

THE SENATE
THE TWENTY-FOURTH LEGISLATURE
REGULAR SESSION OF 2008

RECEIVED
THE SENATE
CLERK'S OFFICE
STATE OF HAWAII

COMMITTEE ON ECONOMIC DEVELOPMENT AND TAXATION

Senator Carol Fukunaga, Chair
Senator Will Espero, Vice Chair

JAN 18 12:15

NOTICE OF INFORMATIONAL BRIEFING

DATE: Tuesday, January 22, 2008
TIME: 1:15 p.m. - 2:30 p.m.
PLACE: Conference Room 224
State Capitol
415 South Beretania Street

A G E N D A

The purpose of this budget briefing is to familiarize members with budget programs within the EDT committee's purview and to hear from department representatives regarding the administration's budget requests in economic development and taxation programs. The following programs will be reviewed by the committee:

Strategic Marketing and Support	BED 100
Creative Industries Division	BED 105
Foreign Trade Zone	BED 107
Economic Planning and Research	BED 130
General Support for Economic Development	BED 142
High Technology Development Corporation	BED 143
Hawaii Strategic Development Corporation	BED 145
Natural Energy Lab of Hawaii Authority	BED 146
Information Processing Services	AGS 131
Ethnic Group Presentations	AGS 818
Performing and Visual Arts Events	AGS 881
Spectator Events and Shows - Aloha Stadium	AGS 889

If you require special assistance or auxiliary aids or services to participate in the public hearing process (i.e., sign or foreign language interpreter, wheelchair accessibility, or parking designated for the disabled) please contact the committee clerk 24 hours prior to the hearing so arrangements can be made.

FOR FURTHER INFORMATION, PLEASE CALL THE COMMITTEE CLERK AT 586-7135.



Senator Carol Fukunaga
Chair



Attachment 1
Department-Wide Summary Information
Totals for Proposed Department Budget Adjustments (by Method of Funding)

FY08				
MOF	Act 213/07 Appropriation (a)	Restriction (b)	Emergency Request (c)	Total FY08 (a)+(b)+(c)
A	28,137,268			28,137,268
B	156,162,597			156,162,597
N	20,428,521			20,428,521
U	1,590,030			1,590,030
W	15,149,846			15,149,846
T	36,923,698			36,923,698
Dept. Totals	258,391,960	-	-	258,391,960

FY09				
MOF	Act 213/07 Appropriation (d)	Reduction (e)	Addition (f)	Total FY09 (d)+(e)+(f)
A	11,653,903		725,000	12,378,903
B	152,436,322		8,012,904	160,449,226
N	20,303,525		1,978,587	22,282,112
U	1,590,030		3,651,958	5,241,988
W	15,150,981		408,567	15,559,548
T	21,923,698		25,000,000	46,923,698
Dept. Totals	223,058,459	-	39,777,016	262,835,475

Please indicate restrictions and reductions as negative numbers, using brackets ()

Attachment 2
Department-Wide Summary Information
Fiscal Year 08 Proposed Emergency Requests

Program ID	MOF	Title of Emergency Requests	FTE	\$ Amount
		NONE		
Dept. Totals by MOF			-	-

Attachment 3
Department-Wide Summary Information
Fiscal Year 09 Proposed Budget Adjustments

Program ID	MOF	Program ID Title	FTE	\$ Amount
BED 105/CI	A	Creative Industries Division	0.00	140,000
BED 113/XC	B	Hawaii Tourism Authority		2,000,000
BED 120/SI	A	Strategic Industries Division		285,000
BED 120/SI	U	Strategic Industries Division	4.00	1,623,390
BED 130/FA	U	Research & Economic Analysis Division	1.00	-
BED 142/AA	U	General Support for Economic Development		2,028,568
BED 143/TE	A	High Technology Development Corporation		300,000
BED 144/PL	N	Statewide Planning & Coordination		1,978,587
BED 145/VC	B	Hawaii Strategic Development Corporation	1.00	6,012,904
BED 160/HA	W	HHFDC Administration		408,567
BED 160/HF	T	Housing Finance		25,000,000
Dept. Totals by MOF	A		0.00	725,000
	B		1.00	8,012,904
	N		-	1,978,587
	U		5.00	3,651,958
	W		-	408,567
	T		-	25,000,000
	Total-All MOF		6.00	39,777,016

Attachment 4
Fiscal Year 09 Proposed Budget Adjustments

Program I.D.	Description of Adjustment	FTE (P)	FTE (T)	\$ Amount	MOF
BED 105/CI	Increase GF base for operation & maint. of HI Film Studio.			60,000	A
BED 105/CI	Conversion of Film Industry Admin. Asst. Position #117019 from Temporary to Permanent.	1.00	(1.00)		A
BED 105/CI	Conversion of Building Mgr Position #49490 from Temporary to Permanent.	1.00	(1.00)		A
BED 105/CI	CID - Funding for CID Capacity Building & Marketing Programs.			80,000	A
BED 113/XC	Convention Center Special Fund ceiling increase.			2,000,000	B
BED 120/SI	Funds for Operating Programs of Science & Tech Branch.			50,000	A
BED 120/SI	To provide support for expanding and diversifying Hawaii's aerospace industry.			235,000	A
BED 120/SI	Funding and personnel for bioenergy program.		1.00	812,904	U
BED 120/SI	Energy & Fuels Data Analytic Positions Authorization (Two- 2.00 Positions) & funding for Public Utilities Commission Docket 2007-0176, Intragovernmental Wheeling of Electricity.		2.00	497,582	U
BED 120/SI	Funding support for technical assistance to state agencies implementing Lead by Example.			200,000	U
BED 120/SI	SID - Funding for Energy Facilitator position		1.00	112,904	U
BED 130/FA	DBEDT READ requests the addition of 1 position (Statistician III, SR20C) to the Tourism Research Branch. Not seeking additional funding from HTA. Assume budget same as FY 08. Funding for new position will be from transferring money from Other Current Expenses.	1.00			U
BED 142/AA	Interdepartmental transfer of funds from DHS under the TANF grant for Hiest Academy Program and Robotics Competition Programs.			2,028,568	U
BED 143/TE	Funding for the Hawaii SBIR/STTR Grant Program assists local businesses expand their federally funded R&D projects to attract Phase II federal dollars to commercialize their products.			200,000	A
BED 143/TE	Funding for the SBIR Technical Assistance program helps Hawaii businesses win federal R&D grants by training firms how to prepare competitive SBIR grant proposals.			100,000	A
BED 144/PL	Increase expenditure ceiling for Brownsfields Cleanup Revolving Loan Fund.			1,978,587	N
BED 145/VC	SID - (1) Renewable Hydrogen Program Manager		1.00	112,904	B
BED 145/VC	(2) Hydrogen Investment Capital Special Fund			5,900,000	B
BED 160/HA	Rent Adjustment - Correction of Amount			408,567	W
BED 160/HF	General Funds infusion of \$25,000,000 for the Rental Housing Trust Fund.			25,000,000	T

Attachment 5
FY09 Capital Improvements Program Summary

<u>Priority</u>	<u>Project Title</u>	<u>FY09 \$ Amount</u>	<u>MOF</u>
1	Roof repairs to the Foreign-Trade Zone Facility at Pier 2.	930,000	C
1	Relating to Kukui Gardens Rental Housing Complex	26,000,000	C
2	Waiahole Valley Potable Water System Replacement	2,800,000	C
3	Kalaeloa Safety Improvements, Oahu	850,000	C
-	Rental Housing Trust Fund Infusion	25,000,000	C
-	Dwelling Unit Revolving Fund Infusion	25,000,000	C

**Attachment 6
FY09 Request Decisions**

Depart Priority	Prog ID/Org	Description	MOF	Department			Budget and Finance			MOF	Governor's Final Decision		
				Perm. FTE	Temp. FTE	\$ Amount	Perm. FTE	Temp. FTE	\$ Amount		Perm. FTE	Temp. FTE	\$ Amount
1	BED 120/ SI	Strategic Industries Division (SID) - Funding and personnel for bioenergy program.	A		1.00	1,280,000				A		-	-
1	BED 120/ SI	Strategic Industries Division (SID) - Funding and personnel for bioenergy program.	U		-	-				U		1.00	812,904
2	BED 120/ SI	SID - Energy & Fuels Data Analytic Positions and funding for Public Utilities Commission Docket 2007-0176, Intragovernmental Wheeling of Electricity	A		2.00	140,000				A		-	-
2	BED 120/ SI	SID - Energy & Fuels Data Analytic Positions and funding for Public Utilities Commission Docket 2007-0176, Intragovernmental Wheeling of Electricity	U		-	-				U		2.00	497,582
3	BED 120/ SI	SID - Funding support for technical assistance to state agencies implementing Lead by Example	A			200,000				A			-
3	BED 120/ SI	SID - Funding support for technical assistance to state agencies implementing Lead by Example	U			-				U			200,000
	BED 120/ SI	SID - Funding for Energy Facilitator position	U							U		1.00	112,904
4	BED 120/ SI	SID - Greenhouse Gas Reduction (Act 234/SLH 07) 2 Positions	A		2.00	135,000				A		-	-
5	BED 105/ CI	Creative Industries Division (CID) - Request is to fund the Business & Development Administrator position	A			90,000				A			-
6	BED 120/ SI	SID - Funds for Operating Programs of Science & Tech Branch	A			50,000				A			50,000
7	BED 120/ SI	SID - To provide support for expanding and diversifying Hawaii's aerospace industry.	A	1.00		322,300				A	-		235,000
8	BED 142/ TL	Tourism - Add operating funds for Tourism Liaison Office	A			5,000				A			-
9	BED 143/ TE	High Technology Development Corporation (HTDC) - Funding for the Hawaii SBIR/STTR Grant Program assists local businesses expand their federally funded R&D projects to attract Phase II federal dollars to commercialize their products	A			200,000				A			200,000
10	BED 143/ TE	HTDC - Funding for the SBIR Technical Assistance program helps Hawaii businesses win federal R&D grants by training firms how to prepare competitive SBIR grant proposals.	A			100,000				A			100,000

**Attachment 6
FY09 Request Decisions**

Depart Priority	Prog ID/Org	Description	MOF	Department			Budget and Finance			MOF	Governor's Final Decision		
				Perm. FTE	Temp. FTE	\$ Amount	Perm. FTE	Temp. FTE	\$ Amount		Perm. FTE	Temp. FTE	\$ Amount
11	BED 144/ PL	Office of Planning (OP) - Base funding is being requested to establish a multi-agency Enterprise License Agreement (ELA) for Geographic Information System (GIS) software.	A			200,000				A			-
12	BED 105/ CI	CID - Increase GF base for operation & maint. of HI Film Studio	A			100,000				A			60,000
13	BED 142/ AA	Dept Admin - Lotus Notes Programmer	A	1.00		43,824				A	-		-
14	BED 144/ PL	OP - Funding for studies to undertake State Land Use District Boundary Review.	A			250,000				A			-
15	BED 145/ VC	SID - (1) Renewable Hydrogen Program Manager	A		1.00	80,000				A		-	-
15	BED 145/ VC	SID - (1) Renewable Hydrogen Program Manager	B		-	-				B		1.00	112,904
15	BED 145/ VC	SID - (2) Hydrogen Investment Capital Special Fund	B			5,900,000				B			5,900,000
16	BED 113/ XC	Convention Center Spec. Fund ceiling increase	B			2,000,000				B			2,000,000
17	BED 130/ FA	Research & Economic Analysis Division (READ) - Requests the addition of 1 position (Statistician III, SR20C) to the Tourism Research Branch.	U	1.00						U	1.00		
18	BED 142/ AA	Dept Admin - Interdepartmental transfer of funds from DHS under the TANF grant for HIEST Academy Program and Robotics Competition Programs	U			-				U			2,028,568
-	BED 105/ CI	CID - Transfer of Pos. #117045 to BED 142 (Dept Admin)	A		(1.00)					A		-	
-	BED 105/ CI	CID - Conversion of Film Industry Admin Asst Pos. #117019 from temporary to permanent	A	1.00	(1.00)					A	1.00	(1.00)	
-	BED 105/ CI	CID - Conversion of Building Mgr Position #49490 from temporary to permanent	A	1.00	(1.00)					A	1.00	(1.00)	
-	BED 142/ TL	Tourism - Transfer of Pos. #117045 from BED 105CI	A		1.00					A		-	
-	BED 160/ HA	Hawaii Housing Finance and Development Corporation (HHFDC) - General Fund Exempt Position Salary Increases	W			10,605				W			-
	BED 160/ HA	Hawaii Housing Finance and Development Corporation (HHFDC) - General Fund Exempt Position Salary Increases	A							A			-
-	BED 160/ HA	HHFDC - Exempt Position Salary Increases	W			188,533				W			-
-	BED 160/ HA	HHFDC - Collective Bargaining Adjustments	W			24,727				W			-
-	BED 160/ HA	HHFDC - Rent Adjustment - Correction of Amount	W			408,567				W			408,567
-	BED 160/ HD	HHFDC - Exempt Position Salary Increases	W			77,646				W			-

**Attachment 6
FY09 Request Decisions**

Depart Priority	Prog ID/Org	Description	MOF	Department			Budget and Finance			MOF	Governor's Final Decision		
				Perm. FTE	Temp. FTE	\$ Amount	Perm. FTE	Temp. FTE	\$ Amount		Perm. FTE	Temp. FTE	\$ Amount
-	BED 160/ HF	HHFDC - Collective Bargaining Salary Schedule Increases	W			29,630				W			-
-	BED 160/ HF	HHFDC - Collective Bargaining Salary Schedule Increases	W			6,509				W			-
-	BED 160/ HF	HHFDC - Exempt Position Salary Increases	W			241,994				W			-
-	BED 160/ HF	HHFDC - General Funds infusion of \$25,000,000 for the Rental Housing Trust Fund.	A			25,000,000				A			-
	BED 160/ HF	Increase Trust Fund ceiling - RHTF General Fund Infusion	T							T			25,000,000
-	BED 105/ CI	CID - Funding for CID Capacity Building & Marketing Programs	A			-				A			80,000
-	BED 144/ PL	OP - Increase expenditure ceiling for Brownsfields Cleanup Revolving Loan Fund	N			1,978,587				N			1,978,587

Attachment 8
All Positions Vacant As of 12/1/07

Date of Vacancy	Program ID	Position Title	Position No.	Exempt (Y/N)	Budgeted Amount	Actual Salary Last Employee Paid (Annual)	MOF	Authority to Hire (Y/N)
12/05/06	BED130	Information Specialist III	10066	N	\$38,952.00	\$38,952.00	A	Y
10/03/07	BED144	Planner VI	14957	N	\$73,032.00	\$75,948.00	A	Y
07/31/07	BED130	Clerk Typist II	17805	N	\$23,736.00	\$24,684.00	A	Y
08/01/06	BED100	Secretary II	18398	N	\$29,976.00	\$31,332.00	A	Y
07/29/06	BED107	FTZ Representative	22200	N	\$51,312.00	\$70,560.00	B	N
11/01/05	BED107	FTZ Warehouse Worker	22205	N	\$34,728.00	\$32,760.00	B	N
09/20/07	BED144	Planner V	22408	N	\$47,448.00	\$49,344.00	A	Y
07/01/05	BED160	Accountant IV	23660	N	\$42,144.00	\$40,716.00	W	Y
08/07/07	BED144	Planner V	25238	N	\$47,488.00	\$49,344.00	N	Y
12/31/98	BED160	Housing Loan Services Officer	25650	N	\$47,448.00	\$45,840.00	W	N
12/01/07	BED144	Secretary II	26359	N	\$46,164.00	\$48,012.00	A	Y
05/18/99	BED107	Clerk Typist II	26756	N	\$23,736.00	\$21,096.00	B	N
03/16/04	BED120	Secretary II	26796	N	\$0.00	\$32,448.00	A	N
08/01/07	BED100	Economic Development Specialist VI	27489	N	\$73,032.00	\$75,948.00	A	Y
04/30/05	BED160	Clerk Typist II	27568	N	\$23,736.00	\$22,932.00	W	Y
08/13/07	BED160	Clerk Typist III	27586	N	\$32,424.00	\$33,720.00	W	Y
04/23/07	BED160	Clerk Typist II	32938	N	\$24,684.00	\$23,736.00	W	N
07/07/07	BED105	Economic Development Specialist V	35259	N	\$47,488.00	\$44,292.00	A	Y
10/01/07	BED160	Account Clerk IV	36211	N	\$32,424.00	\$30,156.00	W	Y
03/01/07	BED130	Librarian IV	39449	N	\$57,720.00	\$57,720.00	A	N
09/17/01	BED160	Departmental Personnel Officer I	40990	N	\$50,472.00	\$46,200.00	W	N
06/01/07	BED160	Clerk Typist II	41264	N	\$25,944.00	\$23,736.00	W	Y
02/14/07	BED160	Clerk Typist II	41266	N	\$23,736.00	\$22,932.00	W	Y
09/18/07	BED160	Personnel Management Specialist V	42099	N	\$49,332.00	\$51,300.00	W	Y
12/16/06	BED100	Economic Development Specialist VI	43036	N	\$64,932.00	\$62,400.00	A	Y
05/12/07	BED103	Planner V	45497	N	\$49,332.00	\$49,332.00	A	Y
08/16/07	BED100	Business Development Program Manager	49499	N	\$78,929.00	\$83,268.00	A	N
07/01/03	BED160	Housing Development Specialist I	100385	Y	\$60,480.00	\$60,480.00	W	Y
01/10/07	BED160	Housing Development Specialist II	100387	Y	\$60,037.00	\$60,036.60	W	Y

**Attachment 8
All Positions Vacant As of 12/1/07**

Date of Vacancy	Program ID	Position Title	Position No.	Exempt (Y/N)	Budgeted Amount	Actual Salary Last Employee Paid (Annual)	MOF	Authority to Hire (Y/N)
04/11/06	BED160	Housing Warranty & Insepction Technician	100447	Y	\$42,696.00	\$50,184.00	W	Y
06/20/07	BED160	Housing Finance Specialist I	100489	Y	\$57,720.00	\$57,720.00	W	Y
02/02/02	BED160	Housing Development Specialist III	100891	Y	\$64,920.00	\$64,920.00	W	Y
08/30/07	BED160	Housing Loan Specialist	100929	Y	\$53,352.00	\$55,488.00	W	Y
03/09/05	BED160	Property Management Coordinator I	100932	Y	\$51,312.00	\$56,040.00	W	Y
10/04/07	BED120	Energy Clerk Typist	101058	Y	\$31,212.00	\$32,460.00	N	N
07/06/00	BED160	Loan Processing Assistant I	101626	Y	\$32,136.00	\$32,136.00	W	Y
07/28/07	BED144	Director, Office Of Planning	101867	Y	\$85,897.00	\$82,992.00	A	Y
03/29/02	BED160	Development Support Section Chief	102029	Y	\$66,144.00	\$66,144.00	W	Y
10/07/06	BED160	Housing Planner III	102035	Y	\$55,032.00	\$55,501.56	W	Y
07/25/07	BED150	HCDA Asset Management Specialist	102040	Y	\$0.00	\$53,820.00	C	Y
06/30/07	BED146	NELHA Microbiologist III	102526	Y	\$49,332.00	\$47,448.00	B	N
06/30/07	BED146	NELHA Chemist III	102694	Y	\$44,066.00	\$44,066.16	B	N
11/01/07	BED143	HTDC MIC Incubation Program Manager	102716	Y	\$58,219.00	\$77,625.00	A/B	Y
06/20/07	BED160	Mortgage & Rental Finance Section Chief	105731	Y	\$64,936.00	\$64,936.08	W	Y
10/31/07	BED146	NELHA Senior Secretary	107909	Y	\$56,925.00	\$59,208.00	B	N
02/20/04	BED160	Property Management Coordinator I	107935	Y	\$35,688.00	\$38,976.00	W	Y
01/19/06	BED150	HCDA Legislative & Community Relations Coordinator	111511	Y	\$0.00	\$55,764.00	C	N
08/16/07	BED143	MEP Project Manager	116615	Y	\$70,380.00	\$73,200.00	N	Y
11/30/05	BED151	ATDC Development Manager/Special Assistant	116965	Y	\$82,820.00	\$81,636.72	B	Y
09/29/07	BED151	ATDC Project Manager	117411	Y	\$77,996.00	\$81,120.00	B	Y
08/10/06	BED160	Housing Finance Specialist I	117422	Y	\$70,638.00	\$79,590.00	W	Y
05/04/07	BED160	Special Assistant	117429	Y	\$70,638.00	\$65,240.04	W	N
10/23/06	BED160	HHFDC Deputy Eecutive Director	118037	Y	\$77,000.00	N/A	A	Y
05/01/07	BED160	Housing Finance Specialist I	118415	Y	\$60,000.00	N/A	W	Y
05/01/07	BED160	Secretary I	118427	N	\$29,976.00	N/A	A	Y
11/20/07	BED130	Economist IV	118817	N	\$43,824.00	N/A	A	Y
11/20/07	BED130	Economist V	118822	N	\$49,344.00	N/A	A	Y

Attachment 9
Listing of Expenditures Exceeding Federal Fund Ceiling for FY07 and FY08

<u>Program ID</u>	<u>FY07 Ceiling *</u>	<u>FY07 Expenditures**</u>	<u>FY08 Ceiling*</u>	<u>FY08 Expenditures**</u>	<u>Reason for Exceeding Ceiling</u>	<u>Recurring (Y/N)</u>
BED 144	2,304,282	50,047			FY07: Brownsfield Assessment Grant, Public Law 107-118, Small Business Liability Relief and Brownsfield Revitalization Act. Funds used to conduct environmental site investigations of Brownsfield properties that are known or suspected to be contaminated by hazardous substances or petroleum.	N
BED 146	6,843,525	3,155,884			FY07: National Defense Center of Excellence for Research in Ocean Sciences (CEROS) technological development contracts.	Y
BED 146		94,394			FY07: National Defense Center of Excellence for Research in Ocean Sciences (CEROS) administrative expenses.	N
BED 146		321,390			FY07: Development and Deployment of Disturbed Energy Systems for the research and development analyses to determine the feasibility and benefits of the installing a variety of cutting edge technologies that are interconnected to the grid.	N

* Per House Finance Staff reflect appropriation amount under "ceiling".

