



## Business Incentives and Economic Development Expenditures: An Overview of Hawaii's Program Investments and Outcomes

### Summary

Across the country, state economic development incentives have evolved into a complex mixture of programs with diverse structures and goals. The Council for Community and Economic Research (C2ER) and the Center for Regional Economic Competitiveness (CREC) have been working to catalog and document the range of available state programs through the [C2ER State Business Incentives Database](#), which includes detailed information about almost 2,000 state-administered incentive programs from every state; and the [C2ER State Economic Development Expenditures Database](#), a compilation of economic development expenditure budget data from every state. This report builds on that work by taking a deeper look at Hawaii's full array of incentive programs and includes an analysis of the available outcome data that is used by state policymakers and program administrators to gauge program effectiveness.

In order to create a comprehensive picture of the economic development landscape, we reviewed and culled data from a range of state statutes, reports, and websites. The numbers contained in this report are CREC and C2ER's best estimate of the dollars spent on economic development incentives at the state level in Hawaii.

In fiscal year (FY) 2012, the most recent year for spending data are available for all program types, the state spent \$155 million on economic development program expenditures and \$279 on economic development tax expenditures.<sup>1</sup>

### Overview of Business Incentives

Hawaii, with a total of 13 active programs in 2015, has a relatively small number of incentive programs compared with other states. The C2ER State Business Incentives Database defines state business incentives as state-administered programs designed to influence business investment behaviors. States design their programs to influence these behaviors through tax incentives, as well as through non-tax programs, such as grants, loans, business assistance, and other investment vehicles.

[The Center for Regional Economic Competitiveness \(CREC\)](#) is working with The Pew Charitable Trusts (Pew) on the Business Incentives Initiative. This initiative engages forward-thinking teams of economic development policymakers and practitioners from six states. These leaders are working together to identify effective ways to manage and assess economic development incentive policies and practices, improve data collection and reporting on incentive investments, and develop national standards. The initiative is supported by a grant from the Laura and John Arnold Foundation.

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<sup>1</sup> Please see Appendices for detailed lists of all items included in this report as incentives, economic development program expenditures, and economic development tax expenditures.



**Figure 1: Hawaii State Business Incentives by Agency, 2015**

State Agency	Number of Programs
<b>Hawaii Department of Taxation</b>	5
<b>Hawaii Department of Agriculture</b>	3
<b>Hawaii Department of Business, Economic Development and Tourism</b>	2
<b>Hawaii High Technology Development Corporation</b>	1
<b>Hawaii Strategic Development Corporation</b>	1
<b>Office of Hawaiian Affairs</b>	1

Source: C2ER State Business Incentives Database

These incentives help businesses address one or more needs, such as capital access, workforce preparation, technology transfer, infrastructure improvements, and so forth.<sup>2</sup>

In Hawaii, the responsibility for administering these incentive programs is spread across 6 different state agencies. The primary agencies responsible for administering incentive programs are the Departments of Taxation, Agriculture, and Business, Economic Development and Tourism. The Hawaii High Technology Development Corporation, Hawaii Strategic Development Corporation, and Office of Hawaiian Affairs also administer incentive programs (See Figure 1).

According to the C2ER database, the entirety of Hawaii's active incentive programs are comprised of incentives that offer tax-related benefits or direct business financing. More than half of Hawaii's active incentive programs offer some kind of tax-related benefit. By comparison, tax incentives represent about 44 percent of all state business incentive programs across the nation, with the national median percentage of tax incentives offered across the nation (See Figure 2).

