrett Keohokalole, Vice Chair
House Committee on Labor

Strong support of HB 2486, HD1 - Relating to Economic Development. (Establishes a Kapolei Jobs Initiative Program that offers tax incentives to increase the number of businesses willing to establish or relocate themselves in the Kapolei region.)

Tuesday, February 16, 2016, at 10:00 a.m., in Conference Room 309

The Land Use Research Foundation of Hawaii (LURF) is a private, non-profit research and trade association whose members include major Hawaii landowners, developers and a utility company. LURF's mission is to advocate for reasonable, rational and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources, and public health and safety.

LURF appreciates the opportunity to express its **strong support of HB 2486, HD1.**

HB 2486, HD1. This bill proposes to establish a Kapolei Jobs Initiative Program that offers tax incentives to increase the number of businesses willing to establish or relocate themselves in the Kapolei region and tax incentives for existing Kapolei businesses that add ten or more employees.

LURF's Position. HB 2486 is necessary, because Kapolei has been designated as Oahu's "Second City," however, jobs in the area have not kept pace with the increase in population. LURF understands that, unfortunately, the State's enterprise zone program includes requirements and restrictions on the types of qualified businesses, which are believed to have limited the participation in the Leeward enterprise zone. The "Kapolei Jobs Initiative" proposed by this bill will be a win-win for the State and the Kapolei area, and will contribute to building communities that can live, work and play in the same neighborhoods.

For the above reasons, LURF **strongly supports HB 2486, HD1** and respectfully urges your favorable consideration.

Thank you for the opportunity to present testimony regarding this matter.

LABtestimony

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 16, 2016 7:55 AM
To: LABtestimony
Cc: mjgolo@email.phoenix.edu
Subject: Submitted testimony for HB2486 on Feb 16, 2016 10:00AM



Follow Up Flag: Follow up
Flag Status: Completed

HB2486

Submitted on: 2/16/2016

Testimony for LAB on Feb 16, 2016 10:00AM in Conference Room 309

Submitted By	Organization	Testifier Position	Present at Hearing
Mike Golojuch	Palehua Townhouse Association	Support	No

Comments: Our Association is in strong support of HB2486. I'm a 35 year resident of Makakilo and as President of the Palehua Townhouse Association, we realize that economic development of the new city of Kapolei is based on job growth. This in turn will reduce traffic congestion. Please pass this measure.

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LABtestimony

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 15, 2016 7:47 PM
To: LABtestimony
Cc: rustonu@gmail.com
Subject: *Submitted testimony for HB2486 on Feb 16, 2016 10:00AM*



Follow Up Flag: Follow up
Flag Status: Completed

HB2486

Submitted on: 2/15/2016

Testimony for LAB on Feb 16, 2016 10:00AM in Conference Room 309

Submitted By	Organization	Testifier Position	Present at Hearing
Ruston Utu	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 16, 2016 6:36 AM
To: LABtestimony
Cc: rathbunk001@hawaii.rr.com
Subject: Submitted testimony for HB2486 on Feb 16, 2016 10:00AM



Follow Up Flag: Follow up
Flag Status: Completed

HB2486

Submitted on: 2/16/2016

Testimony for LAB on Feb 16, 2016 10:00AM in Conference Room 309

Submitted By	Organization	Testifier Position	Present at Hearing
Kevin Rathbun	Individual	Support	No

Comments: On behalf of myself, Kevin Rathbun, I am writing in SUPPORT of HB2486 which will establish a Kapolei Jobs Initiative to increase the number of jobs for businesses to establish themselves or relocate to the Kapolei region. This initiative will realize the State's long standing policy of redirecting growth to the second urban core, creating jobs in the Kapolei region and reducing traffic congestion. More jobs in the Kapolei Region are needed to keep pace with Kapolei's population growth. This is evident in the traffic congestion caused by the number of people who still have to commute to downtown Honolulu for work every day. Job creation in the Kapolei region is a quality-of-life, community-building concern affecting employers and employees alike. I encourage you to support this bill that will bring jobs to the Kapolei region affecting the lives of many. Sincerely, On behalf of _____, I am writing in SUPPORT of HB2486 which will establish a Kapolei Jobs Initiative to increase the number of jobs for businesses to establish themselves or relocate to the Kapolei region. This initiative will realize the State's long standing policy of redirecting growth to the second urban core, creating jobs in the Kapolei region and reducing traffic congestion. More jobs in the Kapolei Region are needed to keep pace with Kapolei's population growth. This is evident in the traffic congestion caused by the number of people who still have to commute to downtown Honolulu for work every day. Job creation in the Kapolei region is a quality-of-life, community-building concern affecting employers and employees alike. I encourage you to support this bill that will bring jobs to the Kapolei region affecting the lives of many. Sincerely, Kevin Rathbun Leeward Resident