** Per House Finance Staff reflect Governor's approval that is in excess of appropriated amount under "expenditure".

Attachment 10
Listing of Transfers for FY07 and FY08

<u>Program ID</u>	<u>FY07 Ceiling*</u>	<u>FY07 Amount Transferred</u>	<u>FY08 Ceiling**</u>	<u>FY08 Amount Transferred</u>	<u>Reason for Transfer</u>	<u>Recurring (Y/N)</u>
BED 100	1,995,056	(40,000)			FY 07: Transfer \$40,000 to BED142 to provide funding for services on a fee basis to implement the "Innovation in Linking Hawaii to Global Economy" Policy.	N
BED 105	1,432,414	(2,000)			FY 07: Transfer \$2,000 to BED142 to provide funding for services on a fee basis to implement the "Innovation in Linking Hawaii to Global Economy" Policy.	N
BED 120	1,398,347	(55,000)			FY 07: Transfer \$55,000 to BED142 to provide funding for services on a fee basis to implement the "Innovation in Linking Hawaii to Global Economy" Policy.	N
BED 130	977,480	(89,000)			FY 07: Transfer \$89,000 to BED142 to provide funding for services on a fee basis to implement the "Innovation in Linking Hawaii to Global Economy" Policy.	N
BED 143	936,930	(13,000)			FY 07: Transfer \$13,000 to BED142 to provide funding for services on a fee basis to implement the "Innovation in Linking Hawaii to Global Economy" Policy.	N
BED 144	1,622,561	(31,000)			FY 07: Transfer \$31,000 to BED142 to provide funding for personal services on a fee basis to implement the "Innovation in Linking Hawaii to Global Economy" Policy.	N
BED 150	288,245	(11,000)			FY 07: Transfer \$11,000 to BED142 to provide funding for services on a fee basis to implement the "Innovation in Linking Hawaii to Global Economy" Policy.	N

* General Fund Appropriation

** No transfers for FY 08

**Attachment 11
Department Listing of Deployed Positions**

Position #	Position Title/Description	Program ID Originally Assigned to	Program ID Transferred to	Narrative Discussion on Why Position was Moved	Specific Reasons Deployment Will Result in More Efficient Functioning of Department	Impact to Program Originally Assigned to	Date Deployment Began	Expected End Date of Deployment
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM - NONE								



DBEDT's Six Strategic Objectives

WORKFORCE HOUSING

Create workforce housing units in high-quality living environments to support a skilled labor force in Hawai'i.

HUMAN CAPITAL DEVELOPMENT

Educate, develop, retain and attract a workforce with the skills required for an innovation-driven and globally-competitive economy.

"ENERGY FOR TOMORROW"

Fundamentally change how Hawai'i consumes energy by accelerating the production of renewable and alternative energy, increasing energy efficiency, developing and adopting new technologies, ensuring energy security and long-term environmental quality, and returning benefits to the consumer.

GLOBAL LINKS

Increase the flow of people, products, services and ideas between Hawai'i and its export markets.

CREATION OF AN INNOVATION INFRASTRUCTURE

Create the infrastructure that enables Hawai'i's creative and entrepreneurial talent to turn ideas into products and services.

IMPROVING HAWAII'S BUSINESS ENVIRONMENT

Lead public sector efforts to bring about a business environment that is market-driven, and rewards productivity and entrepreneurship.



YEARLY ACTIVITY PLAN (YAP)

DIVISION/ATTACHED AGENCY: **READ**

PROGRAM ID: **BED130** PROGRAM NAME: **RESEARCH AND ECONOMIC ANALYSIS DIVISION**

SOURCE OF FUNDING: **GF-07-130-B-0001-FA0001 / SF-07-310-U-0001-TR0001**

I. PROGRAM PLANNING

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.

Good data and analyses are essential to business and government planning/policy. DBEDT (through READ) is the principal supplier of that information in Hawaii but keeping up with the growing demand is a challenge. The problem for DBEDT (READ) is increasing our ability to provide data, analysis and research assistance that better support economic development, planning, business decisions, and public policy making.

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.

While economic information & analysis are crucial to business and government planning, it is too costly to collect, process, analyze, and interpret information on an individual basis. Over the past decade or so, the private banks have all closed their economic research sections and stopped most of their activities in this area. With access to timely and accurate information increasingly critical and the private information sector cutting back, government must fill the gap. Key partners include other DBEDT and other State agencies, the University of Hawaii, the federal government, and industry groups.

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).

Short term: In this fiscal year, 5 additional reports on general economic issues; more quarterly reports on tourism data, especially on visitor satisfaction, expenditures, and developing markets. Set up client advisory groups to get a better feel for their needs.

Longer-term: Frequent reports and data released based on identified current needs. Improved Web accessibility of data.

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.)

Ability of READ to work with ASO and ICSD to improve Web delivery of information. Funds to set up new systems. Support from client groups. Support from Administration. Ability of current staff to rise to the challenge. Changes in government and economic policies, and world events. Timeliness and accuracy of data obtained from other agencies. Technology changes.

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

YEARLY ACTIVITY PLAN (YAP)

The "best practice" among Federal agencies and other information web sites is to allow users to create their own, custom tables and reports from a comprehensive database. Initiating such a program for DBEDT's economic information would serve a much greater range of users and save time for staff because they would no longer have to create and format as many tables. It would also provide access to a wider range of data for users. This would allow READ to spend more time on analysis and responding to immediate needs/issues

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

Internet use will continue to grow and reduce the need for printed reports. Increased skill and sophistication of internet users will allow a shifting from prepared tables to self-created and will create new demands. Analysis of data is more important as data availability grows

II. PROGRAM IMPLEMENTATION

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

4 vacant positions; partnerships with other DBEDT and other State agencies, Federal government, and clientele.

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

- With increased efficiency in Databook activities, reduce time spent on tables and shift to new reports.
- Shift function of staff from processing to focus on time series data and new reporting design
- Meet with client groups to respond better to current needs
- Set up clear time tables for work products
- Fill four vacant positions
- Meet with relevant parties regarding Web site

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

Additional Reports: READ's initial review of resources and client needs suggest the following additional reports by DBEDT would provide the highest value in the short run, given current resources and opportunities:

- Quarterly Visitor Satisfaction Reports
- Quarterly Cruise Report
- Quarterly Report on Small Visitor Markets
- 4 new reports: including a federal activity report, in-migration report, county trends report, and cost-of-living report
- New reports using Computerized General Equilibrium (CGE) modeling (which more fully addresses the range of adjustments the economy makes in response to new activity or changes in current business activity).

Other Proposed Outputs: Beyond increasing the number of reports, there are opportunities for DBEDT to significantly increase the ability of business and policy agencies to access the data and information of highest value to them through more information about what is available, new

YEARLY ACTIVITY PLAN (YAP)

technology to deliver custom reports and proactive efforts to engage clients in the planning of READ's outputs:

- Additional press releases for new data uploaded to Web
- Improving Web presentation of data
- Regular, scheduled meetings with client groups

Outcomes:	Identify the short-term (0-2 years) and long-term (2-6 years) outcomes you expect to achieve.
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- Increase in number of articles citing DBEDT data and reports
- Increase in number of Web site hits for DBEDT's data and analyses
- Increase in number of inquiries responded to
- Increase in number of people participating in workshops
- Increase in number of presentations

Improved reputation in business community

Impact:	Describe the lasting impact you anticipate.
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- Improved decision making by policymakers and businesses
- Improved economy
- Reduce economic risk

III. PROGRAM EVALUATION

Focus Area:	From your program logic model, list the components of the most important aspects of your program.
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Data collection, data analysis, economic research, presentation of information in public forums and on the Web site, report preparation, participation in projects and discussions

Audience:	Identify the key audiences for each focus area. Who has an interest in your program?
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Visitor industry, businesses, policymakers, DBEDT offices/agencies, other State Departments, media, Universities, County Governments, Economic Development and Workforce Agencies, interested public

Questions:	For each focus area and audience, list the questions they may have about your program.
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Is the data being released timely and kept relevant to current issues? Is the data accurate and trustworthy?

Information Use:	For each audience and question you have identified, identify the ways you will use the evaluation information.
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Adjust reporting mechanisms or issue additional reports based on periodic checks with audiences (user group meetings, satisfaction surveys, etc.).

Track fulfillment of requests to improve response time and accessibility.

Monitor internal processes to increase efficiency and decrease preliminary errors.

YEARLY ACTIVITY PLAN (YAP)

Indicators:	Describe what information can be collected that would convey the status of your program.
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- Increase in number of articles citing data and reports
- Increase in number of website hits
- Increase in number of inquiries responded to
- Increase in number of people participating in workshops
- Increase in number of presentations
- Improved reputation in business community

IV. THREE STRETCH GOALS FOR 2007

Please identify three stretch goals for FY07:

1. Enhance Web presentation of data, thereby enabling staff to spend more time on analysis and produce additional reports
2. Hold periodic meetings with stakeholders and client groups to better address their information and research needs
3. Increase number of reports by 7 over the year

VI. ALIGNMENT



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

YEARLY ACTIVITY PLAN (YAP)

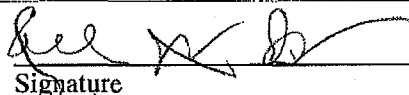
How is your program linked to DBEDT's six strategic objectives?

- Workforce Housing And Development Of The Core Urban Areas
- Workforce Development
- "Energy For Tomorrow"
- Export Of Goods And Services
- The Creation Of An "Innovation Infrastructure"
- Improve Hawaii's Small Business Environment.

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

VII. APPROVALS

Submitted by (Type Name): Pearl Imada Iboshi


Signature

Date of Peer Presentation : August 1, 2006

Date: September 11, 2006

APPROVED DISAPPROVED

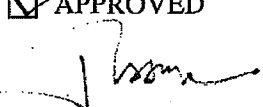
Signature

Name of Division/Attached Agency Head:

Date: September 11, 2006

READ

APPROVED DISAPPROVED


Director's Signature

9-26-06
Date

**Department of Business, Economic Development, and Tourism
Supplemental Budget Request for Fiscal Year 2008 - 2009**

Program I.D. and Title: BED 100 SM – Strategic Marketing and Support Division

1. Introduction:

a. Summary of program objectives.

SMSD promotes economic diversification and industry development by addressing fundamental issues related to the building blocks of the new economy. Of primary concern are the challenges brought on by globalization. For small businesses, it means that the competition can now be located half way across the world. For our present and future workforce, the need to upgrade skills and remain adaptable are essential in order to be competitive in the global marketplace. For our local economies, it means aligning with regional economies to grow and be part of the broader, global economic scheme.

To accomplish its objectives of economic diversification and development, SMSD supports:

- Existing and emerging industries through the expansion of Hawaii's participation in global trade and commerce; linking Hawaii firms with overseas agencies and organizations, increase in exports of Hawaii products & services, workforce development; and
- New and existing business through business advocacy, coordination and development of programs and projects aimed at specific business sectors or economically-distressed areas, including rural areas and areas affected by natural disaster.

b. Description of program objectives.

There are two distinct, yet synergistic, programmatic areas: the Marketing Programs and the Support Programs. Together, these two programs support DBEDT's strategic objectives by:

- Linking Hawaii's people, ideas and businesses with the global marketplace to enhance global trade and to attract investment;
- Promoting exports of goods and services from Hawaii to provide Hawaii businesses with a wider market base of opportunity;
- Supporting the development of an innovation infrastructure in Hawaii through the development of a capable and informed workforce especially in the areas of science and technology, and building the capacity of our workforce to handle community needs;
- Improving Hawaii's small business environment through advocacy and small business preference programs; and

- Attracting investment, including foreign investment, to support areas of need such as workforce housing development, long term care facilities and educational facilities.

c. Explain how your program intends to meet its objectives in the upcoming supplemental year.

To meet the **Marketing Programs'** objectives, efforts are focused on the following:

1. Promoting global linkages/exports from Hawaii, and opening and expanding markets for Hawaii's businesses through:
 - Utilizing existing agreements and identifying new strategic opportunities with foreign governments that will forge closer ties and generate new businesses opportunities & relationships;
 - Creating business and organizational partnership and matchmaking opportunities for Hawaii's companies through conferences, events, and our Sister-State relationships;
 - Operating representative offices in Taiwan and Beijing to provide stable linkages (governmental and business) with those regions;
 - Providing relevant and timely information about overseas market opportunities and serving as a facilitation to access there opportunities;
 - Organizing participation with private sector partners at domestic and international tradeshows to market Hawaii as a business and investment location, to gain new customers and sales for private sector business, and to market Hawaii's areas of excellence and industry sectors with competitive advantages;
 - Facilitating introductions between buyers and investors and other incoming business groups to purchase from or to partner with Hawaii companies;
 - Promoting professional and vocational education and training at Hawaii's institutions to Asian managers, administrators, and students as a means of developing higher value market opportunities and promoting Hawaii as a center for international education;
 - Collaborating with the counties, Economic Development Boards and industry associations in their targeted marketing efforts;
 - Building on the successes of "consortia" marketing. SMSD has developed three consortia: the Integrated Development Group (IDG), which is a consortium of Hawaii companies in the tourism consulting fields, and the Environmental Services Development Group (ESDG), which is a consortium of Hawaii companies in environmental consulting

and product development; and the Study Hawaii Group which is a group of institutions in international education to attract students and training groups to Hawaii;

- Leveraging Hawaii's network of contacts in the public, quasi-governmental, NGO and private sectors in the Asia-Pacific region; and
- Matching Hawaii firms with opportunities in the Asia-Pacific region by conducting targeted overseas business missions aimed at opening and expanding markets.

2. Attracting new business and investment to Hawaii by:

- Collaborating with county economic development boards and agencies, trade and industry associations, academic and research associations, and the private sector to market Hawaii's industry areas of excellence;
- Collaborating with overseas partners to identify prospects who are interested in investing or locating a business in Hawaii;
- Providing information and assisting companies interested in relocating or starting-up in Hawaii;
- Participating in targeted industry events, conferences and exhibitions to attract companies;
- Promoting Hawaii's business assets and incentives including Act 221/215, Enterprise Zones, State Employment Training Funds, etc., as part of the business development effort;
- Organizing outbound and inbound missions to promote Hawaii as a good place for business and investment; and
- Promoting the immigrant investor program in Asia and the U.S., educating attorneys and other professionals about the program, matching overseas investors with investment opportunities in Hawaii, and utilizing recent federal support for investment attraction.

3. Building an "Innovation Infrastructure" through readiness training and networking opportunities with the global marketplace:

- Sponsoring enterprise and export workshops to assist small businesses to enter the export market;
- Supporting industry improvement conferences and events;
- Conducting workshops on how small businesses can benefit from globalization; and

- Attracting international workshops, seminars and conferences that provide opportunities for Hawaii firms to expand their reach of contacts.
4. Improving the small business environment by:
- Continuing the “Hawaii: Open for Business” campaign backed by a joint effort of economic development agencies to market Hawaii as a business location especially to targeted industry sectors;
 - Maintaining an SMSD website in Chinese, and collateral materials to assist and attract businesses in selected languages;
 - Producing high profile conferences that position Hawaii as a key location for international business exchange; and
 - Orienting and assisting visiting groups, missions and journalists to feature Hawaii’s technology, expertise, infrastructure, education and training, and integrated medical health practices in media highlighting the business assets of our state.

To meet the **Support Programs’** objectives, efforts are focused on the following:

1. Building an “Innovation Infrastructure” through workforce development, through:
- Collaborating on workforce development initiatives with county workforce investment boards, state workforce development council and workforce development partners;
 - Marshalling other state agencies such as the Dept. of Human Services to participate in workforce training and development programs aimed respectively at the hard-to-hire and community based needs, and Dept. of Commerce and Consumer Affairs to increase participation in financial literacy efforts;
 - Identifying industry workforce needs, and serving as a facilitator between the training service providers, funding agencies and the private sector;
 - Developing and promoting work force development initiatives such as life-long learning accounts and repatriation of ex-pats; and
 - Identifying and applying for grants (federal, private, NGO) that provide financial assistance to kick-start or pilot workforce development projects.
2. Improving the small business environment by:
- Providing, through the Business Advocate, the necessary staff support to the Small Business Regulatory Review Board (SBRRB) and streamlining their review process to expedite comments to rule-drafting agencies;

- Increasing the SBRRB's public relations and publicity efforts to generate more awareness of the program;
- Providing financial and technical assistance, through the Community Based Economic Development Program, to eligible community organizations to plan and implement economic development projects that provide employment opportunities, build capacity, strengthen identity, and help retain and create cultural anchors;
- Developing partnerships to better leverage public funds geared toward communities, such as those with the Office of Hawaiian Affairs and the Department of Human Services, to meet targeted disenfranchised communities' needs;
- Identify and solicit NGO's and foundations for financial support to community based organizations;
- Collaborate with a statewide Advisory Council to develop a more effective public relations strategy and partnerships with other funding agencies and organizations dedicated to community economic development;
- Implementing an outreach campaign with the counties on the State Enterprise Zone (EZ) program. The objective of the outreach program is to increase new EZ enrollees by helping to identify, inform and educate eligible businesses in designated zones about program benefits;
- Developing new promotional and educational activities targeted to attract new businesses to EZs in economically distressed areas and increase the number of enrolled eligible firms from these areas;
- Increase advertising and publicity of Enterprise Zones and the EZ program in collaboration with other state agencies, such as the Dept. of Taxation, and in conjunction with the promotion of other tax incentives;
- Distributing EZ brochures, booklets, and copies of the EZ annual report upon request and through the counties and other public and private economic development entities. EZ information, maps, and application forms will also be made available on-line with increased links to related websites; and
- Providing Disaster Commercial and Personal Loans in the event of a state-declared disaster through the states Disaster Loan Program.