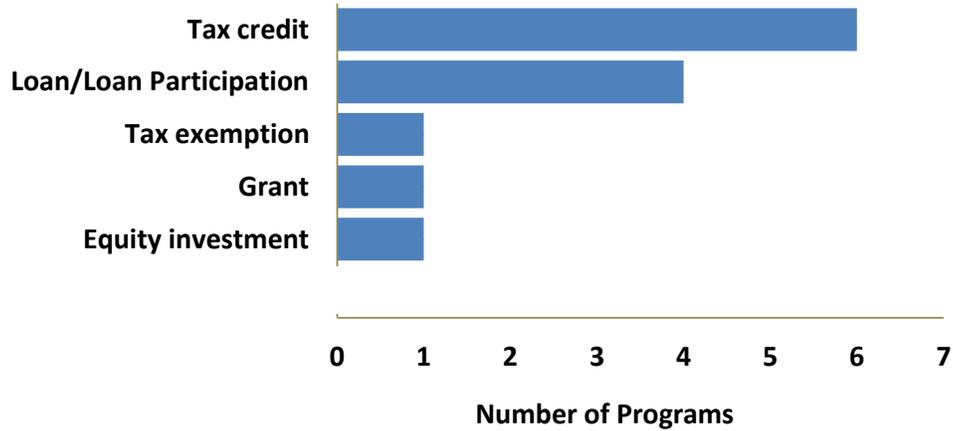
The state's incentives meet a mix of business needs including tax/regulatory burden reduction, capital access or formation, and product and process improvement (See Figure 3).

<sup>2</sup> The C2ER State Business Incentives Database definition of business incentives may differ from the definition used by the state of Hawaii.



**Figure 2: Incentive Programs by Type\*\***

**Hawaii Incentive Programs by Type (2015)**

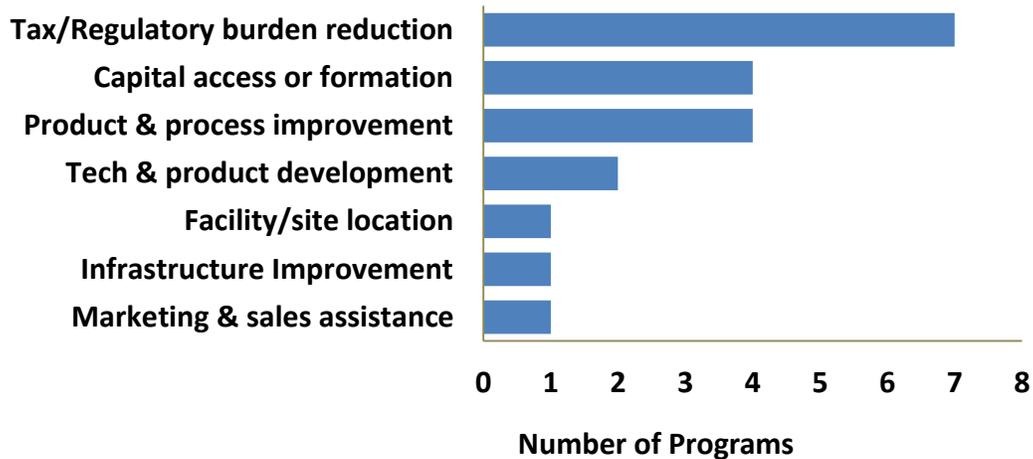


Source: C2ER State Business Incentives Database

\*\* Note: Programs may appear more than once if they provide multiple incentive types.

**Figure 3: Incentive Programs by Business Need\*\***

**Hawaii Incentive Programs by Business Need (2015)**



Source: C2ER State Business Incentives Database

\*\* Note: Programs may appear more than once if they are intended to fulfill multiple business needs.



