

**COUNCIL OF THE COUNTY OF MAUI**  
**PARKS AND ECONOMIC**  
**DEVELOPMENT COMMITTEE**

April 7, 2006

**Committee**  
**Report No.**

\_\_\_\_\_ 06-54

Honorable Chair and Members  
of the County Council  
County of Maui  
Wailuku, Maui, Hawaii

Chair and Members:

Your Parks and Economic Development Committee, having met on November 17, 2005 and March 16, 2006, makes reference to County Communication No. 05-152, from the Economic Development Coordinator, transmitting a proposed resolution entitled "NOMINATING ADDITIONAL AREAS ON MAUI FOR DESIGNATION AS ENTERPRISE ZONES".

The purpose of the proposed resolution is to nominate Greater Maui (including parts of Wailuku, Kihei, Pukalani, Makawao, and Puunene) and West Maui for enterprise zone status, pursuant to Chapter 3.80, Maui County Code.

Your Committee notes that the Hawaii Enterprise Zone Partnership involves both State and County agencies, and is designed to stimulate business activity and job creation in eligible areas through the development of enterprise zones.

Your Committee further notes that the island of Molokai was designated as an enterprise zone in Maui County in 1997. East Maui and the island of Lanai were designated as enterprise zones in Maui County in 1998.

By correspondence dated November 1, 2005, the Economic Development Coordinator transmitted a revised proposed resolution entitled "NOMINATING ADDITIONAL AREAS ON MAUI FOR DESIGNATION AS ENTERPRISE ZONES". The revised proposed resolution amends language pertaining to enterprise zone incentives recommended by the Office of Economic Development and the Community Development Block Grant (CDBG) Office.

At its meeting of November 17, 2005, your Committee met with the Economic Development Coordinator; the CDBG Program Manager; a Deputy Corporation Counsel; Thomas Smyth, Senior Policy Advisor, Department of Business, Economic Development and Tourism, State of Hawaii (DBEDT); and Diane Dunphy, Enterprise Zone Coordinator, DBEDT.

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Your Committee received public testimony from four individuals in support of the revised proposed resolution. Your Committee also received written testimony from Hawaiian Commercial & Sugar Company (HC&S) and the Maui County Farm Bureau expressing support for the revised proposed resolution.

Your Committee received the following documents from Mr. Smyth: 1) a copy of a computer-generated slideshow presentation; 2) a copy of Chapter 209E, State Enterprise Zones; 3) correspondence entitled "Hawaii Enterprise Zones: Information For Maui County Businesses"; 4) correspondence entitled "Hawaii Enterprise Zones: General Information For Businesses"; and 5) correspondence entitled "2000 Census Tracts prepared by the Office of Planning, DBEDT, 2001".

Mr. Smyth provided a computer-generated slideshow presentation on the Enterprise Zone Partnership. He stated that the intent of the program is to provide a tax incentive for businesses located in an enterprise zone that meet the following criteria: 1) 25 percent or more of the population according to census tracts of the area must have family incomes below 80 percent of the median family income; 2) businesses are generally required to increase their employee base by 10 percent each year during the seven-year eligibility period; and 3) at least 50 percent of a qualifying business's revenue must come from an eligible business activity.

Mr. Smyth further stated that counties have the ability to designate the boundaries of an enterprise zone provided that the boundaries fall within the census tract and each zone is a contiguous area.

Your Committee notes that five businesses from the Molokai enterprise zone have enrolled in the program. Of the five businesses, only Molokai Sea Farms is still active; the remaining four businesses have completed their eligibility.

Mr. Smyth discussed a bill at the State Legislature that would modify the criteria for agricultural businesses to qualify under the program. The bill would allow agricultural businesses to use their revenue growth if they were unable to increase their employee base each year. He further stated that this change would encourage more farm businesses to participate in the program and address the difficulty that farmers face when hiring employees.

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Your Committee expressed concern over the vast majority of the island of Maui being designated as an enterprise zone. Your Committee expressed further concern with providing tax incentives to profitable businesses who qualify under the program merely because residents in these areas earn 80 percent or below the median income.

Your Committee expressed further concern that the maximum revenue generated by a company was not defined under the program. As a result, a multi-billion dollar company may still qualify to receive a tax incentive. Mr. Smyth added that although this may be the case, there are relatively few businesses that fall into this category.

Your Committee requested that the maps identifying the proposed enterprise zones for Maui County be reproduced in color and coded by census tract and income levels.

Your Committee further requested a list of businesses in Maui County currently benefiting from the program and a history of the aggregate tax amounts paid by these businesses.

Your Committee deferred the matter pending further discussion.

By correspondence dated February 24, 2006, your Committee requested that the Economic Development Coordinator explain how Maui County would benefit from an enterprise zone status, identify the specific benefits to HC&S under the program and how they would qualify, and identify all eligible businesses located in the proposed enterprise zones that would benefit from an enterprise zone designation.