2. Program Performance Results:

a. Discuss the performance results achieved by program in FY07.

A summary of the **Marketing Programs'** FY 2006 and 2007 activities and results include participating in three U.S. mainland trade shows; organizing two overseas

trade missions, six reverse missions and eleven industry-specific promotional events. Results realized include attracting \$5.25 million in new investments into the state, \$2.5 million in new exports, and between \$3-6 million anticipated export sales. The following details are provided :

1. Promoting global linkages exports from Hawaii, and opening and expanding markets for Hawaii's businesses:
 - Organized Hawaii's participation at the BIO 2007 Annual International Convention in Boston, May 6-9, 2007. The event attracted a record 22,366 attendees from 48 states and 64 countries. Hawaii's delegation consisted of 30 individuals representing 19 organizations and programs from the private sector, state agencies and the University of Hawaii. Significant outcomes include: Over 300 contacts made from the Hawaii Pavilion and \$40,000 in private sector support leveraged from this event; also, a California drug discovery company is looking to move its operations out of the Bay area and is considering Hawaii as one possible location; the company is currently assessing the benefits of Act 221/215. Also participated at BIO 2006 in Philadelphia.
 - Organized Hawaii's participation at the 2006 SPIE Optics & Photonics Conference & Exhibition held in San Diego, August 15-17, 2006. The Hawaii team consisted of 19 individuals from 11 organizations, representing a cross section of private sector entities, academia and state government. This year's event featured 277 exhibitors and was attended by 4,400 people. Significant outcomes include: Over 100 contacts made through the Hawaii Pavilion; one company (Ealing Catalog) seriously looking to expand to Hawaii; market visit planned for November 2006; one company (WNBC in LA) in discussion to open sales office in Hawaii; 3 sources of new federal R&D funding was briefed and connected with Hawaii companies; and \$27,700 in private sector support leveraged for this event.
 - Organized Hawaii's participation in BioJapan in Osaka, in September, 2006. Thirteen professionals representing the University of Hawaii, government and the life sciences industry participated in a three day exhibition at the BioJapan trade show as part of the U.S. Pavilion. The event attracted over 20,000 attendees during the three day event. In addition to exhibiting at the trade show, Hawaii hosted a session that featured the Cancer Research Center of Hawaii's future developments. This event attracted over 80 attendees. A significant outcome included a future ICT mission to Hawaii in January 2007.
 - Organized Osaka ICT Mission to Hawaii – Reverse mission comprising of representatives from IT and telecom sectors in Western Japan. The mission was led by NTT Docomo President and included 12 individuals who observed and learned about IT and telecom initiatives on Oahu and the Big Island. This mission was a direct outcome of Hawaii's participation in BioJapan 2006 in Osaka.

- Produced performance by the Blue Sky Children's Arts Troupe –a special performance for over 200 Hawaii elementary school students to participate in a colorful cultural presentation from China by 40 children.
- Conducted the Hawaii Life Sciences and Innovation Seminars, Japan to promote Hawaii's emerging industries, the seminars were attended by over 150 participants in Tokyo and Okinawa.
- Participated in the Korea-U.S. Pacific States' Economic Conference in October 2006 in Seoul. A group of 21 Hawaii delegates representing 15 public and private sector organizations attended. One of the delegates made a presentation in the tourism session, addressing Hawaii's strengths as a location for meetings and conventions.
- In October 2007, participated at the Korea-U.S. Pacific States Conference in Boise, Idaho. Secured the 2009 conference for Honolulu, Hawaii that will attract 1,000 conference attendees.
- Planned, organized and led an environmental mission to China. The eight member mission, representing five Hawaii companies, visited Shanghai and Chengdu to get a better understanding of the environmental landscape and challenges facing China and to market their services and products to government and private-sector companies. Supported by the Shanghai and Chengdu offices of the U.S. Commercial Service (USCS), mission activities included industry briefings, over 60 targeted one-on-one appointments, group meetings with high-level environmental protection bureau officials and environmental site visits.
- Hawaii Environmental Biosolutions (HEB) signed a joint venture agreement with Jinan Jiu Rong Water Treatment Company to deploy HEB's wastewater treatment technologies in Jinan, capitol city of Shandong Province. The agreement was a result of a reverse environmental mission to Hawaii led by the U.S. Commercial Service office in Beijing. DBEDT planned and organized industry briefings by Hawaii environmental companies, environmental site visits and one-on-one business meetings. HEB will provide their patent pending wastewater treatment technology valued at \$1 million as their investment in the joint venture. Jinan Jiu Rong will provide \$500,000 cash and the exclusive use of one of their existing factories, which sits on 600,000 square meters of land, valued at over \$625,000, to establish the new company. A private Chinese investor will invest \$125,000 cash into the venture.
- Organized two site visits and industry presentation for a medical and dental administration delegation from Chengdu and Kunming, China, led by staff from the U.S. Commercial Service in Chengdu. Delegation members were interested in visiting a comprehensive dental clinic and learning more about how Hawaii handles its medical and dental waste. Hawaii Family Dental Centers is the State's largest group practice with eleven locations on four islands and over 80,000 patients. The delegation toured the Center's headquarters and learned how the multi-site complex of dental clinics handle

personnel recruitment, staff training, compensation structure and the company's strategy to market their services statewide. Two participants in the group who own their own hospital and dental clinics are interested in working with the dental center's planning staff on design and operational concepts for their future dental clinics. They were also interested in having their new facilities look more Westernized.

- The group also learned how Honua Technologies, the State's largest medical waste disposal company, safely handles and disposes of medical and dental waste. The Chief Financial Officer of Huaxi Puji Hospital in Chengdu is in the process of planning a new hospital in Sichuan Province and is interested in evaluating Honua Technology's products for installation in her three hospitals. Honua Technologies has made many trips to China on their own in an attempt to establish and develop relationships in the industry and to market and secure business overseas.
- Planned and organized an environmental-focused program for a reverse mission from Zibo City, China. A delegation of senior managers from the Zibo Municipal People's Government Administrative Committee of National New and High-Tech Industrial Development Zone, traveled to Hawaii get a first-hand look of what Hawaii's environmental service and product-based companies have to offer Zibo. Zibo is an industrial city well known for its high quality ceramics, silk, pharmaceutical and chemical products. Any of the products manufactured in Zibo present its own environmental challenges to the city's environment. With a population in excess of 4 million people, Zibo is considered one of the top 50 Chinese cities in terms of economic production and strength. The full-day program included a welcome by Director Ted Liu, 3 industry briefings, a site visit to the Waikiki Natatorium and meetings with several Environmental Development Group Hawaii companies. The group's visit to Hawaii was a direct result of a DBEDT-led environmental mission to Shanghai and Chengdu in September 2006. While the Hawaii delegation was in Shanghai, Mr. Pengsheng Zhang, Deputy Director for Administration, Zibo New & High-Tech Industrial Development Zone, travelled to meet with DBEDT staff and delegation members to explore the possibility of visiting Hawaii as part of a multi-state, environmentally-focused tour of the United States.
- Planned and coordinated an environmental industry-focused program in partnership with the University of Hawaii's Water Resources Research Center. This environmental delegation is the second group to visit Hawaii from the Administrative Committee of Zibo New & High-Tech Industrial Development Zone. The zone is interested in developing relationships and partnerships with Hawaii environmental companies in the areas of safe drinking water and wastewater treatment technologies. Initial contact was made with the zone's deputy administrative director during a DBEDT-led environmental mission to China in September 2006.
- Planned and organized a one-day program for a hospital and clinical laboratory delegation from Shanghai and Beijing. The 23 member delegation, led by the U.S. Commercial Service (USCS) was interested in

learning about Hawaii's statewide healthcare system and State government's role in regulating and monitoring medical facilities. The USCS had confirmed the group's interest in purchasing medical devices and new technology related to the delivery of healthcare services and partnering to broker medical supplies and equipment. Dr. Chiyome Fukino, Director of the State Department of Health, addressed the group on the topic of public health in Hawaii. Honua Technologies, a Hawaii company that has developed a proprietary medical and hazardous waste treatment and destruction system, briefed the delegation on their technology. Honua has been actively seeking business opportunities in China over the last four years. Healthcare Association of Hawaii presented an overview of the network of medical facilities in Hawaii. A site visit to the Hawaii Medical Center East facility was arranged for the group and included comprehensive briefing by senior medical administrators and a tour of the hospital.

- In June, 2006, assisted the Bishop Museum in the signing of an historic cultural exchange agreement which resulted in a major exhibition which began on July 11 and which ran through September 1, 2006, and which focused on the historical and cultural development of the Hawaiian Islands. The exhibit was developed after the Taiwan office invited the National Museum of Prehistory to visit Hawaii in 2005 to meet with Bishop Museum officials.
- Helped Kona Brewing Company gain a foothold in the Taiwan brewery market. Initial sales totaled \$12,000 and 300 cases were ordered in 2007.
- Taipei staff worked closely with Ever Shine Corporation to promote various Hawaii products by placing principal Jason Lee in touch with such companies as Hawaiian Sun, Noh Foods and Nutrex. In addition, staff introduced Mr. Lee to EVA Airlines and Maersk Lines for possible long-term shipping arrangements. He produced a major Hawaii product promotion at Taiwan's Lake Shore Hotel in August, 2006 at which 1,500 participated. All-in-all, Mr. Lee imported \$417,262 worth of Hawaii products by end of 2006. In April, 2007, Mr. Lee visited the Beijing office to discuss opening up an office for the marketing of Hawaii Deep Sea Water.
- Facilitated Hawaii participation at the annual World Trade Centers Association (WTCA) conference in Beijing. Over the next ten years, the WTCA plans to build 40 facilities in China over the next ten years, resulting in revenues to Hawaii firms in the Integrated Development Group (IDG) of \$2.5 million to \$5 million. During the conference, an agreement was signed between the Integrated Development Group (IDG) and the Association to expand the Centers in China. IDG made a presentation on how it could help developers and municipal governments determine the feasibility and optimum mix of facilities.
- Taipei staff reported a significant breakthrough in promoting Hawaii products in Taiwan by partnering with Jason's Market Place to feature a variety of foods from the Islands at its Taipei supermarket. Jason's is well-known throughout Taiwan for as "the" place to buy gourmet, imported products.

- Helped the tourism consulting Integrated Development Group (IDG) secure a proposal for the redevelopment of the Tianjin Central Business District. The value of the master plan would be \$2 million. Further, IDG has been asked to help master plan a nature and eco-tourism preserve in one of the largest, untouched wetlands in the Beijing/Tianjin area. This could result in a site for Hawaii's Environmental Development Group to demonstrate new technologies. The value of this planning effort would be \$1 million.
- In September 2006, Taipei staff assisted in organizing a Deep Ocean Water seminar in Taipei, and invited Mr. Reb Bellinger of Makai Ocean Engineering and Mr. Jan War of the Natural Energy Laboratory of Hawaii Authority to speak. Staff felt that the highly successful meeting could generate business for Hawaii companies, such as Makai, with expertise in DOW planning and engineering.
- Participated in the *Taipei International Travel Fair*, from November 3 to 6, 2006 where they promoted IDG, short-term training and school excursion programs. The event, which is considered Taiwan's major travel show, attracted 172,280 visitors. Also in November, Taipei staff participated in the *13th East Asian Entrepreneurs' Summit*-- one of the largest international economic gatherings in the region where they highlighted business opportunities in Hawaii.
- Beijing staff assisted Mr. James Cavanaugh and Mr. Herman Jones to set up an extended car warranty business in China by assisting with a letter of intent and the processing of the China Tax Exemption certificate. In May, an agreement was signed between Hawaii Cavanah Associates and the Beijing Mai Meng International Insurance Company—a first-of-its-kind in China. The potential market for the auto insurance service appears to be significant. Firm held its grand opening in October.
- Beijing staff prepared an MOU between the China World Trade Center Holding and the Heilongjiang Provincial Tourism Group to renovate the Huaqiao Hotel in Harbin into a World Trade Center. IDG will provide a package of services for this project. In March 2007, staff discussed a possible World Trade Center project in Guiyang. In April, staff facilitated the application of yet another WTC for IDG services—for a building at Shijiazhuang. IDG would earn \$600,000 for the two projects.
- Taipei staff organized Hawaii participation at a food booth at *Food Taipei*, from June 21 to 24, 2007. The show attracted vendors from 27 countries, with a total of 1,600 booths. Hawaii products featured included jams and jellies, macadamia nuts, sea salts, sugars, vodka, herbal teas and chocolates. Six Hawaii companies took part in the event. A total of 59 buyers visited the booth, representing department stores, restaurants, tea houses and coffee shops. Ever Shine, a private Taiwan company, leased two booths and featured a wide range of Hawaii products. Seventeen buyers from nine countries visited. Sample sales at the booth totaled \$3,076. Importantly, participation led to two future marketing opportunities: at the Mitsukoshi

Department Store in Taipei (in October) and the Janfusun Fancy World amusement park (next year).

- New export of products such as Hawaii deep sea water, processed foods and confectionary, coffee, arts and crafts, apparel, etc. into *Raboi*, a Hawaii themed gift retail store in Taiwan which the Taiwan office help get started, totaled \$1.2 million for calendar year 2007.

2. Attracting new business and investments to Hawaii:

- Kodama Koi Farm (KKF) – a result of BioJapan 2004. KKF invested over \$2 million in Hawaii to create a 10 acre aquaculture farm raising more than 1 million koi, making it the largest koi farm in the world. KKF celebrated its grand opening in October 2006. KKF has relocated their administrative and retail sales office from California to Hawaii resulting in the following:
 - Total jobs created in Hawaii = 30
 - Projected export revenues in 2006 = \$2 million.
- Total I, a Japanese trading company invested \$1.5 million to establish its U.S. branch office in Hawaii, utilizing DBEDT's Foreign Trade Zone. Total I's investment is a result of on-going business attraction activities focused on Japan. Since locating to the FTZ, Total I expanded its business activities in Hawaii by investing in a local manufacturer of Hawaii products. Total investment for this project was \$260k.
- From November 24 to 30, 2006 Beijing and Taipei staffs participated in the *Guangdong International Tourism & Cultural Festival* in Guangdong. They assisted in organizing a Hawaii booth and organized two investment seminars: in Guangzhou and Beijing. The Guangzhou seminar attracted more than 80 persons, while the Beijing seminar drew 120 participants. Staff offered a presentation on opportunities for investing in Hawaii, in addition to sending out invitations, setting up hotel accommodations, contacting the media and arranging meetings with high-level officials. Eighteen investors expressed interest in learning more about Hawaii opportunities.
- Beijing staff assisted numerous media representatives in visiting the islands to promote education, training and investment opportunities in Hawaii. These included the following: *World Tourism Magazine*, *Travel & Leisure Magazine*, *Golfweek*, *Ming*, *Rayli*, *Harper's Bazaar* and *BQ*.
- In July, 2006, staff met with Director General Liu Kezhi of the China National Tourism Administration (CNTA) to follow up on the MOU signed by Chairman Shao Qiwei and Governor Lingle during Vice Premier Wu's visit to Hawaii in April, 2006. The MOU emphasized the sharing of information, the training of CNTA personnel, and cooperation in expanding two-way tourism between China and Hawaii.
- Beijing office staff participated at the annual China International Travel Mart in Shanghai from November 14 to 17, 2006. With over 2,300 booths, "CITM"

is the largest professional travel show in Asia. Staff highlighted opportunities for training and business investment in Hawaii.

- Organized a Tourism Forum on September 16 2006 at the Hawaii Convention Center for China National Tourism Administration (CNTA) Chairman Shao Qiwei and officials from CNTA and Hawaii tourism leaders. The Forum focused on challenges and opportunities for tourism development in China and Hawaii, and what Hawaii needs to do to target the upper end of the outbound Chinese tourism market. The Forum built on the April, 2006 Memorandum of Cooperation that pledged both Hawaii and China to form partnerships and strategic alliances.
- Developed itinerary and presentations for a group of Chinese investors visiting Hawaii in February, 2007 to explore Hawaii real estate opportunities. The 24-member delegation was composed of persons from real estate development, air conditioning, airlines, international trading and investment.
- Beijing staff assisted Hawaii's High Technology Development Corporation in establishing an office at the Zhongguancun Technology Park in Beijing. The office will play a vital role in tapping into China's rapidly-expanding high technology industry and forming partnerships with Hawaii companies.
- Recruited and coordinated numerous groups of Chinese students and professionals to visit Hawaii for degree education and short-term training. Among these were a group of tourism officials from Heilongjiang Province, who would train in various areas, including supervision and management, information technology, and financial planning, and a group of 23 government and private-sector officials from the Shanghai Municipal Tourism Commission who were seeking training in hotel management. The two most popular institutions for training are the UH Shidler College of Business and the UH School of Travel Industry Management.
- Worked with Hawaii educational institutions to attract students from throughout China. Staff listed special courses, as well as other events or programs of interest to the China market. The information was sent to interested parties. Staff attended and distributed materials at the 12th China International Education Exhibition Tour from March 2 to 18, 2007. The tour visited Beijing, Shanghai, Nanjing, Guangzhou and Chongqing. The major focus of the tour was to attract Chinese students to overseas educational opportunities. Staff reported a "great success" and noted a "high level of interest" in Hawaii educational institutions.
- Taipei staff planned the ASOA (American States Offices Association) Investment Seminar on March 22, 2007 at the Taipei World Trade Center. The seminar attracted 50 companies and 66 individuals who planned to invest in projects in the U.S. Staff offered a presentation on investment opportunities in Hawaii.
- Taipei staff participated in four trade shows to promote Hawaii products and education, at *Oh, America—Oh, Canada* (which focused on education) on

March 3 and 4, 2007; the *Taiwan Sports Recreation & Leisure Show* from July 19 to 22; the *Taiwan International Biotech Fair* from July 26 to 29, 2007; and the *Taipei International EnPEC & Water Show 2007*.

- In March, Beijing staff assisted representatives from UH and Zhongshan University in collaborating on an MBA program between the UH Shidler College of Business and Zhongshan University School of Management. In addition, staff met with Shidler and Sun Yat-sen University officials to discuss a China International MBA program.
 - Beijing staff assisted the Heilongjiang Provincial Tourism Administration, which led to the signing of a Memorandum of Cooperation on May 2, 2007. The agreement offers DBEDT the opportunity to assist the province in a number of areas, including hotel management, tourism development, tourism resources planning and marketing. Importantly, the agreement also specifies that Hawaii will serve as a “major training base” for Province tourism officials.
3. Building an “Innovation infrastructure” including human capital development:
- Conducted a briefing for developers on the Immigrant Investor Program (EB-5) to inform them of how the program can be used to reduce their financing costs;
 - Partnered with the Hong Kong Business Association of Hawaii to conduct a series of workshops on doing business in China;
 - Held bi-weekly video teleconferences with the Economic Development Boards and agencies of the counties, other state agencies including the University of Hawaii, and DBEDT to continue the inter-agency sharing of information and dialogue, including in work force development issues; and
 - Served as the state economic development agency’s representative on the Oahu Workforce Investment Board.
4. Improving Hawaii’s small business environment:
- Through the efforts of our contractor, Enterprise Honolulu, a Targeted Business Development project has been implemented to identify Hawaii innovation companies who are at a critical growth stage to find potential mainland investors and partners to help develop and grow their products and services locally and globally. EH assisted/mentored 16 companies by arranging B2B meetings and providing targeted research reports tailored for that specific company. Of the B2B meetings, one deal has resulted to date.
 - Worked with the Economic Development Alliance of Hawaii and the four county economic development boards to promote Hawaii’s technology-based services while jointly promoting county assets within the context of unified and coordinated state campaigns. Examples include BIO 2007 and SPIE 2006 Optics & Photonics.