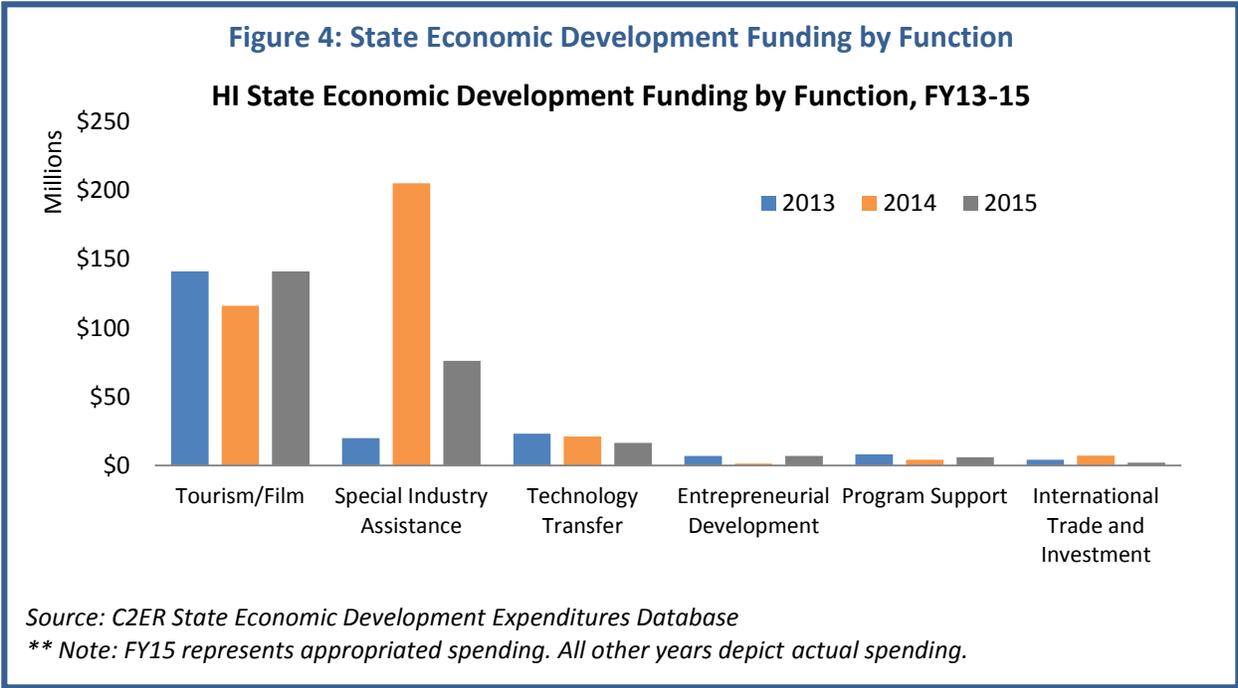
## Economic Development Program Expenditures

Examining Hawaii’s budget for economic development program expenditures reveals how various state agencies outlay money for economic development programs. Expenditures fall into 15 functional areas for economic development defined by the C2ER State Economic Development Expenditures Database.<sup>3</sup>