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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LATE TESTIMONY

February 16, 2016

The Honorable Mark M. Nakashima, Chair
The Honorable Jarrett Keohokalole, Vice Chair
and Members of the Committee on Labor & Public Employment
Hawaii State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Chair Nakashima, Vice Chair Keohokalole and Committee Members:

RE: HB2486 HD 1 – RELATING TO ECONOMIC DEVELOPMENT

On behalf of Avalon Group, we wish to express strong SUPPORT for HB2486 HD1 with amendments to the definition of a qualified business.

When you consider the high costs of building highways and mass transit, we believe this bill offers a very cost-effective solution to address the traffic congestion that really affects everyone who has to go into Honolulu to work—whether they live in Leeward, Central, Windward or East Oahu. The jobs that will be created by this bill will act as a catalyst for more businesses and more jobs to be created in West Oahu so that we can take more cars off the road and alleviate congestion even in downtown Honolulu.

This is also a matter of equity. West Oahu has had to carry a greater burden for the entire island in terms of accommodating future growth so that the country can remain country. Beyond the issue of traffic, this means that West Oahu hosts the island's landfill, power generation facilities, industrial facilities and many other services that other communities do not want in their backyard. This bill simply asks for a relatively small investment to seed jobs so that more people can work where they live.

We respectfully ask for your support of this bill.

Sincerely,

THERESIA C. MCMURDO
Vice President

February 15, 2016

The Honorable Representative Mark M. Nakashima, Chair
The Honorable Representative Jarrett Keohokalole, Vice Chair
and Members of the Committee on Labor and Public
Employment
Hawaii State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813



Working together for Kapolei

Dear Chair Nakashima, Vice Chair Keohokalole and Committee Members:

**RE: HB2486, HD1 – RELATING TO ECONOMIC DEVELOPMENT
Establishing a Kapolei Jobs Initiative to Increase the number of Jobs for businesses to
establish themselves or relocate to the Kapolei region**

The Kapolei Chamber of Commerce respectfully submits this testimony **in support** of HB2486, HD1 and its proposed amendments. We do however comment that the proposed change to the 'qualified business' definition may need to be addressed in order to properly identify the eligibility of businesses relocating within the geographic area. The qualifying criteria for the initiative should reflect that the qualifying business will bring ten additional full-time employees into the region upon enrollment.

Overall, this measure will establish a Kapolei Jobs Initiative to increase the number of jobs for businesses to establish themselves or relocate to the Kapolei region. This initiative will realize the State's long standing policy of redirecting growth to the second urban core, reducing traffic congestion by creating jobs in the Kapolei region.

Job growth in Kapolei is lagging behind population growth. This is evident in the traffic congestion caused by the number of people who commute to downtown Honolulu for work every day. In turn, our highways reflect the excessive wear costing State taxpayer dollars and Honolulu has been ranked as having the 3rd worst traffic in the nation and projected population growth in the Kapolei region is expected to grow to 170,000 in the next 20 years. This job initiative will aide to alleviate some of the traffic congestion coming from the Kapolei Region with a ripple effect affecting other communities. It's about the quality-of-life affecting employers and employees alike. Realizing the live-work-play concept envisioned for Kapolei years ago; the Kapolei Jobs Initiative will improve the quality-of-life for our families and the thousands who sit in traffic every day.

Sincerely,

A handwritten signature in black ink, appearing to read "Kifan Polk".

Kifan Polk
Executive Director