The Support Programs' results are as follows:

- Business Advocate:

1. New/Amended Rules reviewed by Business Advocate:

<u>FY 2006</u>	<u>FY 2007</u>
65	57

2. Businesses requesting regulatory relief:

<u>FY 2006</u>	<u>FY 2007</u>
4	5

- CBED:

1. Number of jobs generated by community-based organizations (CBO):

<u>FY 2006</u>	<u>FY 2007</u>
95	153

2. Number of CBOs seeking technical/financial assistance:

<u>FY 2006</u>	<u>FY 2007</u>
520	550

3. Number of workshops and conferences providing technical assistance to CBOs:

<u>FY 2006</u>	<u>FY 2007</u>
6	18

- In FY 2006, 15 community-based organizations received \$260,532, in CBED Program grants for technical assistance and community economic development. In 2007, no grants were approved as funding levels for the CBED Revolving Fund were minimal. However, 12 community-based organizations completed previous year grant awards, reporting 153 new full-time and 100 part-time jobs created, 61 new businesses created and 151 existing businesses assisted or expanded. Also in FY 2007 the CBED Program provided technical assistance funding for 16 community-based business raining workshops presented by the Hawaii Alliance for Community-Based Economic Development (HACBED) and Volunteer Legal Services Hawaii (VLSH), and co-sponsored 2 community-based economic development conferences with economic development training components presented by the Council for native Hawaii Advancement (CNHA) and the Office of Hawaiian Affairs (OHA). More than 850 participants, representing more than 250 organizations attended these two conferences. Since its inception, each dollar from the CBED Program has been matched by more than 11 dollars from over 30 different public, private and community financing sources.

- Enterprise Zones (EZ):

CALENDAR YEAR	<u>2004</u>	<u>2005</u>
New Companies enrolled	17	25
Certification Letters issued	104	95
Number of Companies Enrolled in Program	203	191

- Financial Support:

The Financial Support Program continues to provide Disaster Commercial and Personal Loans in the event of a state-declared disaster.

b. Explain how these results relate to the program's objectives and department's mission.

The Marketing Programs' strategic initiatives serve the primary goal of diversifying Hawaii's economy by increasing the export of Hawaii's products and services and attracting new business and investments to the state, which increases revenues and creates jobs. Attracting new sources of investment, positioning Hawaii as a significant global business location, and facilitating opportunities for Hawaii's companies to access new domestic and international markets support the Department's overall mission of growing and diversifying Hawaii's economy.

The Support Program results relate to objectives and missions as follows:

- The Business Advocate has responsibility for assisting state agencies in determining the effect of regulations on the business community. Reviewing and testifying on proposed legislation and analyzing administrative rules carry out this objective. While much of the effort of the Advocate is based on input from the agencies themselves, there is a continuing emphasis on determining the best methods for developing meaningful and less burdensome regulations and helping agencies determine the business impact of their rules.
- CBED's primary objectives are to provide technical and financial assistance to qualified non-profit community-based organizations that enables them to plan and implement economic development projects that provide employment opportunities, build capacity, strengthen identity, and help retain and create cultural anchors in the local community. Tracking program performance based upon the number of jobs created, assistance to new and existing businesses, the number of community organizations seeking technical and financial assistance, and the attendance at CBED workshops and conferences provides quantifiable measures of the program's efficiency and effectiveness.

Economic development projects undertaken by community-based organizations support the department's mission to diversify the economy of Hawaii and create new employment opportunities.

- Enterprise Zones are making a tangible and cost-effective contribution to the department's efforts to stimulate business activity and job creation in economically distressed areas. The recent addition of more high-tech business activities to EZ eligibility should also increase the program's contribution to the department's economic diversification efforts.
- The Financial Support Program continues to provide Disaster Commercial and Personal Loans when there has been a state-declared disaster.

c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.

The Marketing Programs measure their effectiveness by the number of global linkages generated; new export firms they assisted, increases in export revenues, and the dollar amount of new investments. Outcomes of specific activities are presented in 2.a. above.

The Support Programs measure their effectiveness as follows:

- Business Advocate:
 1. Number of new and amended rules reviewed by business advocate and the Small Business Regulatory Review Board.
 2. Number of small businesses requesting regulatory relief.
 3. Number of petitions.
- CBED Program:
 1. The number of jobs, new businesses or expansion of existing businesses generated by community-based organizations (CBO).
 2. The number of CBOs seeking technical/financial assistance.
 3. The number of CBED workshops and conferences providing technical assistance to CBOs.

Successful community-based economic development integrates viable economic projects to promote a community's vision for its future health and quality of life. The CBED Program provides training and capacity-building opportunities to promote, support, and invest in community-based development projects that result in measurable economic impact.

- EZ Program:
 1. The number of firms eligible for EZ enrollment.
 2. The number of new firms enrolled and certified.
 3. The number of jobs created by enrolled firms.

The first two measurables are primarily contingent upon the number of zones and the number of eligible firms already located within each zone. The type of businesses enrolled in the program is also monitored because this can provide a rough measure of the quality of jobs being created.

d. Discuss the actions taken by each program to improve its performance results.

The Marketing Programs' actions were as follows:

- Restructured the Immigrant Investor Program to be in compliance with new rules and regulations as set forth by the U.S. Customs and Immigration Service by seeking a professional third party to market, screen and track investments and investors participating in the program.
- Branded under "Global Links" the various international related activities undertaken by the Division: Global Links newsletter, Global Links seminar, Global Links special events, etc.
- Entered into a partnership with the Pacific and Asian Affairs Council (PAAC) to facilitate and implement more international educational relationships. PAAC has a strong network of international affairs clubs at the local high schools while DBEDT has a strong network of contacts in education in Taiwan and China. The partnership will help more Hawaii students and teachers to travel abroad, and vice versa.
- Developed a continuing and comprehensive local, national and international marketing program that positions Hawaii as a location for serious business.
- Implemented a more collaborative approach to mobilize county economic development agencies and boards, industry and trade associations, private sector firms and the academic community to jointly produce and implement projects, leverage resources and compliment skills.
- Utilized partners located overseas and in domestic markets, including expatriates, to help market Hawaii as a business location and to find partners/opportunities for Hawaii's firms.
- Continued streamlining the Beijing and Taipei Offices in 2006 and 2007 to be responsive to the potentially lucrative opportunities resulting from, among other things: a) Shanghai's 2010 World's Fair, b) a major development initiative in Western China, led by an effort to use tourism to stimulate local and regional economies, c) development of World Trade Centers in China, Hawaii's expertise in sustainable tourism development could be well utilized in these development efforts, and plans and programs are underway to ensure that our firms are being considered.
- Aggressively pursued opportunities to promote Hawaii as a location for investment, through seminars and outbound and inbound missions.

- Enhanced the level of awareness and providing relevant information on Hawaii's products, as well as to support business development for companies interested in international trade.
- Increased the local awareness of DBEDT's Beijing and Taiwan offices.

The Support Programs' actions were as follows:

- **Workforce Development:** Collaborated with DLIR and the Workforce Development Council to identify and workforce needs and streamline ways for government to meet these needs.
- **Business Advocate:** Emphasis continues to be placed on improving the rule review process of the Review Board. The Advocate has improved communications with regulatory agencies to insure that draft rules have a more specific impact analysis before they are sent to the Governor.
- **CBED:** Program staff has partnered and collaborated with Federal, State and private economic development fund providers, private sector businesses, and technical assistance providers to develop more efficient lines of communication between agencies to control duplication of services. The website is currently being revised and updated to allow the general public and eligible organizations easier access to program information, and allow for more efficient reporting and data input by CBED Program clientele.
- **Enterprise Zones:** All counties are at or close to the maximum number of zones allowed. So increasing the number of participating firms via the creation of new zones will be more limited than in the past. However, the Urban Honolulu zone was expanded to include all of Kakaako. This is expected to primarily help to increase the number of participating high tech firms. Legislation will also be reintroduced to help more farmers qualify for EZ benefits by increasing sales rather than employment. Finally, a strategic plan has been developed with input from DBEDT staff, program staff and county representatives to enhance and improve the effectiveness of the EZ program.

e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.

Not applicable.

3. Problems and Issues:

a. Discussion of problems and issues encountered, if any.

1. Hawaii continues to be thought of only for its sun and surf. Establishing its business image away from the "boondoggle" image will take a prolonged effort with a consistent message, and commitment by economic development partners.

2. The Marketing and Support programs budget in the last budget biennium for FY 2006 and 2007 was reduced by \$125,000 for each year of the biennium, representing a 22% decrease in non-payroll, ex-GIA funds available for current expenses. Meanwhile, the U.S. dollar has weakened in relation to the Chinese RMB, the Taiwan NT and the Japanese Yen. As a result of this loss of funds, the continuance of DBEDT's overseas offices as well as high profile marketing activities are in jeopardy.
3. The political instability and business uncertainty in Taiwan with the current president and the on-going tension between China and Taiwan. Taiwan, as an investor source, should improve in 2008.
4. Lack of Legislature support for overseas trade missions have had a negative effect on recruitment of participants and partners.

b. Program change recommendations to remedy problems.

1. DBEDT's Overseas Offices will play an expanded role in generating new business leads, facilitating strategic alliances, providing market intelligence, and actively matching Hawaii firms with opportunities overseas.
2. DBEDT initiated its "Hawaii Global Links" brand during the FY08. DBEDT will continue to use this brand in its marketing programs, to promote the importance & need for global awareness and participation.
3. DBEDT initiated a collaborative approach in marketing its assets by a.) teaming with county economic development agencies and boards, trade and industry associations, academic institutions and the private sector. Through leveraging of resources and skills, the collaborative approach is more efficient and effective in getting our marketing message across. b.) establishing consortiums to market tourism consulting, international education and environmental services and, c.) cooperating in the DOE, UH and other educational institutions to promoting international and cultural education.
4. CBED programs will be focused on entrepreneurship and creating a livable communities.
5. The SBRRB/Business Advocate will increase its outreach and promotional efforts to increase the number of firms seeking regulatory relief and general overall awareness.
6. The EZ program will increase outreach & one-on-one assistance efforts.

c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.

The Marketing and Support programs budget in the last budget biennium FY 2006 and 2007 was reduced by \$125,000 for each year of the biennium, representing a 22% decrease in non-payroll, ex-GIA funds available for current expenses. Meanwhile, the U.S. dollar has weakened substantially in relation to the Chinese

RMB, the Taiwan NT and the Japanese Yen. As a result of this loss of funds, the continuance of DBEDT's overseas offices as well as high profile marketing activities are in jeopardy.

4. Expenditure for FY08:

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(20.00)				(20.00)	(20.00)
Personal Services	1,221,386	39,509			1,260,895	1,260,895
Current Expenses	3,028,571				3,028,571	3,028,571
Equipment					-	
Motor Vehicles					-	
Total	4,249,957	39,509			4,289,466	4,289,466
(Pos. Count) Special Funds	-				-	-
(Pos. Count) Federal Funds	250,000				250,000	250,000
(Pos. Count) Other Funds	1,821,915				1,821,915	1,821,915
(Pos. Count) General Fund	(20.00) 2,178,042	39,509			(20.00) 2,217,551	(20.00) 2,217,551

a. Explain all transfers within the Program I.D. and the impact on the program.

Not applicable.

b. Explain all transfers between Program I.D.'s and the impact on the program.

Not applicable.

c. Explain any restrictions and the impact on the program.

Not applicable.

5. Supplemental Budget Requests for FY09:

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(20.00)		(20.00)
Personal Services	1,221,556		1,221,556
Current Expenses	2,678,571		2,678,571
Equipment			
Motor Vehicles			
Total	3,900,127		3,900,127
(Pos. Counts) Special Funds			-
(Pos. Counts)	-		-
Federal Funds	250,000		250,000
(Pos. Counts) Other Funds	1,821,915		1,821,915
(Pos. Counts)	(20.00)		(20.00)
General Funds	1,828,212		1,828,212

a. Workload or program requests.

None.

b. For all position count reductions, please specify whether the positions were new, filled or vacant.

Not applicable.

6. Program Restrictions:

None

7. Capital Improvement Program (CIP) Request for FY09:

None

8. Proposed Lapses of CIP projects:

None

Department of Business, Economic Development, and Tourism
Supplemental Budget Request Fiscal Year 2008-2009
Revised 1/7/08

Program I.D. and Title: BED 105 - Creative Industries Division

1. Introduction:

a. Summary of program objectives.

In its broadest definition creative industries encompass economic activity of a wide spectrum of entrepreneurial and commercial businesses, individuals, production companies, software developers, cultural enterprises, nonprofit institutions and government agencies that directly or indirectly produce goods and/or provide services that are rooted in, or generated by artistry, design, aesthetic value or cultural enterprise.

Formed in 2003 within the Department of Business, Economic Development and Tourism (DBEDT) to provide a cohesive program to support the development of Hawaii's entertainment, culture and arts sectors, the Creative Industries Division (CID) promotes, accelerates, and advocates for the growth of Hawaii's creative industries resulting in a vibrant, internationally recognized self-sustaining sectors of Hawaii's economy. Comprised of the Film Industry Branch (FIB) and the Arts and Culture Development Branch (ACDB), CID is dedicated to:

- **Activating Strategic Partnerships**
- **Connecting existing assets to deliver**
- **Tangible results**

In a study conducted by DBEDT's Research, Economic Analysis Division, total average annual creative output for Hawaii increased 5.6 percent from \$1.9 million in 2002 to \$2.3 million in 2005. Likewise, total creative earnings for the State increased at an annual rate of 3.4 percent to nearly \$1.1 million in 2005. Finally in 2005, total creative jobs (i.e., including both wage and salary jobs and proprietors' jobs) were estimated to be 28,884, an increase of 7.4 percent annually from 2002.

CID's output and measurable results are focused on four of DBEDT's six strategic objectives. They are (1) Workforce Development: to develop, retain and attract a workforce with the skills required for an innovation-driven, globally competitive economy, (2) Global Links: to increase the flow of people, products, services, and ideas between Hawaii and its export markets, (3) Creation of an Innovation Infrastructure: to create the infrastructure that enables Hawaii's creative and entrepreneurial talent to turn ideas into products and services, and (4) Improving Hawaii's Small Business Environment: to lead public sector efforts to bring about a business environment that is market-driven, and rewards productivity and entrepreneurship.

b. Description of program objectives.

Leveraging resources, partnership development and workforce development are critical to accelerating the economic viability of the creative industries in Hawaii's economy, resulting in higher paying and highly desirable jobs in key target sectors including:

- Culture and arts
- Film, television, broadband and digital media
- Music industry
- Visual and performing arts
- Literary Arts
- Applied arts and commercial design
- Arts and Digital media education

In response to the SMS Research survey of creative industries, arts and entertainment related businesses, need areas include:

- Marketing and Planning
- Technology support/education
- eCommerce
- Training and Skills development
- Business Networking
- Distributor and agent contacts

Programs and activities such as educational seminars, training workshops, mentorship and internships are critical to building skill sets that help businesses and individuals operate more effectively.

Encouragement and development of exportable goods and services will expand the reach of targeted industries into new and existing markets. It will also help promote and brand Hawaii resulting in greater global exposure and the attraction of business investments and tourism exposure for the state.

Improving Hawaii's business environment is critical to alleviating impediments to the growth of Hawaii's creative industries. In addition, CID functions as a liaison between industry and government; provides one-on-one counseling; and disseminates current and accurate information to support the growth of local creative-based businesses. The majority of the companies CID services are small scale companies. This function is important to removing obstacles that prevent these companies from growing and providing employment opportunities to Hawaii's workforce.

The missions and objectives of the two branches comprising CID are as follows.

Film Industry Branch (aka Hawaii Film Office)

FIB's mission is to stimulate and support a sustainable, self-sufficient film, television, and digital media industry which respects Hawaii's natural beauty and

resources. It is also responsible for promoting statewide economic development of the film and video production industry in Hawaii in terms of its growth, revenue generation, diversity of resources and stability.

FIB's program objectives are **to increase film and television production in Hawaii** by:

- Stimulating the development of the local film and digital media industries by providing support for industry groups, networking opportunities, film education opportunities, access to resources, and strategic business partnerships to stimulate distribution of products.
- Attracting more off-shore productions through marketing Act 88 (SLH 2006) film industry tax incentives which increased the refundable tax credit to 15% on Oahu and 20% on the neighbor islands.
- Serving as the primary liaison between the film industry and government, and striving to maintain positive relations among the film industry and government, and maintaining positive relations among the film industry, the community, labor, and business.
- Educating lawmakers and the general public about the importance and potential of a local film industry.
- Marketing and promoting Hawaii as a film location through advertising and promotional materials, trade shows, film festivals, and film industry events.
- Continuing to administer and improve the statewide one-stop film permitting process.
- Streamlining operations and management at the Hawaii Film Studio in support of its primary function to support production needs.

Arts and Culture Development Branch (ACDB) mission is to activate a statewide program that accelerates the economic viability and visibility of the arts and cultural sectors of Hawaii's creative economy.

ACDB'S program objectives are to **expand and diversify Hawaii's economy** by:

- Evaluating the current economic status of Hawaii's creative economy sectors and determining realistic achievable goals for growth.
- Providing a resource via the creation of a web portal for CID to support access to information that supports the needs of the arts and culture industries.
- Serving as a statewide liaison and business advocate to support and enhance industry sectors of Hawaii's creative economy that have the potential to become greater economic drivers for Hawaii, via programs and the CID web portal.
- Directing the formulation and implementation of statewide programs to assist Hawaii creative industry businesses in developing and expanding domestic and foreign markets for their products and services.
- Attracting and creating regional, national, and international businesses and cultural exchange opportunities that have the potential for net export and visitor-related benefits.
- Identifying and analyzing challenges and issues that hamper the growth of industry sectors of Hawaii's creative economy and recommending

appropriate State remedies by developing legislative proposals and policies to support and enhance the viability of these sectors.

- Activating key sector-specific partnerships to advance goals and initiatives.

c. Explain how your program intends to meet its objectives in the upcoming supplemental year.

FIB plans to meet its program objectives through the following activities:

- Developing a unified film marketing program in cooperation with the four county film offices.
- Serving as the primary liaison between the film and television industry and government, labor, business and residential communities.
- Administering a statewide, one-stop permitting process for filming on State lands and property.
- Providing on-going staff-support services to manage and coordinate film/television/photography permit process for off-shore and local productions. (FIB issues over 1,300 permits annually and handles a daily communication volume for permitting on average of 22 calls/faxes/emails on a weekly basis/20,000 annually.)
- Providing production inquiry responses. The office also responds to more than 10,000 calls/fax/email requests for information and/or service annually (excluding film permit inquiries).
- Collecting and maintaining statewide statistics on film industry activity and economic impact.
- Developing a grants program to support local film and digital media projects, thereby building a sustainable, self-sufficient local film industry.
- Advertising in key Hollywood and international trade industry publications to maintain awareness and promote new tax incentives.
- Representing Hawaii at industry trade conferences, shows, film festivals, and other events as a sponsor.
- Managing, marketing and operating the Hawaii Film Studio, its grounds and up keep of facilities.
- Developing and distributing informational and promotional material about filming in Hawaii.
- Converting two (2) temporary positions to permanent positions so that there is adequate staff to respond to industry needs and business development.