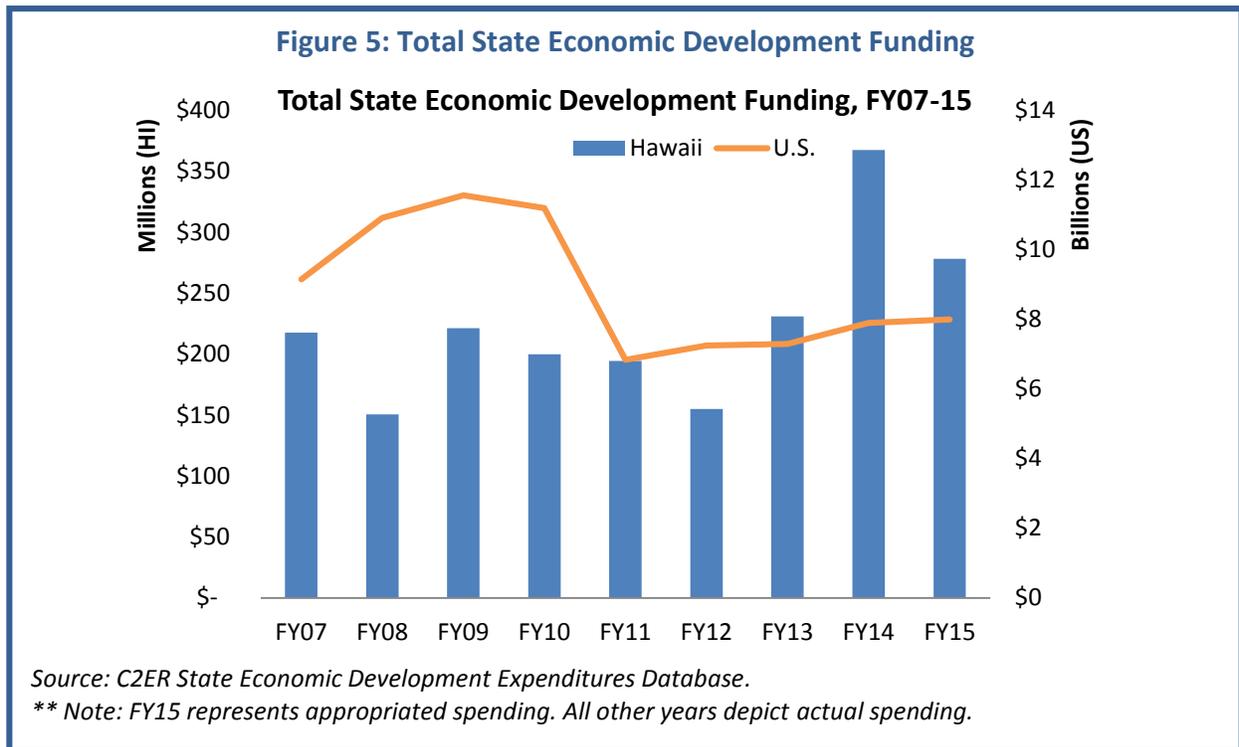
According to Hawaii’s [FY 2015-2017 Biennial Budget Requests](#), which details actual and appropriated FY 2014 spending, the state spent \$367 million on economic development in FY 2014. This level of spending represents an average of \$9,357 per business, which is considerably higher than the median average of \$877 per business spent in other states for that fiscal year.

**State Economic Development Expenditures  
Function Areas**

- Business Finance
- Strategic Business Attraction Fund
- Business Assistance
- International Trade and Investment
- Domestic Recruitment/Out-of-State
- Workforce Preparation & Development
- Technology Transfer
- Entrepreneurial Development
- Minority business development
- Community Assistance
- Tourism/Film
- Special Industry Assistance
- Program Support
- Administration
- Other Program Areas



<sup>3</sup> See Glossary definitions here - [http://www.stateexpenditures.org/about/Definition\\_of\\_ED\\_Functions.pdf](http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf)



The majority of Hawaii’s economic development expenditures went to the Department of Agriculture, Department of Business, Economic Development and Tourism, Department of Labor and Industrial Relations, and the University of Hawaii. The Department of Agriculture received the bulk of funding, with around 54 percent of total state spending.

In comparison to economic development expenditures nationally, in FY 2014 Hawaii spent a greater proportion of its budget (relative to other states) on programs related to entrepreneurial development, international trade and investment, program support, special industry assistance, technology transfer, and tourism and a lower share on administration, business assistance, business finance, community assistance, and workforce preparation and development.

Between FY 2007 and FY 2013, economic development spending remained level, averaging \$195 million per year. Spending in FY 2014 increased to \$367 million due to a large one-time outlay of G.O. and Revenue Bonds for the Agribusiness Development and Research program. Spending dropped between FY 2014 and FY 2015 to \$278 million. This is inconsistent with national trends in economic development spending, as most states saw a sharp decrease in spending in FY 2011 following the Great Recession and have since made very gradual spending increases (See Figure 5.)



## Economic Development Tax Expenditures

Tax expenditures can be defined as “revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures.”<sup>4</sup> *Economic development tax expenditures* in this context represent those tax provisions that use the state tax system to promote business investments that promote state economic priorities.

