



## YEARLY ACTIVITY PLAN (YAP) - FY '10 & '11

Division/Attached Agency: **STRATEGIC MARKETING & SUPPORT DIVISION**

Program Name: **ENTERPRISE ZONE PARTNERSHIP PROGRAM**

Program ID: **BED100**

### I. PROGRAM PLANNING

**A. Problem, issue or opportunity statement:** Describe the problem(s), issue(s) and/or opportunity(ies) your program is attempting to respond to. Identify the participants (individuals, companies, industry sectors, etc.) engaged in this problem, issue and/or opportunity.

The landscape of the national and local economy is a very different scene from last year. The national unemployment rate has increased to 6.7% as of November 2008 and the rate for Hawaii has increased to 4.9%. The current outlook is, "a deeply troubled economy, with dwindling job opportunities in a time of continuing hardship in the housing, credit and financial sectors."<sup>1</sup> In addition, in Hawaii "high oil prices, mass layoffs, and the exit of cruise ships and airlines,"<sup>2</sup> have had a significant and negative impact on jobs, spending, and businesses.

Although the unemployment rate is below the national average, according to the latest Census, there are pockets of areas throughout the State some of which are designated as Enterprise Zones (EZ), that have higher levels of unemployment and lower median incomes. And with the added need to diversify the economy, stimulate business activity, and encourage entrepreneurship it is important to have a program and incentives to meet these needs. The EZ Partnership Program focuses on the development of business opportunities that will grow local economies.

Hawaii's EZ program has been modeled after a nationally recognized tax credit program-Virginia's Enterprise Program. 38 states including the District of Columbia and Hawaii created programs by 1991<sup>3</sup>. Hawaii's EZ program established in 1986, is one of the State's few funded programs that assist for-profit businesses. Hawaii's EZ program is a 7-year tax credit program and *partners* the State with the Counties. The State provides tax incentives such as GET exemptions, State unemployment insurance credit, and income tax credit. The Counties may provide additional benefits such as building permit priority processing, building permit fee waiver, grading permit fee waiver, and property tax rebates.

To participate in the program a business must be engaged in at least one of the following activities:

- Agriculture production or processing
- Wholesaling or distribution
- Manufacturing
- Information technology design and production
- Aviation or maritime repair or maintenance
- Telecommunications switching and delivery
- Medical research, clinical trials and telemedicine

<sup>1</sup> Aversa, Jeannine. "Unemployment Rates Jumps to 5.5 Percent in May." AP Economics (June 6, 2008).

<sup>2</sup> Cruz-George, Cathy." Forecast: Hawaii Economy to Improve in 2010." Pacific Business News (November 19, 2008).

<sup>3</sup> Peters, Alan and Fisher, Peter. State Enterprise Zone Programs, Kalamazoo:W.E. Upjohn Institute for Employment Research, c. 2002. p. 1.

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- For-profit training programs in international business management or environmental remediation
- Biotechnology research, development, production, or sales
- Repair or maintenance of assistive technology equipment used by disabled persons
- Certain types of call centers such as technical support for computer hardware and software manufacturers, bill collection, disease management services, product fulfillment services, or disaster management services
- Wind energy production

To receive the unemployment insurance credit, income tax credit and GET exemption a business must meet certain hiring requirements and at least 50% of its business must be from the eligible business activity and/or value-added retail sales within the EZ. These requirements were designed to encourage hiring more employees, selecting activities that would pay living wages, and to help improve the economic environment in specific areas.

On June 5, 2008 the Governor signed into law HB2739 or Act 143 which provided for the following:

- 1) Allows agricultural businesses to still receive EZ benefits if subject to a force majeure.
- 2) Allows full-time leased and employees hired under a joint-employer arrangement to be counted as full-time employees for the purpose of fulfilling the hiring requirements.
- 3) Provides that for an agricultural business to qualify for certification, in lieu of hiring more staff, they need to increase gross sales of crops or products by 2% annually.
- 4) Provides that for agricultural businesses only, retail sales of value-added products made from crops grown within an E shall count towards certification.