To meet ACDB's objectives, efforts will be focused on planning and implementing the following activities:

- Developing ACDB's strategic plan as part of the overall CID strategic plan, to clearly layout the role in supporting Hawaii's creative economy sectors.
- Completing and launching the CID web portal in first quarter of 2008 to provide an internet presence for the purposes of connecting creative communities with information, services and educational/business development opportunities.
- Implementing, co-sponsoring and supporting trade development seminars, workshops to support market expansion activities that are project based.

- Presenting a series of educational forums focused on capacity building and market expansion for arts, culture and music sectors.
- Informing and educating companies that comprise the various sectors in Hawaii's creative economy, as well as the visitor industry, other government and non-profit agencies involved in arts and cultural activities of ACDB's mission.
- Assisting in obtaining National Heritage Area designation for the Hawaii Capital Cultural District (HCCD).
- Developing strategic partnerships with creative industries worldwide to enhance expansion of arts and culture sectors globally.
- Creating affinity marketing opportunities for ACDB sectors in media, television, broadband and broadcast venues internationally.

2. Program Performance Results:

a. Discuss the performance results achieved by each program in FY06 and FY07.

Film Industry Branch:

- Shepherded 15-20% film, television, and digital media production tax credit bill into law. The measure was passed by the legislature and signed into law by the Governor as Act 88 and took effect on July 1, 2006. The Film Branch was able to coalesce and galvanize the local film industry to lobby for the passage of the credit by providing regularly updated, digestible information about the bill and hearings through our blog.
- Established online application process for the new 15-20% tax credit, including detailed overview and instructions, registration form, and final production report form. Worked closely with the Department of Taxation to issue a Tax Information Release with further details on the credit, and to establish policies regarding what specific kinds of productions and costs are eligible for the credit. Continue to work closely with DoTax to fine tune the credit implementation.
- Established mandatory Educational and Workforce Development Contribution program under the new 15-20% tax credit. In order for productions to claim the credit, they must work with a local public or charter school, or labor union chapter to contribute financially or in-kind toward the furtherance of the film and arts industries in Hawaii with respect to workforce development.
- Established statistical tracking process for the new 15-20% tax credit. Will provide aggregate data on production expenditures, hires, neighbor island progress, and workforce development contributions on an annual basis.
- In FY 2006, 669 projects applied for standard film permits (resulting in 1,338 film permits issued for state locations) and 172 annual permits (used by year-round local photographers and videographers). In FY 2007, 672 projects applied for standard film permits (resulting in 1,344 film permits issued for state locations) and 175 annual permits. Our longtime "one-stop shop" for film permits remains an industry model worldwide, as few jurisdictions have

such a streamlined permitting process. To ensure a smooth permit process, we work on a daily basis with DLNR, DOT, DAGS, and other state agencies.

- Supported full seasons of eight (8) television productions/series including ABC's "Lost," A&E's "Dog the Bounty Hunter," Discovery Kids' "Flight 29 Down," The N's "Beyond the Break," Here's "Dante's Cove," and MTV's "Living Lahaina" and "Island Fever," and three (3) major feature film productions including Universal City Studios' "You, Me and Dupree" and "Forgetting Sarah Marshall," and Second Mate Productions' "Pirates of the Caribbean 3." In addition, the FIB supported numerous television specials and episodic and commercials—all of which spent an aggregate of \$312 million in production expenditures in FY 2006 and 2007.
- Provide ongoing production servicing for all off-shore and local industry needs including processing of shooting permits for all state locations, assisting with location scouting, identifying production and parking facilities, on-location support, tax credit guidance, and answering all general inquiries.
- Sponsored four (4) local film festivals: Hawaii International Film Festival, Island Independent Film Festival (formerly Cinema Paradise), Maui Film Festival, and Ohina Short Film Showcase.
- Participated and represented Hawaii at numerous industry events in L.A. to market new tax incentive and develop opportunities for shooting in Hawaii including Locations Expo, Industry Tax Credit Seminars and Cineposium.
- Monitoring a contract with Community Entrepreneurs Foundation, FY 07 GIA recipient, to support a Digital Media Mentor for the Waianae High School Searider Productions.
- Completed a contract with Hawaii International Film Festival, GIA recipient, for their 26th Annual Film Festival.
- Monitoring a contract with Hawaii Community Television FY 07 GIA recipient, for a 60-minute documentary on former Congresswoman Patsy Mink.
- Monitoring a contract with Hawaii Public Television (dba PBS Hawaii), FY 06 GIA recipient, for a 30 minute documentary on Dr. Sun Yat-Sen.
- Entered into a contract with Hawaii International Film Festival for the 8th Annual Film in Hawaii Award.
- Entered into a contract with Malama Landscaping for general grounds keeping services at the Hawaii Film Studio.
- Continued to promote the benefits of having a vibrant local film industry to the Hawaii public at large by speaking to groups. Participated in numerous speaking engagements, including 09/18/06 - UH Law School Seminar: Hawaii's Burgeoning Film Industry: An Economic Engine and an Artistic Outlet Seminar, Hawaii Filmmaker's Panel @ Convention Center, Rotary Metro Honolulu, Wheeler Middle School Career Day, Farrington High School

Film & Arts Fest, and Wahiawa-Waiialua Rotary. Participated in numerous television and radio interviews.

Arts and Culture Development Branch

- Co-sponsored “Celebrating the Products of Hawaii” with the Retail Merchants of Hawaii (RMH), Ala Moana Center and the Hawaii Academy of Recording Arts on September 17, 2005. The event showcased fashions and accessories from Hawaii’s premier designers and manufacturers, entertainment by Na Hoku Hanohano Award winning artists, and in-store promotional events such as product demonstrations, book/CD signings, prize drawings and informal modeling of Hawaii fashions.
- Co-sponsored the inaugural Border’s Books and Music “Hawaii Grammy Nominees” campaign October 2-15, 2006 in 15 stores in the Southern California region, including San Diego and Santa Barbara. The promotion featured live performances, product displays, and an ad campaign supported by DBEDT/CID, the Hawaii Book Publishers Association (HBPA) and the Hawaii Academy of Recording Arts (HARA).
- Contracted with SMS Research & Marketing Services, Inc. to develop a working database and gather information about Hawaii’s creative economy which included the spectrum of artistic and cultural for-profit and non-profit activities in various industry sectors. The database consists of contact information, industry classification, marketing and product/service descriptions, and economic data regarding job count and income estimates.
- Entered into a contract with the Friends of the Hawaii State Art Museum, Inc. for services related to the planning and implementation of the “Live from the Lawn” series of free arts-oriented entertainment performances for FIRST FRIDAYS that take place on the grounds of the Hawaii State Art Museum. DBEDT co-sponsors the series as part of its ongoing strategic initiative to promote and attract national and international attention for Hawaii’s creative and cultural assets.
- Co-sponsored Hawaiian music concerts with the Friends of the Hawaii State Art Museum, Inc. on January 6, 2006, and January 5, 2007, that featured past and current Grammy nominees for the “Best Hawaiian Music Album of the Year.”
- In co-sponsorship with Outrigger Hotels and Resorts and Hawaiian Airlines, coordinated live music performances by Hawaii’s Grammy nominees at 3 Border’s stores in the Southern California region; Border’s Montclair (performance by Amy Hanaialii), February 7, 2007; Border’s South Coast Plaza (performance by Amy Hanaialii), February 8, 2007; Border’s Manhattan Beach, February 9, 2007 (performances by Ledward Ka’apana, David Kahiapo, Mike Kaawa, Paul Togioka, Amy Hanaialii, Daniel Ho, George Kahumuku Jr., Keoki Kahumoku, Richard Hoopii, and Da Ukulele Boys). The performances were well attended and received, especially at the Manhattan Beach outlet where over 500 people attended the event. Hundreds of CDs were sold during the time period of the in-store performances.

- Co-sponsored a booth with the Hawaii Book Publishers Association at the *Hawaii Book and Music Festival* at Honolulu Hale on April 22-23, 2006 and May 19- 20, 2007. The Festival featured performances, presentations, demonstrations, book signings and other events by local, national and international authors, poets, storytellers, playwrights, songwriters, composers, arrangers and musicians.
- Co-sponsored the International Cultural Summit, *Ho'omoe wai kahi ke kao'o*, with the State Foundation on Culture and the Arts on May 11-13, 2006, at the Hawaii Convention Center. The summit featured an outstanding array of speakers and panelists on topics that included, but were not limited to, community building and leadership, cultural preservation and cultural diversity, creative economies and cultural tourism, public art and individual artists, and culture and arts education.
- Sponsored a *Gala Hawaiian Music Concert* on May 22, 2006, at the Nikko Hotel in Fukuoka, Japan. The dinner concert was attended by over 300 guests and was one of several activities celebrating the "25th Anniversary of Hawaii's Sister-State Relationship with Fukuoka." Entertainment from Hawaii included the Kaimana Band, Bruce Shimabukuro and Maunalua.
- Showcased Hawaii's Grammy nominated artists at the National Academy of Recording Arts and Sciences (NARAS) Board of Trustees' annual meeting on Maui on May 23, 2006 and May 22, 2007. The purpose of the performance was to demonstrate the cultural heritage and diversity of Hawaii's music in order to support the creation of a second Grammy category for music from Hawaii.
- Assisted with the organizational development activities and marketing of the Hawaii Capital Cultural District (HCCD) to positively impact the economic well-being of the businesses in the district by attracting more visitors to the area, as well as to assist HCCD in being proclaimed a National Designation Area. The HCCD area encompasses many businesses, culture and art venues, historic sites and attractions, museums, and educational and government institutions and will become a model for the creation of other heritage and cultural districts throughout the State.
- Produced the e-newsletter *Hawaii Books Quarterly*, in coordination with the Hawaii Books Publishers Association (HBPA), which highlights the latest releases in books from Hawaii and provides links to industry/company web sites.
- Monitored the grants-in-aid for the restoration of the Hawaii Theatre in downtown Honolulu and the World Music Association that produces the *Hawaii International Jazz Festival*.
- Co-sponsored the National Academy of Recording Arts & Sciences, Inc.'s educational forum, "In the Mix: Technology and Musicians Making Money" which was held on June 30, 2007, Outrigger Waikiki Hotel. A panel of music and technology experts discussed the changing landscape of the music

business and how Hawaiian musicians could best take advantage of this trend.

- Entered into a contract with StarrTech to establish a web site that would feature industry sectors in Hawaii's Creative Economy. The objective is to establish a site that would serve as a one stop place for information, business services, listings of arts and cultural events and a source for products and services. The site will be interactive and feature an online source directory of products and services offered by individual artists, companies and organizations.
- Entered into a contract with the Honolulu Community College (HCC) to develop an Associate in Science degree focused on music business and audio engineering technology. The MELE program – Music and Entertainment Learning Experience – in partnership with Belmont University, will establish a premier training center for music business and production in Hawaii. The program will support the economic development of Hawaii and its music industry through producing a qualified base of new employees and skilled support staff for the industry. The overall goal of the program is to produce a generation of music talent to greatly expand the existing industry capacity, and to create new technological, intercultural forms of music.

b. Explain how these results relate to the program's objectives and department's mission.

- The production of a television series or major feature film in Hawaii, the increase in production expenditures and tax revenues, and the increase in film or television projects that provide additional promotional value to the state are directly related to the program's objective to increase film and television production in Hawaii.
- The Hawaii Film Studio was created to meet the facility needs of the film industry and to provide a financial incentive for producers. In evaluating Hawaii as a cost effective place to produce films and television, the availability of the film studio is an important factor. The completed renovations have provided the much needed improvements – a production office building and a mill/tech building – to address the needs of the tenants.
- ACDB's activities serve the program's objective of facilitating activities for export- and visitor-related components of Hawaii's arts and culture industry and supports economic development opportunities for Hawaii's creative sectors which increases revenues and creates jobs for Hawaii's people. Attracting national, regional and international arts and cultural events helps to make Hawaii known for its arts and cultural activities, thus becoming a magnet for creative people and companies. According to AmericanStyle magazine's June 2007 edition, Honolulu was ranked No. 7 for art destinations for mid-sized cities in the U.S. (populations of 100,000 to 499,000).

c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.

Program effectiveness is measured by the following:

	FY 06	FY 07
The amount of direct expenditures from film (including video, digital and still) productions in Hawaii.	\$126M	\$186M
The impact on State's economy by direct expenditures from film (including video, digital and still) productions.	\$201M	\$297M
Tax revenues generated by direct expenditures from film (including video, digital and still) productions (measured in millions of dollars).	\$13.77M	\$18.01M
Amount of outside funding generated in addition to CID's budget supporting arts/culture/films.	\$100K	\$192K
Major Hollywood studios, U.S. and international film/TV industry professionals.	200	200
Number of local production companies and professionals.	4,000	4,000
Number of local film festivals.	27	26
Number of visitors to Hawaii prompted by local culture and arts activities and film/TV shows.	55,294	55,460
Number of nonprofit arts and cultural organizations that are beneficiaries of economic activities stimulated by CID.	150	150
Foundations and other funding sources.	39	39
Number of film/TV/commercial projects filming in the State yearly.	157	170
Number of film permits processed annually.	1,510	1,523
Number of locally focused educational and promotional events.	12	24
Number of overseas sales, marketing and/or promotional activities attended, sponsored or supported by CID.	1	2
Number of arts/culture and film inquiries.	3,484	3,708

d. Discuss the actions taken by each program to improve its performance results.

- Marketing : With diminished funding available for marketing, advertising, and promotions, FIB joined forces with the county film offices to create a

statewide campaign under the banner “Film Offices of the Hawaiian Islands”, providing a way to expand current advertising campaigns and promotional events, presenting a unified promotional image of Hawaii to the film and television production community.

- **Staffing:** Due to increased high level of production activity in 2004, FIB requested and was given approval to fill 3 temporary positions for the office: an administrative assistant, a film specialist and a CIP coordinator. Production demands continue to be high and will increase significantly with the new tax incentive in place. These additional positions enable the office to maintain its day-to-day functions, continue to respond to requests for film permits, and to coordinate the details involved with the recently completed renovations and improvements at the Hawaii Film Studio. NOTE: The Film Permit Specialist position was converted from a temporary to a permanent position by the 2006 Legislature. The FIB is in the process of finalizing this conversion. The CIP Coordinator position ended in June 2006. Effective July 1, 2006, the CIP Coordinator position has been used to support the Tourism Liaison. In FY 2007 the Branch was unsuccessful in filling its Economic Development Specialist V position (converted from a Film Industry Development Specialist IV position). The Branch is again seeking applicants to fill this position and converting two temporary positions to permanent positions.
- **Economic Planning & Support:** CID and ACDB were recently created within DBEDT in response to Governor Lingle’s realization that Hawaii’s creative industries can be a vibrant and sustainable sector of Hawaii’s economy. Based on our research and interactions in the community, there is an overarching need for economic planning, not only for our arts and culture community but for the entire creative economy in Hawaii. Consequently, CID has embarked on developing a strategic plan. Such a planning process will identify the strengths as well as the opportunities for growth that will result in an internationally recognized and self-sustaining sector of Hawaii’s economy that has the potential to provide higher caliber and better paying jobs, an enhanced tourism “product” and increased tax revenues for the State.

e. Please identify all modifications to your program’s performance measures and discuss the rationale for these modifications.

Not applicable.

3. Problems and Issues:

a. Discussion of problems and issues encountered, if any.

Film Industry Branch

In addition to its reputation as the world’s premiere tropical location, Hawaii has gained a strong reputation for its ability to double for remote, exotic (and in some cases, potentially unsafe) locales such as Africa, South America, the Philippines, and parts of Southeast Asia. Hawaii must still compete with other locations to

secure this business, but if Hawaii can be more financially competitive with the industry, it stands to capture a greater portion of this runaway production market.

Hawaii is perceived as an expensive place to film, mainly due to the cost of shipping necessary equipment to and from the mainland, cost of housing and per diem for mainland cast and crew, and overall higher cost of living in the islands. The expense of filming in Hawaii affects the state's ability to compete with other locations. Although these competitors are predominantly foreign countries, a significant number of U.S. jurisdictions have passed aggressive legislation to provide highly competitive incentives. U.S. states such as Rhode Island, Louisiana, New Mexico, New York, Illinois, Connecticut, Georgia, North Carolina, and Pennsylvania are examples of states that have implemented new incentive programs.

The establishment of Act 88 has helped to increase Hawaii's share of the lucrative international production market sector. However, with this enactment, comes a demand to increase the depth of expertise and staffing within FIB to support this area of the branch operations. Initially, there was no additional position was provided to manage the tax credit workload which is becoming increasingly significant. The management of Act 88 is more than the existing staff can handle. To address this, FIB/CID will be recruiting again for an EDS V position with expertise in film and financial management. Once a candidate is hired to fill this position, based on experience within the branch, an estimated 50% and 75% of their time will be devoted to managing the credit. The EDS V position will also have to handle the Research on Business and Economic Activities, Economic Development, Marketing Systems Development, and Opportunities for expansion of local film and digital industry support, including management of the Film and TV Development Board. Given Hawaii finds itself in the midst of the industry's most globally competitive period with increasingly aggressive credits being offered worldwide, the state's reputation as a film friendly location is clearly on the line and will be measured by how well the tax credit is managed.

b. Program change recommendations to remedy problems.

- Providing financial incentives and support from the public and private sectors that would offset the higher costs of production in Hawaii, especially in the areas of local filmmakers. A grant program would help grow the local film and digital media industry. Currently there are no funds available to support local filmmakers. The Film Office will seek additional funding sources to assist in these efforts and re-invigorate the Hawaii Film and TV Development Board.
- Increasing film and television production activity that would stimulate the development of more equipment services, provide a deeper pool of local technicians and support personnel, and eliminate the need to transport equipment and personnel from other locales.

- Increasing marketing efforts via sponsorships and trade shows to promote Hawaii as an ideal and diverse filming location.
 - Increasing marketing programs and workshops to support capacity building for creative industries in the areas of film, digital media, arts, music and literary sectors.
- c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

None.

4. Expenditures for Fiscal Year 2007-2008:

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(11.00)				(11.00)	(11.00)
Personal Services	707,200	22,696	(2,000)		727,896	727,896
Current Expenses	650,867				650,867	650,867
Equipment					-	
Motor Vehicles					-	
Total	1,358,067	22,696	(2,000)		1,378,763	1,378,763
(Pos. Count) Special Funds					-	-
(Pos. Count) Federal Funds					-	-
(Pos. Count) Other Funds					-	-
(Pos. Count) General Fund	(11.00) 1,358,067	22,696	(2,000)		(11.00) 1,378,763	(11.00) 1,378,763

a. Explain all transfers within the Program I.D. and the impact on the program.

None.

b. Explain all transfers between Program I.D.'s and the impact on the program.

c. Explain any restrictions and the impacts on the program.

None.