The [Tax Credits Claimed by Hawaii Taxpayers Report](#) for FY2012, published by the Hawaii Department of Taxation in October 2014, was used for the analysis in this section. Data was collected by reviewing and recording all line items in the report related to economic development, including all tax credits that are designed to influence business investment behaviors<sup>5</sup>. For a small number of tax credits, the tax incentive is listed as having no tax expenditures for that year because the data was not available, expenditures had been subsumed within another program, or there were no expenditures for that particular program.

In FY 2012, the state of Hawaii’s economic development tax credit expenditures totaled approximately \$279 million, which was 44% greater than the \$155 million Hawaii invested in economic development program expenditures for that fiscal year. For tax credit expenditures that were active in FY 2012, Hawaii administered its tax expenditures related to economic development primarily through the Department of Taxation. The Department of Business, Economic Development and Tourism was also involved in the administering of economic development tax expenditures, facilitating economic development tax expenditures for a statutory incentive program.

For FY 2012, approximately 53 percent of Hawaii’s economic development tax credit expenditures were specific for corporate income tax. The remainder fell under individual income. The primary economic development functional goals of these tax expenditures were to encourage domestic recruitment, special industry assistance, and technology transfer.

The majority of Hawaii’s economic development tax expenditures went towards special industry assistance (36 percent) and domestic recruitment (36 percent). The remainder of Hawaii’s economic development tax expenditures went towards technology transfer (28 percent). In Hawaii, the majority of tax credit programs were non-specific regarding industries meant to benefit from said programs. However, some programs did target specific industries within the state. The industries that received tax assistance in FY 2012 were agriculture, arts, and construction.

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<sup>4</sup> *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: [www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm](http://www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm)

<sup>5</sup> The most recent and available program-specific tax expenditure information only delineates tax credit programs



## Analysis of Available Outcome Data

Evaluation of Hawaii's incentives is left to the agency which oversees each specific program. This creates a patchwork of regulation and data which can be confusing to researchers.

In 2007 the Department of Agriculture released a report examining potential incentives. The report determines that the incentive outcomes must be verifiable and measurable.<sup>6</sup> Other documentation suggests that the legislation for the Loan Guaranty Program and the Important Agricultural Land Qualified Agricultural Cost Tax Credit (Act 233 Session Laws of Hawaii 2008), requires the production of an annual report quantitatively analyzing the impact of the credit. However, the reports nor supporting documentation appeared to be readily available.<sup>7</sup>

In the 2012 report *Evidence Counts: Evaluating State Tax Incentives for Job Growth*, the PEW Charitable Trusts evaluated the outcome reporting regimes in all 50 states. Their evaluations were based on four criteria: whether outcome data informed policy choices, included all tax incentives, measured economic impact, and drew clear conclusions about the incentive's effectiveness. None of Hawaii's 5 tax incentive documents identified by PEW met any of the evaluation criteria.<sup>8</sup>

The State of Hawaii, through the Department of Taxation, works to assess the performance of a few of its tax credits. The Department of Taxation, however, has recently experienced complications in managing the auditing and filing of tax credit applications.<sup>9</sup>

In September of 2015, the Hawaii Office of the Auditor issued a report reviewing the Department of Taxation, their history, and the various ways the state attempted to measure the effectiveness of its tax incentives. In particular, the review revolved around one of the state's "high-dollar, high-volume tax credits" – the High-technology business investment and research activities tax credits. The review revealed that the law governing the administering of high-technology tax credits did not delineate any "goals or performance measures" for assessing the effectiveness of the tax credits. The report also found that there is discrepancy internal to the state regarding which entities ought to be responsible for establishing measures for performance assessment and carrying out the assessment. According to the report, the Department of Taxation (DoTax), citing a lack of capacity given staff shortages, "believes the task would be more efficiently undertaken by economists in the Department of Business, Economic Development and Tourism."<sup>10</sup>