**B. Need and partners:** Specify the need for government intervention. Provide supporting evidence. Identify any partners you will be working with to address the problem, issue and/or opportunity.

Businesses need several things to start up or locate in an area-1) money or capital (via loans, grants, investors, etc); 2) resources (human, equipment, technology, etc); 3) customers (via the internet, marketing center, etc); 4) lastly to be truly profitable they need to reduce expenses. The EZ Partnership Program addresses the last need which is to help for-profit businesses reduce their expenses.

Because the EZ Partnership Program is designed to assist a greater variety of business activities, the EZ Partnership Program also partners with affiliated organizations. We work with them to market and promote the program, for assistance in helping businesses receive program benefits, and other technical support. Some of the organizations include the Chambers of Commerce, The Hawaii Farm Bureau, building contractors, Department of Agriculture, University of Hawaii, and construction and accounting trade associations. We also work with accounting, commercial real estate firms, and tax attorneys that help with business planning.

The effort is a true public/private partnership involving DBEDT, DoTax, DOA at the state level and the economic development offices, real property tax and permitting agencies in each county.

**C. Desired results (outputs, outcomes and impacts):** Identify desired results, what success will look like, by describing what you expect to achieve near (0-2 years) and long-term (2-6 years).

EZ approved businesses are eligible for benefits for a period of 7-years. Currently, there are approximately 200 firms in the program.

In the short-term, the desired results include the following:

- To increase the number of companies that have been identified as eligible businesses in the EZs by 10% per year. For eligible business activities refer to section I.A.
- To increase the number of new jobs in the approved EZ businesses by 5% per year. In CY 2007, based

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on the companies that submitted end-of-year reports, 931 new jobs were created compared to 830 in CY 2006.

- To increase the number of end-of-year reports we receive from participating businesses. For CY 2007 83 firms submitted reports, for CY 2006 61 reports were submitted.
- To address the needs of Hawaii's agricultural farmers by modifying the benefits requirements. The result would be a greater number of the 5,500 Statewide farms to enroll and participate in the EZ program.

Long term vision:

- Once the existing eligible businesses have been informed and enrolled into the EZ program, identify organizations and agencies that people thinking of starting up a business would contact. It is a long-term goal to establish an advanced calendar of meetings, events, and conferences to participate in to reach new firms. Because outreach is focused on 6 months (during the non-legislative session) of the year, it is extremely hectic and chaotic. Establishing long-term contacts and a calendar would greatly improve the efficiency and effectiveness of the limited resources. The measure of success would be to increase the number of *new firms* enrolled into the program each year.
- To increase the economic level of communities in the EZs (see Exhibit A, map of EZ areas). Measures of success would be a lower unemployment rate and higher median household income levels of the community as a whole. However, the census is published once every 10 years, thus, it would be difficult to prove results every year based on this statistic.

--A long term outcome is that State and Counties revenues increase as a result of the increased number of companies and jobs. This may be difficult to measure especially if a company has already completed its seven years of EZ eligibility.

**D. Influential Factors:** List the factors you believe will influence your ability to impact the problem or opportunity. (Things that support success and barriers to success.)

Supporting Factors:

- The EZ program itself does not initiate development or create the new businesses, it helps people that already are committed to their own business ideas. In this regard, the EZ program is aligned with the desires of the local business community.
- True everyday working partnership among state/county agencies and businesses and their organizations.
- Minimal administrative complexity and delay in processing enrollment and annual qualification through county and state offices.
- "Performance before benefits" type tax incentive program with annual qualification.
- The size of the business is not a determining factor for program eligibility. Thus, the EZ program supports both small and large businesses.
- Continued strong executive and legislative support to fund the program and pass legislation that may increase the effectiveness of the EZ program.