5. Supplemental Budget Requests for Fiscal Year 2008-2009:

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(11.00)	(2.00)	(13.00)
Personal Services	707,303		707,303
Current Expenses	525,867	140,000	665,867
Equipment			
Motor Vehicles			
Total	<u>1,233,170</u>	<u>140,000</u>	<u>1,373,170</u>
(Pos. Counts) Special Funds			-
(Pos. Counts) Federal Funds			-
(Pos. Counts) Other Funds			-
(Pos. Counts) General Funds	(11.00) 1,233,170	(2.00) 140,000	(13.00) 1,373,170

a. Workload or program request:

- 1) Increase in general fund base for operations and maintenance of Hawaii Film Studio by \$60,000 to operate and maintain studio.
- 2) Increase in general fund base for capacity building and marketing programs for the division by \$80,000 in response to industry needs assessment.
- 3) Conversion of Hawaii Film Studio building manager (position #49490) from temporary to permanent status to ensure the stable, consistent, safe and efficient operation of the facility.
- 4) Conversion of administrative assistant (position #117019) from temporary to permanent status given the increased workload since the new production tax credit went into effect on July 1, 2006.

b. For all position count reductions, please specify whether the positions were filled or vacant.

Not applicable.

6. Program Restrictions:

- a. A description of the reduction, the reasons for the reduction, and the impacts to the objectives to be accomplished by the program.**

None.

- b. A listing/description of the positions cut including source of funding, please specify whether the positions were filled or vacant.**

None.

7. Capital Improvement Program (CIP) Requests for Supplemental Year 2008-2009:

None.

8. Proposed Lapses of CIP projects:

None.

**Department of Business, Economic Development, and Tourism
Supplemental Budget Request Fiscal Year 2008-2009**

Program I.D. and Title: BED 107 BA - Foreign Trade Zone

1. Introduction:

a. Summary of program objectives.

To encourage-value added and international trading activities that will create new investment and job opportunities in Hawaii by operating a statewide Foreign-Trade Zone program that reduces the barriers and costs associated with international trade.

b. Description of program objectives and activities as discussed in the Multi-Year program and Financial Plan.

The Foreign-Trade Zone (FTZ) Division of the Department of Business, Economic Development & Tourism administers the federal grant, issued in 1965 to the State of Hawaii, for the Foreign-Trade Zone 9 (FTZ9). There are currently 14 sites on the islands of Oahu, Maui, and Hawaii that have received a foreign-trade zone designation of which three general-purpose zone and four special-purpose subzone sites are activated. As the grantee, the FTZ9 staff is responsible for ensuring that U.S. Customs and Foreign-Trade Zones Board regulations are followed by the operators of the subzones at these sites.

The FTZ Division's primary responsibility is to administer the FTZ program in Hawaii. In addition, the FTZ Division provides advice and direction to potential users of the program and operates a general-purpose zone at Pier 2. Any company that imports and exports merchandise can take advantage of the benefits of the Foreign-Trade Zone program at this Pier 2 incubation-type, shared-use facility. The FTZ also provides important port services to the Department of Homeland Security's U.S. Customs and Border Protection.

Specific program objectives include:

- Oversee the implementation of the FTZ program on a statewide basis to make the advantages of the FTZ program available to as many qualifying firms as possible.
- Operate the FTZ public warehouse facility at Pier 2; provide office, exhibit, warehouse, and industrial space to qualified individual businesses.
- Provide information to local, national, and international firms to explain the advantages of doing business in Hawaii under the auspices of the FTZ program.
- Partner with both private and public sector entities to encourage greater participation in the FTZ program and attract new economic activity to Hawaii.
- Continue operating the program in a self-sustaining manner without the use of general funds.

- Implement information technology to reduce the transaction costs of complying with federal regulations.
- Plan for the expansion of services and facilities to meet the needs of businesses that qualify for FTZ utilization.
- Work in conjunction with U.S. Customs and Border Protection in streamlining the admittance process in easing barriers for Foreign-Trade Zone users while increasing utilization to maximize benefits to clients.
- Align with DBEDT's other Business Development Programs and it's strategic plans to increase Hawaii exports and business development.
- Provide and promote Export Import Bank of the United States and its great potential to small –medium size businesses with loan guarantees, financing and export credit insurance.
- Actively promote the FTZ program through various chambers of commerce and business associations and initiate and build relationships with key groups to utilize the FTZ for the “International Hub Program” implemented.
- Maintain FTZ9 relationships with the National Foreign-Trade Zone board and officials and it's updating policies and regulations to ensure the most up to date information is available to FTZ9 customers.

Short Term desired results include:

- Increased growth of Hawaii small-medium size business export
- Increase in new companies/investments to the Hawaii market
- Increase employment of Hawaii residents
- Increase in special fund revenues

Long Term desired results include:

- Companies utilizing Hawaii's natural resources in start up companies
- Increased participants in the FTZ9 program and Pier 2 site
- More activated users in JCIP, NELHA and Mililani that can qualify under FTZ program policies.

c. Explain how your program intends to meet its objectives in the upcoming supplemental year.

The FTZ Division will operate a general-purpose zone at Pier 2, and, as grantee, administrator will oversee the compliance of the 13 other designated sites on the islands of Oahu, Maui, and Hawaii. Marketing efforts will be designed to target firms that are importing and exporting dutiable merchandise, firms who may import and export dutiable merchandise, and companies that can manufacture products for export.

The FTZ Division has five initiatives that will lead to greater use of the foreign-trade zone program:

- (1) Enhance marketing efforts directed toward small businesses that currently import or export dutiable merchandise.
- (2) Investigate and update Hawaii companies on how FTZ procedures are being used in manufacturing and value-added operations by companies on the U.S. mainland.
- (3) Improve our method of operations at Pier 2.
- (4) Invest in facility improvements at Pier 2.
- (5) Rebrand the FTZ as 'a place where international trade happens.'

2. Program Performance Results:

a. Discuss the performance results achieved by each program in FY07.

- The combined value of merchandise received and delivered from all activated FTZ sites was \$8.66 billion in FY 2006.
- The combined value of merchandise received and delivered from *only* activated FTZ **subzone** sites was \$7.016 billion in FY 2006.
- The combined value of merchandise received and delivered from *only* activated FTZ **general-purpose zone** sites was \$1,646,054,488 in FY 2006.
- The combined value of merchandise received and delivered from *only* the **Pier 2** general-purpose zone was \$58,280,111 in FY 2006.
- Exports to foreign countries were \$744 million in FY 2006.
- The number of first-time Foreign-Trade Zone users in FY 2006 was 37 firms.
- The number of activated subzone sites remained the same at four sites.
- The combined value of merchandise received and delivered from all activated FTZ sites was \$8.56 billion* in FY 2007.
- The combined value of merchandise received and delivered from *only* activated FTZ **subzone** sites was \$6.77 billion* in FY 2007.
- The combined value of merchandise received and delivered from *only* activated FTZ **general-purpose zone** sites was \$1,828,271,615 in FY 2007.
- The combined value of merchandise received and delivered from *only* the **Pier 2** general-purpose zone was \$55,192,434 in FY 2007.
- Exports to foreign countries were \$744 million* in FY 2007.
- The number of first-time Foreign-Trade Zone users in FY 2007 was 28 firms.
- The number of activated subzone sites remained the same at four sites.

*Does not include statistics from Maui Pineapple.

b. Explain how these results relate to the program's objectives and department's mission.

Use of the FTZ program has a significant impact on the levels of international trade in Hawaii and helps Hawaii companies compete in national and

international markets. In FY 2006, 391 firms used the FTZ9, handling over \$8.66 billion of merchandise using FTZ procedures, and with direct employment of 1,570 employees attributable in part to use of the Zone. Exports from activated FTZ sites totaled \$744 million.

In FY 2007, 378 firms used the FTZ9, handling over \$8.56 billion (does not include statistics from Maui Pineapple) of merchandise using FTZ procedures, and with direct employment of 1,317 employees (does not include statistics from Maui Pineapple) attributable in part to use of the Zone. Exports from activated FTZ sites totaled \$744 million.

c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.

The FTZ follows federal requirements for reporting yearly data. The FTZ uses these same data to also demonstrate our program's effectiveness.

To measure FTZ's effectiveness, the FTZ has constructed a theory of how the FTZ program impacts economic activity in Hawaii. Our logic model:

- (1) The FTZ program reduces costs and risks of engaging in international trading activity and is essential for handling certain types of international trade transactions.
- (2) To participate in the FTZ program, companies must first learn about the FTZ program or FTZ staff must learn about a company's international trading activity.
- (3) If the FTZ9 can market the benefits of the program effectively and provide appropriate facilities, firms will become aware of the advantages of the FTZ program and decide to participate.
- (4) Firms will benefit from participating in the FTZ program and eventually expand the scope of their business activities.
- (5) Firms will be able to hire additional employees.
- (6) Business activity will increase in Hawaii.

The FTZ focuses on outputs to gauge the FTZ program's performance. Generally, an increase in value and level of activity means a more effective FTZ program. The FTZ uses data generated by Foreign-Trade Zone use in Hawaii to measure a number of key indicators.

Key indicators of the value of the FTZ program to Hawaii's economy over the past five years in terms of employment, merchandise handled (received plus forwarded), and exports as a percentage of foreign merchandise received are shown in the table below.

Foreign Trade Zone #9 Program Key Indicators

	2003	2004	2005	2006	2007
Employment (direct)	1,457	1,370	1,201	1,570	1,317*
Total merchandise handled, in + out (\$ million)	3,584	4,763	6,474	8,662	8.56*
Pier 2 merchandise handled, in + out (\$ million)	78.1	77.8	62.4	58.3	55.2
Exports (\$ million)	336.2	432.4	632.0	744.2	744.2*
Capital improvements (\$ millions)	45.2	21.0	27.8	29.75	1.49*
Exports as percent of foreign merchandise received	35.2	30.8	28.3	24.29	23.02*

More information about the FTZ9 can be found at www.ftz9.org.

*Does not include statistics from Maui Pineapple.

d. Discuss the actions taken by each program to improve its performance results.

The FTZ will continue to invest in information technology to reduce the transaction costs for using the general-purpose zone at Pier 2. In addition, an enhanced marketing program will be used to recruit additional users of the program.

Our efforts to reposition the Pier 2 facility as “a place where international trade happens” continues to gain momentum. The idea is that the FTZ benefit will be joined with other benefits, using an incubator model, to help small businesses participate in international trade. We now have many of the required elements in place: office space, access to customs brokers and shipping agents, complete warehousing facilities and the benefit of having both the Bureau of Customs and Border Protection and the U.S. Department of Commerce’s Export Assistance Center at our facility.

Our hope is that this synergy and interaction will result in more trade moving through our port. Members of the public looking to participate in trade will know where to go. We also expect better coordination among the parties engaged in international trade in Hawaii because they will be able to walk down the hall and work issues out. For example, a customs broker can walk down the hall and talk with a Customs agent or a shipping agent on behalf of a client.

e. Please identify all modifications to your program’s performance measures and discuss the rationale for these modifications.

Not applicable.

3. Problems and Issues:

a. Discussion of problems and issues encountered, if any.

The FTZ9 energy costs at its Pier 2 facility continue to rise. There is a need to reduce and/or stabilize current and future facility operating costs related to energy. Likewise, the State is looking for ways to: 1) reduce its dependence on imported fuel oil; 2) reduce energy production-related pollutant emissions into the environment; and, 3) provide an example of a successful renewable energy project and show the State as a leader in development of renewable energy sources

In addition, the FTZ9 Pier 2 facility is over 50 years old and has not had any major repair to the roof which is approximately 5 acres. Repair leaks in the roof will lead to better utilization of the warehouse facility vital to ensuring that there is no water damage to merchandise.

b. Program change recommendations to remedy problems.

FTZ9 has issued a request for proposals to seek interested companies in developing a 1.3 MW photovoltaic renewable energy system for the FTZ9 Pier 2 site. We are working closely with the Department of Transportation and DBEDT's Energy Division to complete this project before the end of the year when Federal tax credits expire.

FTZ9 is requesting \$830,000 in CIP funds for FY 2008-2009. This request is further detailed in Item 7 below.

c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.

Not applicable.

4. Expenditures for FY08:

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(19.00)				(19.00)	(19.00)
Personal Services	1,108,244	36,573			1,144,817	1,144,817
Current Expenses	902,097				902,097	902,097
Equipment					-	
Motor Vehicles					-	
Total	2,010,341	36,573			2,046,914	2,046,914

(Pos. Count)	(19.00)				(19.00)	(19.00)
Special Funds	2,010,341	36,573			2,046,914	2,046,914
(Pos. Count) Federal Funds					-	-
(Pos. Count) Other Funds					-	-
(Pos. Count) General Fund					-	-

a. Explain all transfers within the Program I.D. and the impact on the program.

None.

b. Explain all transfers between Program I.D.'s and the impact on the program.

None.

c. Explain any restrictions and the impacts on the program.

None.

5. Supplemental Budget Requests for Fiscal Year 2008-2009:

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(19.00)		(19.00)
Personal Services	1,108,244		1,108,244
Current Expenses	902,097		902,097
Equipment			
Motor Vehicles			
Total	2,010,341		2,010,341
(Pos. Counts)	(19.00)		(19.00)
Special Funds	2,010,341		2,010,341
(Pos. Counts)			-
Federal Funds			-
(Pos. Counts)			-
Other Funds			-
(Pos. Counts)			-
General Funds			-

a. Workload or program request:

None.

b. For all position count reductions, please specify whether the positions were filled or vacant.

None.

6. Program Restrictions:

None.

7. Capital Improvement Program (CIP) Requests for FY09:

CIP data for all projects within the agency being heard shall be combined into a single appendix in the department's testimony (if no request is being made, please indicate "none").

Each CIP request shall include the following:

a. Project title and description.

Title: Roof Repairs to the Foreign-Trade Zone Facility at Pier 2.

Description: Repair the roof of the FTZ Facility to include gutter lines and drains, skylight panels, and perimeter eaves. Waterproof the parapet wall. The roof is approximately 260,000 square feet.

b. Financial requirements by project phase and means of financing.

<u>Elements</u>	<u>Amount (in thousands)</u>	<u>MOF</u>
Plans	1	C
Design	130	C
Construction	798	C
Equipment	1	C

c. Explanation and scope of project.

The project will consist of repairs to the roof of the FTZ facility. The facility is over fifty years old. The existing building's roof consists of corrugated cement asbestos fiber panels with wired glass skylight panels. Water leakages have been observed around concrete columns, at the exposed downspouts by the area separation wall, damaged wire glass skylight panels and the gutters. During heavy rains water has leaked into tenants' offices and storage areas within the warehouse, at times damaging customer's equipment and merchandise. Repairs will be made to the gutter lines and drains, skylight panels, and perimeter eaves. Waterproof the parapet wall.

d. Justification for the project.

Hydrostop, a water sealant, has been applied to FTZ gutters in the past couple of years. Although this application has significantly reduced water leakage into the facility, this however, is a stop-gap measure and not a long-term solution. Even in the short term, heavy rains result in water leakage. This becomes a safety issue when water leaks into areas with electrical wiring and equipment.

e. For all lump sum requests, please provide a specific breakout detailing specific projects for all planned expenditures.

Not applicable.

f. Senate and House district(s) for the project.

Senate District 12; House District 28.

8. Proposed Lapses of CIP projects:

None.

**Department of Business, Economic Development, and Tourism
Supplemental Budget Request Fiscal Year 2008-2009**

Program I.D. and Title: BED 130 FA – Economic Planning and Research

1. Introduction:

a. Summary of program objectives.

To enhance and contribute to the economic planning and development of the state by providing analyses, forecasts and policy recommendations; conducting and reporting on basic research into the state's economy, compiling and publishing data on tourism, business activity, the economy, and demographic characteristics; and maintaining a statewide statistical reporting system.

b. Description of program objectives and activities as discussed in the Multi-Year and Financial Plan.

Present your summary of the objectives and activities as discussed in the Multi-Year program and Financial Plan.

Activities of this Level IV program, Economic Planning and Research (BED 130) to accomplish the above objectives include the following:

Develop and produce short-range economic forecasts and long-range, state population and economic projections.

Publish monthly visitor arrival and characteristic reports, expenditure reports and information on cruise ship spending. The program is the only source of detailed state visitor statistics and endeavors to continually improve the quality and quantity of information on the industry.

Produce the *State of Hawaii Data Book*, containing more than 700 tables of key data widely used by government, business and residents. The State Data Book provides residents agencies and companies in Hawaii with access to a common, authoritative base of statistical information that saves users countless hours of research and compiling of information.

Conduct strategic economic and industry analyses and impact studies; A range of studies are undertaken to address economic development issues, industry development and trends, the economic impact of tourism and other major industries.

Update and utilize the Hawaii Input-Output models to guide state, county and private sector planning efforts. The program recently developed a new set of Input-Output models for each individual county. This will enable more accurate estimates of how economic activity affects a particular county.

Improve and add to the division's modeling tools based on emerging best practices in the field of econometrics.

Produce the web-based publications, *Quarterly Statistical and Economic Report* (QSER) and monthly, *Selected Economic Indicators* (SEA). As core data products, the QSER and SEA provide current detailed statistics on Hawaii's economy in a convenient on-line format.

Conduct Census-related workshops to enhance businesses' ability to mine census data for marketing and business development purposes. The free training sessions help business and agency staff learn how to obtain important census data from the Bureau's web site.

Maintain economic information and statistics on the department's web site. Approximately 60% of all hits to the DBEDT website are made to access data maintained by the research program.

Partner with agencies such as the Workforce Development Council, University of Hawaii, Enterprise Honolulu, Hawaii Science and Technology Council (HSTC) and others to develop an understanding of, and options for, addressing the workforce and development needs of key industries.

Respond through the DBEDT Library to nearly 4,000 annual requests for information and other inquiries to the department.

c. Explain how your program intends to meet its objectives in the upcoming supplemental year.

In order to meet its objectives within the upcoming fiscal year (FY 2009), the program will:

Update the DBEDT short-run economic model and produce and publish four (quarterly) economic forecasts. (Update of the Long Range forecasting model update is scheduled for completion in FY 08).

Continue to improve the quality and timeliness of tourism data and publish an update report on the Tourism Satellite Account.

Publish the 2007 *State of Hawaii Data Books* in electronic form.

Update and expand bench mark estimates for the size and performance of Hawaii's growth and emerging industries (initial bench mark estimates are targeted for FY 08). Develop at least four reports on the trends and developments in key industries, with an emphasis on emerging growth activities.

Utilize the Hawaii Input-Output models (statewide and counties) for impact analyses as needed (Models were updated in FY 08).

Improve the performance of the short-run economic models and develop a new computerized model of Hawaii's economy using recent advances in econometric research tools, that will provide more insight into the way the economy responds to growth and change (Computerized General Equilibrium [CGE] Model).

Publish eight quarterly issues of the *Quarterly Statistical and Economic Report* and 12 *Selected Economic Indicators* reports.

Conduct at least two census workshops on emerging census data.

Publish "e-reports" on the DBEDT website providing information and data for technology, defense activity and education.

Full implementation of DBEDT's Data Warehouse web site is expected before the end of FY 08 with refinement and expansion in FY09. This effort will offer much more flexible and effective delivery of data and information to users of DBEDT statistics and economic information.

The program's partnership with the HSTC will result in a comprehensive report on the state's technology industry.

2. Program Performance Results:

a. Discuss the performance results achieved by each program in FY07.

During FY06-07, the program produced hundreds of products annually, ranging from updated website pages to major reports. Annually, this total included the update of over 1,800 economic and tourism data tables and the preparation of more than 1,000 analyses and data products. More 50 publications were posted on the DBEDT web site on average per year. The program achieved its core job of providing updated forecasts and economic analyses on a quarterly basis. Reports on economic and tourism statistics were published daily, monthly, quarterly and yearly. In addition, consulting services were provided to a range of organizations and agencies to support budgetary and fiscal planning, State bond sales, workforce development, technology industry development, and many others. In FY 08 the program is expanding capacity and output to meet the request for more research and information on emerging industries as requested in Act 148 (SLH 2007). It is also developing an on-line Data Warehouse to better serve the diverse need for data and information by the public and private sectors.

b. Explain how these results relate to the program's objectives and department's mission.