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<sup>6</sup> The Department of Agriculture. 2007. *Final Report on the Incentives for Important Agricultural Lands* <http://hdoa.hawaii.gov/wp-content/uploads/2013/02/IAL-Final-Report.pdf>

<sup>7</sup>The Department of Agriculture and the Department of Taxation 2009. *Report to the Twenty-Fifth Legislature 2010 Regular Session* <http://hdoa.hawaii.gov/wp-content/uploads/2013/07/IAL-Incentives-Report-2009-12.10.09-FINAL.pdf>

<sup>8</sup>Pew Center on the States. 2012. *Evidence Counts: Evaluating State Tax Incentives for Job Growth* [http://www.pewtrusts.org/~media/assets/2012/04/12/pew\\_evaluating\\_state\\_tax\\_incentives\\_report.pdf](http://www.pewtrusts.org/~media/assets/2012/04/12/pew_evaluating_state_tax_incentives_report.pdf)

<sup>9</sup> Hawaii Office of the Auditor. 2015. *Credits Continue to Tax the State: Follow-Up on Recommendations Made in Report No. 12-05*. <http://files.hawaii.gov/auditor/Reports/2015/15-11.pdf>

<sup>10</sup>Hawaii Office of the Auditor. 2015. *Credits Continue to Tax the State: Follow-Up on Recommendations Made in Report No. 12-05*. <http://files.hawaii.gov/auditor/Reports/2015/15-11.pdf>



While the State of Hawaii has developed a transparency website that includes an account of economic development tax credits, only the High-Technology business tax credits and the Motion Picture, Digital Media Film Production Income Tax Credit appears to demonstrate the existence of information related to performance measures. Categories of High-Technology business tax credits were explicit to job creation and impact on employment. Categories included full-time, part-time, and seasonal employment. For the Film tax credit, performance for this particular tax credit include: Local Hawaii Hires, Out of State Hires, Household Income Generated, Sales Generated into Economy and Total Estimated Tax Generated.

## Conclusion

Hawaii currently administers a relatively small number of incentives, with an emphasis on tax incentives. The state's economic development program spending per business establishment, on the other hand, is high compared with other states in the nation. The bulk of the state's current economic development expenditures were for agricultural and tourism purposes. Tourism is one of Hawaii's most important industries and, as such, is one of the largest business expenditures in each annual budget. Nearly all of Hawaii's agricultural spending was appropriated to the Agribusiness Development and Research program due to a one-time capital investment of \$188.5 million.

Hawaii operates under a patchwork of review and outcome reporting requirements for its incentives and expenditures portfolios. The state's transparency website, however, does contain fiscal, administrative, and legislative reports, as well as downloadable data tables on tax collections, grants, and operating expenditures. Hawaii also provides an "Open Checkbook" which provides an interactive chart detailing expenditures by department.<sup>11</sup>

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<sup>11</sup> State of Hawaii. 2015. Open Checkbook. <http://openexpenditures.hawaii.gov/#/>