Barriers to Success:

- Administration's concern with revenue loss-for every job created, it costs the State \$514 per job in GET for CY 2007. The national average for job creation is \$6,750<sup>4</sup> per job per year. Although it costs Hawaii considerably less money to create jobs, it still impacts State revenues.
- The difficulties of firms in today's tight job market to retain and find more workers to meet the annual hiring requirements.

<sup>4</sup> Peters, Alan and Fisher, Peter. State Enterprise Zone Programs, Kalamazoo:W.E. Upjohn Institute for Employment Research, c. 2002. p. 107.

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-- As a result of an increase in outreach and publicity, operating costs will increase. Many businesses, organizations, and groups want someone to come to them in person due to the complexity of the program and variety of different benefits based on different criteria. The FY 2009 limited annual budget of \$3,000 which includes travel, supplies, printing of the annual report (approx. \$1,700) and promotional expenses and only one full-time staff, severely limits what can be done. Increasing the EZ budget with to at least \$20,000 is needed to update the Hawaii Administrative Rules, provide more effective outreach, promote and support Alternative Energy initiatives this legislative session, which will increase business participation, lessen Hawaii's dependency on oil, and result in more jobs. Without additional funding, success of EZ initiatives may not be obtained.

-- Perception of unfair competition by business not located in Enterprise Zones.

-- Concern that job quality and the average salary level is not a direct requirement for annual qualification.

-- Perception by businesses that the EZ program is to help businesses. It helps specific communities.

-- The need for new businesses to have access to capital (via a micro-loan program). The EZ program only helps to lower their expenses. They must still find other sources of money to start their company. This prevents a lot of new businesses from starting up in the EZs.

**E. Strategies:** List the general successful strategies or "best practices" that have helped other programs achieve the kind of results your program promises.

Joint State/County marketing and promotion efforts:

--Direct mail to selected firms located in zones.

--Media placement in business and trade publications including trade association newsletters.

--Website cross-links among state and county agencies, trade associations and business service agencies and firms.

--Seminars, workshops or meeting presentations to business associations, trade associations, accounting and legal services firms or groups.

-- Follow up with EZ approved firms to ensure that they are receiving all the benefits they are entitled and qualify for.

Focused growth:

--Concentrate on particularly desirable industry sectors such as agriculture and alternative energy.

--Focus on zones with greatest economic distress such as Waianae, K'au, Molokai and Hana.

**F. Assumptions:** State the assumptions behind *how* and *why* the change strategies you have identified will work.

Enhance and expand already proven marketing and promotion strategies:

--Internet outreach and processing.

--Continue to reach out to professional service agencies and providers.

Encourage those participating in the program to spread the word to their peers:

--Newsletter and trade association testimonials.

Continue to receive active state and county agency support:

--Maintain current state personnel and funding levels: 1 full-time EZ coordinator; 1 part-time clerical staff; and at least \$20,000 in general fund line item.

--Maintain current county staff support of 1 or 2 part-time personnel with active management support.

**II. PROGRAM IMPLEMENTATION**

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**A. Resources:** Describe the resources or influential factors available to support your program.

We utilize the following internal and external resources to support and run the EZ program.

1. Internal Resources: 1 full time EZ coordinator and 1 part-time clerical staff.
2. Limited operating budget of \$3,000 for printing the annual report (approx. \$1,700), travel, training, conference fees, marketing, program promotion, and supplies.
3. External Resources: 1 or 2 part-time staff in each county (Hawaii, Kauai, Oahu, Maui-Molokai-Lanai). The affiliated county partners, provide valuable business and industry contacts in each of their respective counties as well as assist in processing EZ forms and setting up opportunities for EZ program promotion and marketing. In addition, the County coordinators are responsible for identifying areas for nomination and passing them through the City Council and Mayor. The County nominations once approved the EZ coordinator forwards the request to the Governor for final approval. Currently Hawaii County is undergoing this process to expand their already designated EZs.
4. The Farm Bureau, and EZ eligible activity related trade and business associations.
5. Service providing agencies and firms such as accounting firms and construction associations.
6. Department of Agriculture support on reaching the agricultural businesses and assistance with related EZ legislation.
7. Department of Taxation for support in income tax credit, unemployment insurance credit, and GET exemption form processing and benefit implementation.