The results show that the program is providing an abundant volume of data and analyses on the health and outlook for Hawaii's economy, population, industries and related issues. These efforts are focused on the priority economic development need to transition the economy to more high valued, high skill economic activity. It is also anticipating the emerging needs of the public and private sectors through the development of new data delivery systems (one-line data warehouse) and growth industry research.

- c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

The program measures of effectiveness include: 1) the number of requests satisfied for analyses, research and data products; 2) the number of publications produced in both hard copy and electronic forms; and 3) the accuracy of economic and demographic forecasts. As indicated above, the program generated about 1,800 economic and tourism data tables and prepared more than 1,000 analyses and data products in each of the last two fiscal years.

- d. Discuss the actions taken by each program to improve its performance results.**

The program actively pursues improvements in its work processes and integrates new technology and best practices whenever possible. The program is a major user of the internet not only to obtain information but also to disseminate information. As much as possible, all results of the program's research and data collection are made available on the internet for others to access. The program takes advantage of training whenever possible to improve staff skills and knowledge.

- e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

No modifications have been made.

3. Problems and Issues:

- a. Discussion of problems and issues encountered, if any.**

As the economy has been in a period of economic growth and investment over the last several years, the program has turned its attention to supporting that growth with its various research programs and assisting public and private sector partners to address growth related problems of labor shortage, and the transition to high value, high-skill-level industry that can help raise average wages in the state. A specific issue addressed over the last two years has been more effective delivery of information to the program's users. As indicated earlier, the program is addressing data delivery improvements with the implementation of a web-based, data warehouse system.

The program also remains poised to respond with economic analyses to unexpected crises situations such as strikes, natural disasters, or international conflicts that require immediate recommendations for action.

- b. Program change recommendations to remedy problems.**

No change recommended.

- c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

Over the last year, the legislature has provided the needed resources to bring best practices to the research program. Going forward the program looks forward to implementing its proposals for the data warehouse and growth industry research programs. The long-term emerging issue that will likely present the greatest challenge to this and other programs in the state is labor shortages. Over the next several decades the bulk of the huge baby boom generation will be retiring. New entrants to the labor market will not like be able to make up for this loss. The program is looking at ways to improve the flow of new entrants into staff positions as they become available in order to avoid staff shortages.

4. Expenditures for Fiscal Year 2007-2008:

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(21.00)				(21.00)	(21.00)
Personal Services	1,315,602	43,681			1,359,283	1,359,283
Current Expenses	1,419,555				1,419,555	1,419,555
Equipment					-	
Motor Vehicles					-	
Total	2,735,157	43,681			2,778,838	2,778,838
(Pos. Count) Special Funds	-				-	-
(Pos. Count) Federal Funds					-	-
(Pos. Count) Other Funds	(4.00)				(4.00)	(4.00)
	1,590,030	11,330			1,601,360	1,601,360
(Pos. Count) General Fund	(17.00)				(17.00)	(17.00)
	1,145,127	32,351			1,177,478	1,177,478

a. Explain all transfers within the Program I.D. and the impact on the program.

None.

b. Explain all transfers between Program I.D.'s and the impact on the program.

None.

c. Explain any restrictions and the impacts on the program.

None.

5. Supplemental Budget Requests for Fiscal Year 2008-2009:

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(21.00)	(1.00)	(22.00)
Personal Services	1,315,762		1,315,762
Current Expenses	1,365,555		1,365,555
Equipment			
Motor Vehicles			
Total	2,681,317		2,681,317
(Pos. Counts) Special Funds			
(Pos. Counts) Federal Funds			-
(Pos. Counts) Other Funds	(4.00) 1,590,030	(1.00)	(5.00) 1,590,030
(Pos. Counts) General Funds	(17.00) 1,091,287		(17.00) 1,091,287

a. Workload or program request:

For each program package or item being requested within the Program I.D., provide the following (if no request is being made, indicate "none"):

- i. A description of the request, the reasons for the request, and the desired outcomes or the objectives to be accomplished by the proposed program.
- ii. A listing/description of the positions requested, and funding requirements by cost category and source of funding.

Item	Cost Category	MOF	FY 2009
Add permanent Statistician III (SR-20) position to Tourism Research Branch	Personal Services	U	\$0

Per Act 156 (SLH 1998), DBEDT is responsible for developing and reporting visitor statistics for the State of Hawaii. Currently, the Research and Economic Analysis Division's Tourism Research Branch conducts eight full-scale, on-going visitor surveys. Data collected include air and cruise visitor counts, expenditures and other characteristics from the domestic and international visitors to the state;

their satisfaction with Hawaii, activities visitors participated in while in the islands; and a census of visitor accommodations in the state by class of units, type of accommodations by island.

As the visitor industry has moved into new markets and demand for information has increased, the program has initiated new projects. These have included such efforts as more detailed cruise ship visitor data and quarterly visitor expenditure estimates. These data are processed, analyzed and published in nearly 40 monthly and annual reports, as well as about 250 reports per year on daily passenger counts. In order to effectively serve the needs of the industry and state for tourism information, the Tourism Research Branch is increasingly providing the HTA, other Government agencies, the visitor industry, other sectors of the business community with special data tabulations and a variety of specialized visitor reports upon request.

In addition to research, the current four-member staff of the branch has a heavy administrative load including the development of requests for proposals to conduct the many surveys, contract development and processing for consultant services to conduct the surveys, site monitoring of contractors, and fiscal monitoring and reporting.

These responsibilities have reached the capacity of the current staff and present a challenge going forward to maintaining a high quality statistical program, which is essential to support the state's major industry. The additional staff position requested will make it possible for the branch to address the increasing demands for more visitor information and maintain a quality program. The position can be accommodated within the current budget of the program through internal reallocation of funds.

- iii. For all lump sum requests, please provide a breakout indicating specific purposes for all planned expenditures.

Not applicable.

- b. For all position count reductions, please specify whether the positions were filled or vacant.**

Not applicable.

6. Program Restrictions:

None.

7. Capital Improvement Program (CIP) Requests for FY2009:

None.

8. Proposed Lapses of CIP projects:

None.

**Department of Business, Economic Development, and Tourism
Supplemental Budget Requests for Fiscal Year 2008-2009**

Program I.D. and Title: BED 142 AA – General Support for Economic Development
Departmental Administration (Office of the Director, Administrative Services Office)

1. Introduction:

a. Summary of program objectives.

To enhance the effectiveness and efficiency of economic development programs by formulating policies and plans, directing operations, allocating resources, providing staff support and other administrative services, and coordinating with and informing the public about programs, services, projects, and activities.

b. Description of program objectives and activities as discussed in the Multi-Year and Financial Plan.

Formulate and execute the economic development policies of the Governor and execute initiatives proposed and approved by the Legislature. Formulate and implement policies and plans, allocate resources, and administer fiscal, budgetary, personnel, contracting, and information technology operations for the Department. Assist and support the economic development and diversification efforts of the State by providing information to the Administration, Legislature, government agencies, the business community, and the general public on the Hawaii economy and society, and on the Department's programs and activities that relate to the development and growth of the Hawaii economy and businesses.

Propose, establish, and administer a broad range of Departmental programs that fulfill the goals and objectives of the executive and legislative branches in such areas as tourism, business development, business attraction, international trade, small business services, rural development, land use, economic data, energy, technology development and services, and housing. Maintain State emphasis on support for tourism and related industries, while concurrently fostering new industries that broaden Hawaii's economic base and business mix.

Directly oversee the administration of all Departmental operations, including supervision of program offices, management, and staff. Establish and implement policies governing such administration, including fiscal, budgetary, personnel, and contractual matters. Oversee agencies and special programs and projects assigned to the Department by either the legislative or executive branch.

Establish and maintain links to business and industry in Hawaii, on the mainland and overseas, chambers of commerce, government agencies, and other organizations to promote business expansion or relocation to the state.

Develop and administer, in cooperation with other State agencies, programs and projects that effectively combine and maximize the use of existing funding and personnel resources to achieve mutual goals (e.g., diversification of special economic areas and cross-marketing of Hawaii commodities).

Coordinate the Department's legislative proposals and responses.
Serve as the State's chief liaison with businesses seeking to establish operations in Hawaii.

Draft and distribute reports and other materials on the varied functions and activities of, and economic data compiled by the Department. Assist all divisions and agencies in drafting, editing, printing, and distributing publications, newsletters, reports, etc., which assist Hawaii businesses.

c. Explain how your program intends to meet its objectives within the upcoming supplemental year.

The Department administration will continue to provide guidance and support to successful programs in such areas as business attraction, international trade, small business services, and technology industry development.

2. Program Performance Results:

a. Discuss the performance results achieved by each Program in FY 2007.

The target percentage of contracts and LOAs processed and reviewed within ten days was 100% for FY07; 100% of contracts and LOAs were processed and reviewed within ten days in FY07. The target percentage of error-free vouchers processed was 95% for FY07; 99% were error-free in FY07.

b. Explain how these results relate to the program's objectives and department's mission.

As the Director's Office oversees all Departmental functions, its ability to allocate and direct the Department's resources efficiently allows the formulation and implementation of better policies and programs to help stimulate the economy. Effectively informing the business community of DBEDT's activities builds awareness of, and therefore utilization of and participation in, the Department's services and programs.

c. Explain how the effectiveness of the program is measured (i.e.: outcome, measures of effectiveness, benchmarks, etc.) and compare with the performance results achieved during the past two years.

The effectiveness of the Director's Office and the Administrative Services Office (ASO) is measured by how well they provide the Department's programs with the administrative assistance and support they need to achieve their respective goals and objectives. ASO's performance is measured in the areas of contracts processing and voucher (payment) processing. The number of contracts and letters of agreement (LOAs) executed by the ASO is a measure of the services that are provided to help the economy. The percentage of error-free vouchers processed by the ASO for the programs is an indication of the quality of support provided to the programs to enable them to efficiently procure the goods and services they require for their operations.

d. Discuss actions taken by each program to improve its performance results.

We are expanding our training programs in contracting, procurement, budgeting and fiscal operations. With increased training in these essential operations, error rates should decrease and program efficiency will increase.

- e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

Not applicable.

3. Problems and Issues:

- a. Discuss any Problems and Issues Encountered, if any.**

None.

- b. Program Change Recommendations to Remedy Problems.**

Not applicable.

- c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

Not applicable.

4. Expenditures for Fiscal Year 2007-2008:

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(34.00)				(34.00)	(34.00)
Personal Services	1,901,431	60,093			1,961,524	1,961,524
Current Expenses	601,093				601,093	601,093
Equipment					-	
Motor Vehicles					-	
Total	2,502,524	60,093			2,562,617	2,562,617
(Pos. Count) Special Funds					-	-
(Pos. Count) Federal Funds					-	-
(Pos. Count) Other Funds					-	-
(Pos. Count) General Fund	(34.00) 2,502,524	60,093			(34.00) 2,562,617	(34.00) 2,562,617

a. Explanation of all Transfers within the Program I.D. and the Impact on the Program.

Not applicable.

b. Explanation of all Transfers between Program I.D. and the Impact on the Program.

Not applicable.

c. Explanation of all Restrictions and the Impact on the Program.

As applicable, provide a description of the impact of the transfers that have occurred within the program I.D. between the various cost elements, transfers occurring between different program I.D.'s, and restrictions imposed.

Not applicable.

5. Supplemental Budget Requests for Fiscal Year 2008-2009:

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(34.00)		(34.00)
Personal Services	1,901,713		1,901,713
Current Expenses	201,093	2,028,568	2,229,661
Equipment			
Motor Vehicles			
Total	2,102,806	2,028,568	4,131,374
(Pos. Counts) Special Funds			-
(Pos. Counts) Federal Funds			-
(Pos. Counts) Other Funds		2,028,568	2,028,568
(Pos. Counts) General Funds	(34.00) 2,102,806		(34.00) 2,102,806

a. Workload or Program Request.

Add \$2,028,568 expenditure ceiling for funds to be received from Department of Human Services under the Temporary Assistance for Needy Families (TANF) grant for the Hawaii Excellence through Science and Technology Academy Program (HiEST) and Robotics Competition Program.

b. Position Count Reductions– please specify whether the positions were filled or vacant.

Not applicable.

6. Program Restrictions:

None.

7. Capital Improvement Program Requests for Fiscal Year 2008-2009:

None.

8. Proposed Lapses of Capital Improvement Program Projects:

None.

**Department of Business, Economic Development, and Tourism
Supplemental Budget Request Fiscal Year 2008-2009**

Program I.D. and Title: BED 142 TL – Office of the Tourism Liaison

1. Introduction:

a. Summary of program objectives.

The objective of the Tourism program, within DBEDT, is to coordinate with the Hawaii Tourism Authority (HTA), visitor industry businesses, organizations and state agencies on all tourism related matters that will enhance the visitor experience and further tourism's growth within our state.

b. Description of program objectives and activities as discussed in the Multi-Year program and Financial Plan.

- To coordinate and communicate with the visitor industry on all tourism related issues.
- To communicate and coordinate with all state agencies on tourism related issues and assist state agencies in developing programs that address the concerns of tourism, especially those raised in the Tourism Strategic Plan.
- To coordinate with the Hawaii Tourism Authority on all tourism issues and participate on the HTA Board of Directors.
- To coordinate with the Department of Transportation, Airports Division, the visitor industry, HTA and airlines on the Airport Modernization Plan and encourage airlines to increase capacity to Hawaii.
- To coordinate with Federal agencies on tourism related issues.

c. Explain how your program intends to meet its objectives in the upcoming supplemental year.

- Facilitate communications and coordination between the tourism industry, the executive branch and state agencies.
- Provide assistance in resolving concerns between tourism businesses and state agencies.
- Work with the visitor industry businesses and state agencies in determining action plans to address the critical issues identified in the Strategic Tourism Plan.
- Encourage airlines to increase service to Hawaii.
- Meet regularly with stakeholders in the tourism industry on all islands and coordinate with them on all issues affecting tourism's economic growth.
- Facilitate communications and coordination between federal agencies on homeland security initiatives, visa issues and tourism development.

2. Program Performance Results:

a. Discuss the performance results achieved by each program in FY07.

- Worked cooperatively and assisted HTA in implementing the Statewide Strategic Tourism Plan.
- Garnered support and initiated discussions between state agencies and visitor industry groups and organizations on various issues.
- Worked cooperatively with the island visitor bureaus, HTA, Transportation Security Administration (TSA), Department of Transportation, Airports Division (DOT-A) in creating and implementing holiday and higher visitor traffic month optimization plans for our airports. The plans objective is to communicate and educate the public on the security screening process and increase efficiency in processing passengers through our airport system.
- Worked cooperatively with Customs and Border Protection (CBP), TSA, the airlines and DOT-A to develop and implement a plan to increase customer satisfaction and decrease wait times in the Customs and Immigration facility.
- Coordinated with the Consular sections of the U.S. Embassy and assisted groups and diplomats in obtaining visas to visit Hawaii.
- Worked cooperatively with DOT-A and the Airline Committee of Hawaii on the Airport Modernization Plan and communicated details of the plan and the objective to the visitor industry.
- Worked cooperatively with CBP, TSA, HTA and its marketing contractors, airlines and wholesalers to communicate and educate travel sellers, media and potential visitors on the US Visit program process, new security rules and regulations and Hawaii's new no smoking laws.
- Coordinated communications between State Civil Defense, HTA and the visitor industry on several natural disasters including floods, sewage spills, earthquake and tsunamis.
- Coordinated communications between state agencies and the visitor industry.
- Represented the visitor industry and participated in crisis planning with multiple state agencies.
- Worked cooperatively with visitor industry businesses and federal agencies on the new Department of Homeland Security's visa waiver law.

b. Explain how these results relate to the program's objectives and department's mission.

The department's mission is to facilitate coordination between the tourism industry, community and state government agencies in order to foster economic growth in our state.

By communicating and coordinating with the visitor industry on the critical issues and concerns they face, we have been able to implement programs that facilitate better customer satisfaction.

- c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

The effectiveness of the program is measured by increased communications and new program implementation that leads to increased customer satisfaction resulting in economic growth in the tourism industry.

New procedures were implemented at our airports to provide better customer satisfaction and communications increased between the state agencies and the visitor industry.

- d. Discuss the actions taken by each program to improve its performance results.**

The Tourism Liaison position performance and effectiveness will improve with continued coordination and communication with visitor industry stakeholders and state agencies.

- e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

Not applicable.

3. Problems and Issues:

- a. Discussion of problems and issues encountered, if any.**

Not applicable.

- b. Program change recommendations to remedy problems.**

Not applicable.

- c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

Not applicable.

4. Expenditures for Fiscal Year 2007-2008:

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(1.00)				(1.00)	(1.00)
Personal Services	97,120	3,276			100,396	100,396
Current Expenses	6,104				6,104	6,104
Equipment					-	
Motor Vehicles					-	
Total	103,224	3,276			106,500	106,500
(Pos. Count) Special Funds					-	-
(Pos. Count) Federal Funds					-	-
(Pos. Count) Other Funds					-	-
(Pos. Count) General Fund	(1.00) 103,224				(1.00) 106,500	(1.00) 106,500

a. Explain all transfers within the Program I.D. and the impact on the program.

Not applicable.

b. Explain all transfers between Program I.D.'s and the impact on the program.

Not applicable.

c. Explain any restrictions and the impacts on the program.

Not applicable.

5. Supplemental Budget Requests for Fiscal Year 2008-2009:

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(1.00)		(1.00)
Personal Services	97,135		97,135
Current Expenses	6,104		6,104
Equipment			
Motor Vehicles			
Total	<u>103,239</u>		<u>103,239</u>
(Pos. Counts) Special Funds			-
(Pos. Counts) Federal Funds			-
(Pos. Counts) Other Funds			-
(Pos. Counts)	(1.00)		(1.00)
General Funds	103,239		103,239

a. Workload or program request:

None.

b. For all position count reductions, please specify whether the positions were filled or vacant.

None.

6. Program Restrictions:

None.

7. Capital Improvement Program (CIP) Requests for FY09:

None.

8. Proposed Lapses of CIP projects:

None.

**Department of Business, Economic Development, and Tourism
Supplemental Budget Request Fiscal Year 2008-2009**

Program I.D. and Title: BED 143 TE – High Technology Development Corporation

1. Introduction:

a. Summary of program objectives.

HTDC's objectives are to develop and promote Hawaii's science and technology assets and resources; implement programs to support attraction, expansion, and retention of technology companies; support firms engaged in technology research & investment, and projects that support national and State interests; utilize facilities and infrastructure in Hawaii to foster commercial technology development; and promote and provide support for businesses involved in information & telecommunication technology, biotechnology, medical healthcare technology and earth/ocean/space science technologies.

HTDC's technology-focused objectives are aligned with the Department of Business, Economic Development and Tourism's (DBEDT) strategic objectives that support general economic development in the State: 1) workforce housing and development of the core urban areas, 2) workforce development, 3) "Energy for Tomorrow", 4) export of goods and services, 5) creation of an "innovation infrastructure", and 6) improve Hawaii's small business environment.

b. Description of program objectives and activities as discussed in the Multi-Year program and Financial Plan.

HTDC's primary objectives are continuously monitored and updated to best serve the quickly changing tech industry and to develop and promote Hawaii's science and technology assets and resources. HTDC's focus areas for the supplemental year are:

1. Enhance high tech incubation programs;
2. Facilitate federal and dual use opportunities;
3. Focus marketing and promotion narrowly;
4. Provide support to technology companies;
5. Assess the status of high tech in Hawaii;
6. Improve the physical infrastructure for the high tech industry; and
7. Enhance Hawaii's educational system and workforce to support high technology.