## Appendix A: Full List of Hawaii State Business Incentives (2015)

Program Name	Program Provider	Business need	Type
<b>Alternative Energy Loan Program</b>	Hawaii Department of Agriculture	Product & process improvement	Loan/Loan Participation
<b>Capital Goods Excise Tax Credit</b>	Hawaii Department of Taxation	Tax/Regulatory burden reduction	Tax credit
<b>Enterprise Zone Partnership Program (EZ)</b>	Hawaii Department of Business, Economic Development and Tourism	Product & process improvement; Tax/Regulatory burden reduction	Tax credit
<b>Ethanol Facility Tax Credit</b>	Hawaii Department of Taxation	Tax/Regulatory burden reduction	Tax credit
<b>Food Manufacturing Facility Loan</b>	Hawaii Department of Agriculture	Facility/site location	Loan/Loan Participation
<b>Food Manufacturing Operating Loan</b>	Hawaii Department of Agriculture	Infrastructure Improvement; Marketing & sales assistance; Product & process improvement	Loan/Loan Participation
<b>Fuel Tax Credit for Commercial Fishers</b>	Hawaii Department of Taxation	Tax/Regulatory burden reduction	Tax credit
<b>Hawaii Small Business Innovation Research (SBIR) Grant Matching Program</b>	Hawaii High Technology Development Corporation	Tech & product development; Capital access or formation	Grant
<b>Malama Loan Program</b>	Office of Hawaiian Affairs	Capital access or formation	Loan/Loan Participation
<b>Motion Picture, Digital Media, and Production Income Tax Credit</b>	Hawaii Department of Taxation	Capital access or formation; Tax/Regulatory burden reduction	Tax credit
<b>Renewable Energy Technologies Income Tax Credit</b>	Hawaii Department of Taxation	Tax/Regulatory burden reduction; Product & process improvement	Tax credit
<b>Royalties Tax Exemption</b>	Hawaii Department of Business, Economic Development and Tourism	Tech & product development; Tax/Regulatory burden reduction	Tax exemption
<b>SSBCI Venture Capital Investment Program</b>	Hawaii Strategic Development Corporation	Capital access or formation	Equity investment; Loan/Loan Participation



## Appendix B: HI Economic Development Program Expenditures (2014)

Function	Activity	Total State Funding
<b>Administration</b>	Info systems, accounting, human resources, etc.	\$133,243
<b>Business Assistance</b>	Business retention/expansion	\$1,256,974
<b>Business Assistance</b>	Small business dev. (e.g., SBDCs)	\$978,941
<b>Business Finance</b>	Loans available to Business	\$4,535,776
<b>Community assistance</b>	Community center revitalization	\$3,232,252
<b>Entrepreneurial Development</b>	Seed/venture capital	\$1,321,609
<b>International Trade and Investment</b>	Export promotion (excl. overseas representation)	\$7,120,663
<b>Program Support</b>	Data dissemination/web site	\$246,473
<b>Program Support</b>	Economic research	\$1,001,585
<b>Program Support</b>	Other Program Support	\$1,677,528
<b>Program Support</b>	Policy and planning	\$1,296,667
<b>Special Industry Assistance</b>	Aerospace and defense	\$727,810
<b>Special Industry Assistance</b>	Agriculture/agribusiness	\$193,967,596
<b>Special Industry Assistance</b>	Energy and environment	\$5,112,662
<b>Special Industry Assistance</b>	Other Special Industry Assistance	\$5,367,667
<b>Technology Transfer</b>	Company quality enhancement	\$3,115,075
<b>Technology Transfer</b>	Technology commercialization	\$17,854,865
<b>Tourism/Film</b>	Tourism development	\$116,079,211
<b>Workforce Preparation &amp; Dev.</b>	Customized training	\$2,410,562
<b>Workforce Preparation &amp; Dev.</b>	Other Workforce Preparation & Dev.	\$11,576
<b>TOTAL</b>		<b>\$367,448,735</b>



## Appendix C: HI Economic Development Tax Expenditures (2012)

Description	Total Funds
Capital Goods Excise Tax Credit	\$ 29,584,000
Energy Conservation Tax Credit*	\$ -
Enterprise Zone Tax Credit	\$ 1,224,000
Ethanol Facility Tax Credit	\$ 36,000
Fuel Tax Credit for Commercial Fishers	\$ 160,000
High Technology Business Investment Tax Credit**	\$ 56,521,000
Hotel Construction and Remodeling Tax Credit**	\$ 147,000
Important Agricultural Lands Tax Credit***	-
Motion Picture, Digital Media and Film Production Income Tax Credit	\$ 12,734,000
Renewable Energy Technologies Tax Credit	\$ 179,018,000
Technology Infrastructure Renovation Tax Credit**	\$ 11,000

\* Data for the tax credit are included with the renewable energy technologies tax credit. Also expired

\*\* Also expired tax credits

\*\*\*Not available in tax year 2012