**B. Activities:** Describe each of the activities you plan to conduct within your program.

1. Prepare the Annual Report to the Governor summarizing the history, performance, and enrollment of the EZ program.
2. Maintain a database of all EZ enrolled firms and their annual reported information to facilitate analysis and report writing.
3. Continue to review, attend meetings, provide requested reports, assistance, and testimony related to EZ legislation in the State House of Representatives and Senate (legislative session from December to May). And to continue to support legislation that will contribute to the goals of economic development in distressed community areas.
4. Major focus for FY 2010 and 2011 is on revising the Hawaii Administrative Rules (HAR) and supporting legislation that will allow more types of alternative energy businesses to join the EZ program.
  - a. With the passing of HB 2739, the EZ program is finally ready to update its HAR. Estimated costs to revise HAR is estimated at \$5,000 this includes publicizing the hearings, and printing materials.
  - b. The problem stated earlier, spiraling fuel costs has provided an opportunity and a focus for DBEDT on alternative energy sources. The EZ program can help attract and incent these businesses by providing GET exemption on construction which often correspond and

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compliment the often high start up costs for these businesses.

5. Continue to perform outreach to individual eligible businesses through presentations, on-site visits, internet, media and trade associations and service existing businesses.
  - a. Prepare and distribute written material to service agencies and providers (such as accountants and construction contractors) who work with individual businesses.
  - b. In order to receive the income tax credit, unemployment insurance credit, and GET exemption, EZ approved firms must submit an annual report. The rate of return of these reports is about 50% of the total approved firms. Those firms that submit end-of-year reports are considered actively participating. Mass email and mail-out to all approved firms will be performed to remind firms to submit their end-of-year reports.
  - c. Existing busiessneses will need to be informed of the recent legislative changes to the program, as well as refreshed as to the EZ program's certification requirements and benefits. Often, the applicant has been replaced, forgets, or was never explained properly the EZ program.
6. Verify and process application forms, end-of-year forms.
7. Update brochures and forms to reflect changes in policy, law, and contact information.
8. More GIS training.

**C. Outputs:** For each program activity, identify what outputs you aim to produce

1. Produce the Annual Report to the Governor.
2. Produce reports and statistics utilizing data from the database.
3. Provide testimony and create reports pertaining to related EZ legislation.
4. Visit each county at least once a year, to provide marketing and support of EZ participating and prospective businesses. County coordinators and associated organizations will be contacted for assistance with setting up and planning meetings/presentations. Visit at least 20 established EZ businesses, and additionally conduct at least 6 presentations to business groups, individual firms, or related organizations.  
 Increase the number of end-of-year reports submitted by EZ enrolled businesses.
5. Applications and end-of-year repots are first forwarded to the county coordinators. They verify location and general business activity. The forms are then forwarded to the State's EZ office for processing. EZ acceptance letter and certifications are issued and mailed to participating EZ businesses.
6. The production of brochures and handouts that reflect the most up-to-date policies and practicies and also tailored to specific groups i.e. contractors, farmers, accountants, etc. Furthermore, enhanced website to provide more information about the program, its benefits, and successes.
7. To utilize GIS technology to perform more detailed and graphical analysis of current EZ enrolled firm demographics and to be used for reporting purposes. And to identify areas and businesses to better focus marketing efforts.

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**D. Outcomes:** Identify the short-term (0-2 years) and long-term (2-6 years) outcomes you expect to achieve.