By correspondence dated February 27, 2006, your Committee requested that the Economic Development Coordinator reproduce the Hawaii State Geographic Information System (GIS) maps in color, coded by income level and census tract. Your Committee further requested that a list of Maui County businesses enrolled in the program and a history of aggregate tax amounts paid by these businesses be provided.

By correspondence dated March 8, 2006, the Economic Development Coordinator transmitted color-coded GIS maps by census tracts and income levels and a list of eligible companies enrolled in the program for Maui County.

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By correspondence dated March 8, 2006, the Economic Development Coordinator explained how Maui County would benefit from an enterprise zone status, what the specific benefits to HC&S would be under the program and how they would qualify, and identified all eligible businesses located in the proposed enterprise zones that would benefit from an enterprise zone designation.

By correspondence dated March 15, 2006, your Committee's Chair transmitted an article from the March 15, 2006 issue of *The Maui News* entitled "Enterprise zone an investment in the economy, county revenues".

At its meeting of March 16, 2006, your Committee met with the Economic Development Coordinator; the Economic Development Specialist; Thomas Smyth, Senior Policy Advisor, DBEDT; and Diane Dunphy, Enterprise Zone Coordinator, DBEDT.

Your Committee received public testimony from six individuals in support of the revised proposed resolution. Your Committee also received written testimony from the Maui County Farm Bureau; Wendell Rich, Monsanto Hawaii; and Teena Rasmussen, Vice-President, Paradise Flower Farms, Inc., expressing support for the revised proposed resolution.

Your Committee received a copy of Senate Bill (S.B.) No. 2985, Senate Draft (SD) 2, relating to State Enterprise Zones. Your Committee also received correspondence entitled "Hawaii Enterprise Zones: Information For Maui County Businesses" from Mr. Smyth.

The Economic Development Coordinator provided an overview of the matter. She stated that the intent of the enterprise zone program is to help stimulate business activity and job creation while providing a tax incentive for eligible businesses.

Your Committee discussed the types of businesses that are eligible to participate in the enterprise zone program. The Economic Development Coordinator explained that the County is adhering to a list of eligible businesses that includes industries such as agricultural production or processing; aviation, maritime repair or maintenance; and biotechnology research, development, production, or sales; among others, developed by the State.

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The Economic Development Coordinator discussed a list of proposed County incentives for the Greater Maui and West Maui enterprise zones. These incentives include priority consideration for economic development grants, waiver of building permit fees, and priority processing of land use applications and permits.

Mr. Smyth indicated that the program allows counties the flexibility to provide a variety of incentives to businesses as needed. He further stated that Maui County could incorporate additional incentives such as real property tax credits or a waiver of incremental tax increases as a result of property tax improvements, at any time and for any duration of time, to qualifying businesses located in an enterprise zone.

Mr. Smyth reiterated that businesses are generally required to increase their employee base by 10 percent each year before they are entitled to receive the tax credit. If a business fails to do so, they must pay their general income taxes as they are normally due.

Mr. Smyth further indicated that businesses that increase their workforce each year typically pay more in unemployment insurance premiums. Therefore, as an added benefit of the program, businesses are able to receive a tax benefit against the amount of unemployment insurance paid, thereby, lessening the cost requirement of hiring additional workers.

The Economic Development Coordinator discussed the intent of S.B. No. 2985, SD 2, as it pertained to agricultural businesses in the enterprise zone program. In anticipation of its passage, she stated that agricultural businesses would qualify for enterprise zone incentives based on the increase in their annual gross revenue per year instead of an increase in their employee base. In addition, the bill would allow agricultural businesses that suffer from natural disasters to remain eligible in the program.

Mr. Smyth indicated that once the proposed enterprise zones are approved by the Governor, DBEDT will assist the County in marketing the program to eligible businesses. He further indicated that DBEDT has appropriated funds specifically for this purpose through printed materials, assistance with the application process, and automated applications via their website.

Your Committee questioned whether the Governor is able to modify the resolution adopted by the Council. Mr. Smyth stated that the Governor can either approve or disapprove the resolution, but is not able to make modifications.

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Your Committee expressed concern over designating the entire island of Maui, with the exception of the Kaanapali and Wailea/Makena areas, as an enterprise zone.

Your Committee expressed concern that low-income residents are helping businesses to qualify for tax incentives under the program. Your Committee expressed further concern with providing tax breaks to businesses already making a profit rather than assisting startup businesses.

Expressing a specific desire to assist agricultural businesses and small farm operations, your Committee voted to recommend adoption of the revised proposed resolution and the filing of the communication.

Your Parks and Economic Development Committee **RECOMMENDS** the following:

1. That Resolution No. \_\_\_\_\_, as revised herein and attached hereto, entitled "NOMINATING ADDITIONAL AREAS ON MAUI FOR DESIGNATION AS ENTERPRISE ZONES", be **ADOPTED**; and
2. That County Communication No. 05-152 be **FILED**.

Adoption of this report is respectfully requested.

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**JO ANNE JOHNSON** Chair

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**ROBERT CARROLL** Member

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**CHARMAINE TAVARES** Vice-Chair

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**DANNY A. MATEO** Member

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**MICHELLE ANDERSON** Member