Short-Term Outcomes:

- To approve and pass a revised Hawaii Administrative Rules
- To pass new legislation that will include other types of alternative energy business activities into the EZ program.
- To increase the number of companies that have been identified as eligible businesses in the EZs by 10% per year.
- To increase the number of jobs in the approved EZ businesses by 5% per year.
- To increase the number of EZ enrolled companies that submit end-of-year reports by 10%.

Long-Term Outcomes:

- Once the existing eligible businesses have been informed and enrolled into the EZ program, identify organizations and agencies that people thinking of starting up a business would contact. It is a long-term vision to have a regular calendar of meetings and/or events to attend to reach new firms. The measure of success would be to increase the number of *new firms* enrolled into the program each year.
- To increase the economic level of communities in the EZs (see Exhibit A, map of EZ areas). Measures of success would be a lower unemployment rate and higher median household income levels of the community as a whole.
- State and Counties revenues increasing as a result of the increased number of companies and jobs.

**E. Impact:** Describe the lasting impact you anticipate.

To create more full-time jobs of EZ eligible activities in the Enterprise Zone areas.

### III. PROGRAM EVALUATION

**A. Focus Area:** From your program logic model, list the components of the most important aspects of your program.

1. The GET exemption on eligible business activities and tax credits are benefits realized only after submittal of an end-of-year report and obtaining certification from DBEDT. This reporting requirement is an important aspect that helps in measuring participant's level of income, employment, and success and greatly impacts the EZ program's success.
2. Database development and information analysis.
3. Public information, marketing, and outreach. Developing and maintaining relationships with businesses, various groups, and organizations.

**B. Audience:** Identify the key audiences for each focus area. Who has an interest in your program?

Selected businesses in certain areas, trade associations, accountants, local contractors, service providers, county agencies, DBEDT, DoTAX, DOA, media, public in selected areas.

**C. Questions:** For each focus area and audience, list the questions they may have about your program.

Is the job creation return worth the revenue cost? Are the correct industry types being targeted. Are the right geographic areas being targeted?

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**D. Information Use:** For each audience and question you have identified, identify the ways you will use the evaluation information.

Improved cost/benefit analysis. Continued focus on currently relevant industries. Continued analysis of economic activity in the EZs.

**E. Indicators:** Describe what information can be collected that would convey the status of your program.

- Increase in inbound DBEDT inquiries.
- The number of presentations conducted.
- Increased number of cooperating service providers.
- Increased media coverage showing examples with testimonials.
- Increased acceptance by state agencies and the legislature as a cost effective way to diversify the economy and increase the number of jobs.

**IV. ALIGNMENT**

A. How is your program linked to DBEDT's six strategic objectives?

1.		Workforce Housing
2.	<b>X</b>	Workforce Development <b>Enrollment of companies that support and train employees.</b>
3.	<b>X</b>	"Energy For Tomorrow" <b>Enrollment of companies that create and generate new and alternative energy resources such as wind and biofuels.</b>
4.	<b>X</b>	"Global Links/Export of Goods and Services" <b>Enrollment of companies that manufacture and distribute overseas.</b>
5.	<b>X</b>	The Creation Of An "Innovation Infrastructure" <b>Enrollment of companies that support innovation and provide telecommunications infrastructure.</b>
6.	<b>X</b>	Improve Hawaii's Small Business Environment <b>Enrollment of local small businesses.</b>

B. If your program is not linked to any of the six objectives, explain why it is still important.

n/a

**V. APPROVALS**

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**A.** \_\_\_\_\_  
Submitted by – Signature  
Michelle L. Muraoka  
Date  
Date of Presentation

**B.**  APPROVED  DISAPPROVED  
\_\_\_\_\_  
Division/Agency Head – Signature  
Dennis T. Ling  
Date

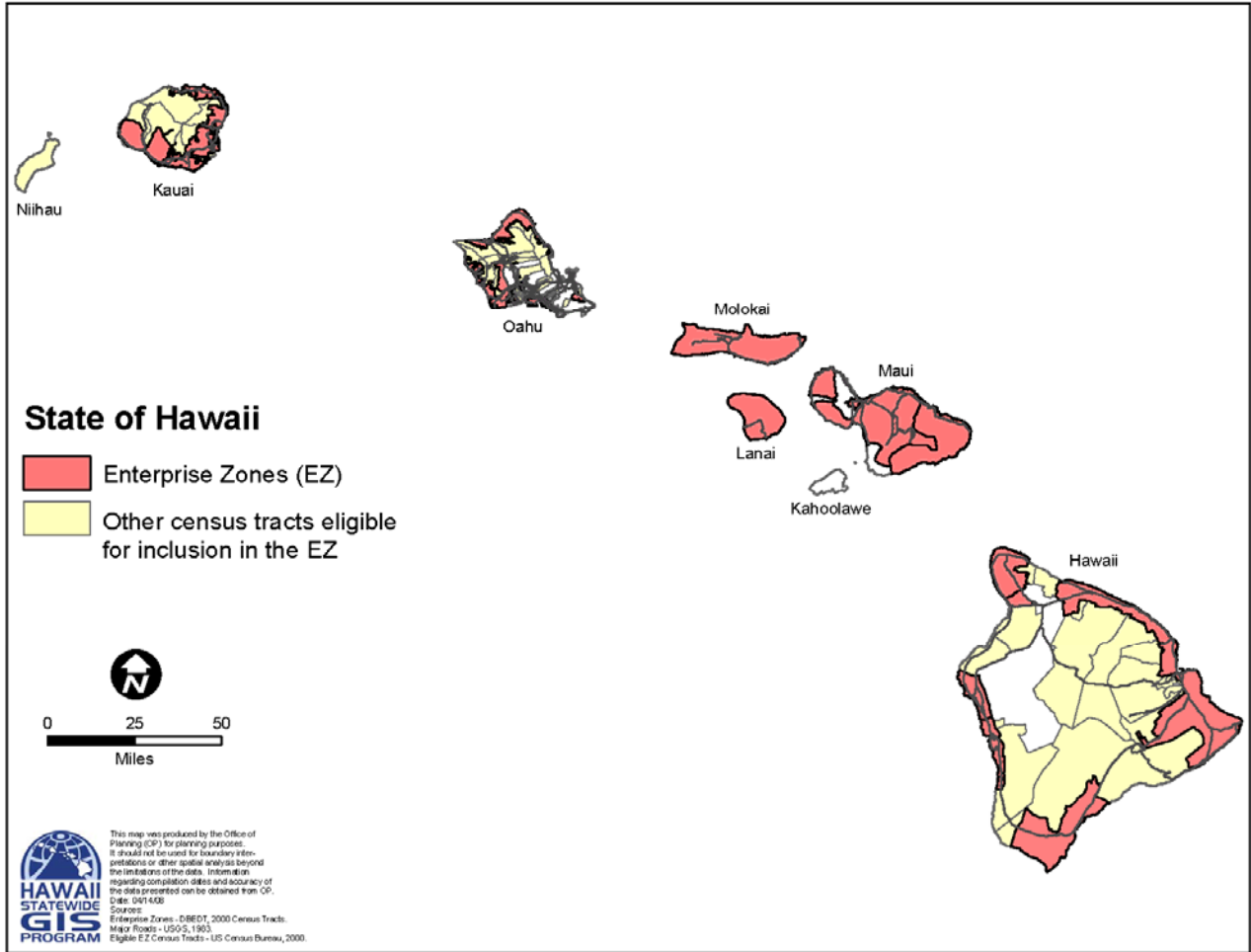
**C.**  APPROVED  DISAPPROVED  
\_\_\_\_\_  
Director - Signature  
Date

# DBEDT

THE DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM  
STATE OF HAWAII

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### EXHIBIT A



(Enterprise Zone areas are shown in red.)