Specifics for each focus area follows:

Enhance incubation programs at the Manoa Innovation Center (MIC), Maui Research and Technology Center (MRTC), Hawaii Innovation Center at Hilo (HICH), continue to develop and market the virtual incubation program to

companies in need of incubation services, but not in need of occupying physical space at the centers. Programs for incubation tenants include entrepreneur-in-residence, executive power lunch business reviews, and more. HTDC is currently developing the project which explores markets in Asia, such as China and Japan. HTDC is better leveraging resources available from other economic development groups and trade associations to bring more significant programs and services to the innovation sector in Hawaii

The Life Sciences Cluster by continuing to have discussions with a developer to build a Life Science Incubation and Innovation Center in the vicinity of Kakaako to support the UH Medical School and Research Center, as well as other programs such as the Pacific Biomedical Research Center, and to nurture local science companies so they do not have to leave to the mainland.

Facilitate federal and dual use opportunities by continuing the Small Business Innovation Research (SBIR) program, the purpose of which is to expand research and development activities in science, tech and agricultural-based economic development and commercialization to better leverage Federal dollars to bridge the financing gap; continue to develop alternative energy projects in Hawaii with partners including Hickam Air Force Base, the U.S. Air Force by the Hawaii Center for Advanced Transportation Technologies (HCATT); continue the Manufacturing Extension Partnership (MEP) program funded by the federal Dept. of Commerce—National Institute of Standards and Technology to assist small companies become more globally competitive by improving their business operation and expanding business through new product development.

The UH's Office of Technology Transfer and Economic Development (OTTED) maintains an office at MIC which allows tenants to interact with UH research programs regarding potential commercial opportunities.

Focused marketing and promotion narrowly of HTDC and other Hawaii programs that support tech company development, such as conducting or sponsoring conferences and workshops such as the Hawaii SBIR Grant Program Workshops, marketing for tech companies, and other activities by partnering with private sector organizations. HTDC also promotes Hawaii's technology advantages and business support programs as part of its awareness campaign through websites that it administers, including the State's tech Web Site: www.hitechhawaii.com that is a one-stop web portal for visitors and local companies that promotes Hawaii's high tech capabilities including, information on Act 221/Act 215 and, tech events in Hawaii, local tech job opportunities www.techjobshawaii.com (free job/resume postings), HTDC programs and tech industry reports at www.htdc.org including, HTDC directory of local tech companies, links to other technology resources statewide, and a help sites to establish business in Hawaii; public relations, publications, editorials, spots on tech-related television programs, participation in the trade mission to Asia.

Assess the status of high tech in Hawaii and provide support to technology companies by continuing the biennial assessment of the local technology industry to determine current needs, trends, and policies; promote and support initiatives at the legislature that enhance the business climate for the high tech industry; and continue efforts to provide skilled tech workers by recruiting former

Hawaii residents through the TechJobsHawaii.com website. HTDC is providing administrative support to the Hawaii Innovation Council, a newly established advisory board created by an Executive Order from the Governor. HTDC's Executive Director is heavily involved in the Hawaii Technology Enterprise Network (HiTEN) which is comprised of representatives from various organizations within the technology sector.

Continue to improve the infrastructure for high tech by supporting other organizations directly involved in building additional high tech infrastructure and working on solutions to develop and finance tech facilities through partnerships and other means of financing (non-state funding). The lack of state and federal capital improvement program funding to finance needed local tech facilities and lack of incentives for private sector to construct have created a problem of stagnant growth and expansion for local industry. Current incubation and innovation facilities with ongoing "graduation programs" for years have been at full capacity. Competition for private-activity general obligation bond funding within the state has marginalized our ability to facilitate the growth of this emerging industry with needs of subsidized space, limiting our hope for improved economic diversification.

Enhance Hawaii's educational system and workforce to support high tech by coordinating with other organizations that directly impact these essential support functions. Education and workforce development enables high tech companies to attract and recruit a top-notch workforce, including experienced management and multi disciplined engineering talent. HTDC is coordinating meetings amongst organizations to address the challenges in putting together a database of workforce development opportunities. HTDC had also convened meetings to realize Kihei Charter School's Science, Technology, Engineering and Math (STEM) academy to be in our incubation center as a pilot program. An objective of the charter school is to reinvent education for a tech-based economy by attracting students interested in these fields and provide a solid foundation for them to later pursue careers in these fields, thus building a steady pool of tech-qualified workers locally.

c. Explain how your program intends to meet its objectives in the upcoming supplemental year.

Action Plan:

1. Continue to explore opportunities to develop biotech laboratory and office space, and technology incubation space in Kakaako.
2. Continue discussions with organizations involved in the planning of a potential science and technology charter school in the Kakaako area.
3. Seek continued funding from federal agencies like the U.S. Air Force for the HCATT and the National Institute of Science and Technology for MEP.
4. Continue measures of performance surveys and analysis, and partnerships with major stakeholders to advance policies and programs to support growth of the high tech industry in Hawaii.

5. Continue to collaborate with DBEDT and other stakeholders on high tech related projects and issues.
6. Partner with other stakeholders on providing entrepreneurial training to accelerate tech start-up companies' success rate.
7. Continue to develop the representative office established in a large Beijing technology park.
8. Explore to establish other representative offices and partnerships in Asia if business opportunities are promising.

2. Program Performance Results:

a. Discuss the performance results achieved by each program in FY07.

<u>Description</u>	<u>FY06 Actual</u>	<u>FY07 Actual</u>
<u>Measures of Effectiveness:</u>		
(1) # of cos. assisted at incub. ctrs.	117	152
(2) Mktg: # of companies. assisted	58,721	33,805
<u>Program Target Group:</u>		
(3) # of potential tech-based cos.	2,030	1,476
(4) # of cos. applied for incub. svc.	19	15
<u>Program Activities:</u>		
(5) # of contacts & responses	235,517	136,184

Primary reasons for variances:

(1) # of cos. assisted at incubation centers: The FY07 actual is in-line with the planned amount. The increase in activity in FY07 is primarily due to interest in vacant space created by the departure of several anchor tenants at MRTC and graduation of maturing companies from MIC which opened potential opportunities for new companies to become tenants at both facilities. Although more companies were assisted in exploring the opportunity for tenancy, the space at MRTC is suitable for a large tenant (thus not feasible for interested small start-ups) and priority at MIC is given to existing occupants to expand into available space. The virtual incubation program has been slow to generate interest due to lack of funding for marketing.

(2) Mktg: # of companies assisted: The Internet has significantly broadened HTDC's ability to reach and assist individuals and companies remotely thus this statistic reflects the impact the websites have had in assisting those beyond our shores. With this said the vendor that physically hosts HTDC's websites changed in FY07. The methodology of tracking website activity differed from the previous vendor and is the main reason for the disparity in the numbers between the two years.

(3) # of potential tech-based companies: The variance between years' is primarily due to the reduced pool of companies MEP was actually able to pursue due to the need for a focused strategy. MEP had to target companies that can deliver "quality" results to compare against MEP performance benchmarks, plus delays in opening the China office and changes in regulations for foreign companies further restricted their ability to conduct business in China.

(4) # of companies applied for incubation services: The demand by existing occupants to expand when space became available has limited opportunities for new companies to apply at the centers. Even in the rare instance where a large anchor tenant space was available, a limited number of large tech companies on Maui are available or interested in the space. The space is too large for most start-up companies and not easy to subdivide, thus limiting applications for the space. The large MRTC space was leased to a nearby STEM academy.

(5) # of contacts & responses: See the explanation to (2).

b. Explain how these results relate to the program's objectives and department's mission.

The program performance results directly monitor the success of HTDC in supporting the growth of Hawaii's high technology companies at its innovation centers and facilitating the overall growth of the high tech industry in Hawaii.

c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.

Program Effectiveness measures focus on the number of companies and individuals being assisted both within and outside of the incubation centers. The results of these measurements should also be an indicator of the overall activity or interest in the high technology industry in the state.

d. Discuss the actions taken by each program to improve its performance results.

HTDC will continue to focus on improvements or enhancements to its incubation and virtual programs. The Incubation Program provides tenants and non-tenant clients with management, marketing and business development expertise, access to financing options, and general administrative support. HTDC continues to refine and revise its programs to meet the changing needs of the industry and the small startup companies participating in the incubation program. HTDC is expanding its incubation program by exploring opportunities in Asia as potential new markets for our clients, and utilizing the Internet to market Hawaii's technology assets globally.

HTDC will continue to provide workshops and outreach to companies on topics relevant to our target group or outsource to private sector companies to provide the expertise.

e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.

No changes.

3. Problems and Issues:

a. Discussion of problems and issues encountered, if any.

1. Lack of Capital Financing for Tech Startups: While new and small funds are originating, Hawaii continues to face the challenge of developing a sufficient capital base to finance the early stages of small start-up technology companies. While both the State and the private sector continue efforts to provide a network of investment capital to these companies, it remains difficult to compete for the limited dollars available.
2. Decrease in federal funding for projects that provides informational outreach to tech companies about federal programs that are available partially due to redirected resources to fund other priorities of the nation. This in combination with prior years' reductions in general fund assistance to HTDC has resulted in the reduction or elimination of these informational outreach type projects that are no longer funded.
3. Many of our tech companies are inexperienced start-ups or university researchers that lack the necessary business knowledge to successfully commercialize their innovations. Focused business training is needed to assist these firms accelerate their product to market. Lack of business knowledge also negatively affects start-up companies' ability to attract investment capital.
4. Hawaii lacks a sufficient number of qualified technology trained workers to support the growing tech industry.
5. Bio-tech opportunities passing Hawaii by: Hawaii needs to be more proactive in investing its resources towards supporting industry sectors that can generate huge economic returns to the State. For example, over the last ten years, other states have implemented aggressive strategies to attract the high-value biotechnology sector. Hawaii has done little to support this opportunity, which is largely passing us by.
6. There is a need to explore business opportunities beyond Hawaii for tech based companies. Opportunities in Asia, especially China are an untapped market for local companies. Local companies do not have the time or resources to navigate through the unique laws and requirements of foreign countries in order to explore potential opportunities.

b. Program change recommendations to remedy problems.

1. Lack of Capital:

The Hawaii Small Business Innovation Research (SBIR) program under HTDC (HRS 206M) continues to be a successful program helping local tech companies to receive federal research and development grants with potential

for commercialization. An increase in the general fund appropriation for this grant program will mean more matching federal funds for the state and tech jobs. It will also allow HTDC to develop and fund the sister STTR program that encourages businesses to work with Hawaii's universities in R&D related programs.

In collaboration with other agencies and organizations, HTDC plans to market Act 221 and Act 215 and any successor capital formation benefits at targeted investment groups.

2. Decrease in Federal Funding:

HTDC will continue to pursue funding opportunities for other tech related projects.

3. Lack of qualified technology trained workers:

Continue to coordinate meetings amongst organizations such as the DOE, UH, community college system and other key organizations to address workforce development issues, and assessing the feasibility and development of a plan for a science and technology charter school which will attract and prepare students to later pursue careers in these fields.

4. Explore business opportunities beyond Hawaii:

Continue to develop the representative office in Beijing and explore business opportunities in other Asian countries.

c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.

HTDC will continue its efforts to assist in the development of the high tech industry and assistance of companies as best as it can while the issues and problems identified above are resolved.

4. Expenditures for Fiscal Year 2007 - 2008:

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)	(3.00)				(3.00)	(3.00)
Personal Services	1,887,024	96,333			1,970,357	1,970,357
Current Expenses	7,957,859				7,957,859	7,957,859
Equipment					-	
Motor Vehicles					-	
Total	9,844,883	96,333			9,928,216	9,928,216
(Pos. Count)	(1.50)				(1.50)	(1.50)
Special Funds	3,827,732	22,606			3,850,338	3,850,338
(Pos. Count)					-	-
Federal Funds	3,548,750	28,868			3,577,618	3,577,618
(Pos. Count)					-	-
Other Funds	1,500,000				1,500,000	1,500,000
(Pos. Count)	(1.50)				(1.50)	(1.50)
General Fund	968,401	44,859			1,000,260	1,000,260

a. Explain all transfers within the Program I.D. and the impact on the program.

None.

b. Explain all transfers between Program I.D's. and the impact on the program.

None.

c. Explain any restrictions and the impacts on the program.

None.

5. Supplemental Budget Requests for Fiscal Year 2008 – 2009:

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)	(3.00)		(3.00)
Personal Services	1,784,424		1,784,424
Current Expenses	8,060,523	300,000	8,360,523
Equipment			
Motor Vehicles			
Total	9,844,947	300,000	10,144,947
(Pos. Counts)	(1.50)		(1.50)
Special Funds	3,827,732		3,827,732
(Pos. Counts)			-
Federal Funds	3,548,750		3,548,750
(Pos. Counts)			-
Other Funds	1,500,000		1,500,000
(Pos. Counts)	(1.50)		(1.50)
General Funds	968,465	300,000	1,268,465

a. Workload or program request:

The Supplemental Budget request includes the following requests:

Item	Cost Category	MOF	FY 09
Additional HSBIR funding	Other Current Expenses	A	200,000
	Total	A	200,000

(Description of Request: Additional funding for HSBIR grant awards.)

Item	Cost Category	MOF	FY 09
Funding for SBIR workshops, speaker fees and technical assistance services	Other Current Expenses	A	100,000
	Total	A	100,000

(Description of Request: Funding to expand the size of SBIR workshops, speaker fees and technical assistance to workshop attendees interested in submitting proposals for federal SBIR grants.)

Reasons for the Requests:

The purpose of the Hawaii SBIR/STTR programs is to expand research and development activities in science, tech and agricultural-based economic development and commercialization to better leverage federal dollars to bridge the financing gap for small local companies.

The Hawaii SBIR matching grant program continues to be a successful program. The \$200,000 increase in the general fund appropriation will mean additional State funds to match the increasing number and larger amounts of federal SBIR awards. The funds will also allow HTDC to develop and fund the sister STTR program which encourages businesses to work with Hawaii's universities in R&D related programs.

The SBIR/STTR programs have been awarding approx. \$2.3 billion annually, to small businesses that develop high risk innovations. A Congressional bill has been introduced to double the budget. Hawaii companies could be receiving a greater share of this federal funding but are disadvantaged in competing for awards. One of the major reasons is due to Hawaii's geographic distance from national SBIR training conferences where firms learn how to compete for these federal R&D grants. The \$100,000 request will provide Hawaii firms with training workshops and one-on-one grant proposal writing assistance. To-date the program has helped companies attract more than \$125 million to Hawaii.

These projects support the Governor's Innovation Initiative.

c. For all position count reductions, please specify whether the positions were filled or vacant.

Not applicable.

6. Program Restrictions:

None.

7. Capital Improvement Program (CIP) Requests for Supplemental Year 2008 - 2009:

None.

8. Proposed Lapses of CIP projects:

None.

**Department of Business, Economic Development, and Tourism
Supplemental Budget Request Fiscal Year 2008-2009**

Program I.D. and Title: BED 145 VC – Hawaii Strategic Development Corporation

1. Introduction:

a. Summary of program objectives.

Consistent with the strategic objectives of the Department of Business, Economic Development, and Tourism, the long-term objectives of HSDC are to promote innovation, and more specifically create funding mechanisms for investment in emerging technology companies. This goal is accomplished by developing networks to organize public and private sources of capital, and to establish infrastructure to support venture capital investment.

Near-term objectives are to train entrepreneurs to be able to commercialize their technologies and position their companies to raise growth capital.

The outcomes of HSDC's programs are the growth of new businesses and the development of Hawaii's innovation infrastructure including renewable energy sources.

b. Description of program objectives/activities as discussed in the Multi-Year Program and Financial Plan.

Through its "indirect investment" policy, the Hawaii Strategic Development Corporation's invests public funds in privately managed venture capital limited partnerships, which in turn invest in emerging Hawaii companies. The venture capitalists identify companies with promising products or technologies, high market potential, and strong management teams, and negotiate the investment directly with the firm.

By so doing HSDC assists in technology development and launching new companies and industries for the state. This policy benefits the State by providing entrepreneurs with access to venture capital expertise and private sources of capital to leverage public funds. It also results in reduced program costs. HSDC has made capital commitments to funds ranging from seed stage investment, to early/growth stage, to later stage mezzanine financing. This diversified investment policy is designed to provide different stages of financing to companies throughout their growth cycles.

The investments made by HSDC are typically for a ten year period.

To date HSDC has invested approximately \$16 million in ten venture capital limited partnerships which have invested or are investing in Hawaii companies. These venture funds have made over 60 investments in Hawaii. In FY08, HSDC is completing a new fund commitment which will support early stage companies

receiving investment from high net worth individuals collectively called angels. The fund is HEAVEN Fund I, LLC.

HSDC supports entrepreneurial development programs through conferences designed to assist firms in improving their management capabilities and attract capital. HSDC sponsors conferences bringing in venture capitalists to meet with entrepreneurs and positioning them for possible investment. Other conferences are provided for investors and support organizations to better understand private equity investing.

In the 2007 legislative session HSDC was appropriated \$5 million for a grant fund to support “dual use” companies, those which are developing applications for Department of Defense purposes as well as for commercial markets. Funds will be expended through a contract with the Pacific International Center for High Technology Research (PICHTR) and will be directed by that organization to companies which have received prior funding from the Center of Excellence for Research in Ocean Sciences (CEROS) or from the Hawaii Technology Development Venture (HTDV). In this manner the dual-use fund will be well leveraged with private investment and federal funds.

c. Explain how your program intends to meet its objectives in the upcoming supplemental year.

In the upcoming biennium, HSDC will continue to work with companies to assist them to become “investment-ready.” HSDC is working with other entrepreneurial support organizations such as the UH Office of Technology Transfer and Economic Development, Enterprise Honolulu, HiBEAM, and the Shidler College of Business to form a network to assist entrepreneurs. This network is being referred to as the Hawaii Technology Enterprise Network (HiTEN) which is being formed to have these agencies collaborate and work together on behalf of entrepreneurs. Results to date include assisting with business planning and introductions of entrepreneurs to venture capitalists on the west coast, and these efforts will be continued in the future.

HSDC will contract with the Pacific International Center for High Technology Research to implement and expend moneys appropriated by the legislature under Act 267, 2007. The board and staff of HSDC will oversee the PICHTR contract to ensure proper management and progress against milestones.

2. Program Performance Results:

a. Discuss the performance results achieved by each program in FY07.

HSDC’s portfolio is reaching a stage of maturity and some of its companies are accomplishing liquidity events. Recently Hoku Scientific, a Hawaii-based hydrogen fuel cell company, undertook an initial public offering (IPO) of its stock providing a significant cash distribution to HSDC. Another portfolio company was recently listed on the London Stock exchange.

Despite having limited funding availability, the HSDC was able to approve a small new commitment to the angel fund.

The HiTEN entrepreneurial support network is generating good collaborations and to date six companies have directly benefited.

b. Explain how these results relate to the program's objectives and department's mission.

These results are directly related to HSDC's and DBEDT's goals of diversifying the economy, commercializing UH research, advancing technology development, providing financial support for emerging and high-growth businesses, and ultimately creating high-skilled employment opportunities for Hawaii's citizens.

DBEDT has established six overriding goals for the development of the state's Innovation Infrastructure:

- Workforce Housing
- Human Capital Development
- "Energy for Tomorrow"
- Global Links
- Creation of an Innovation Infrastructure
- Improving Hawaii's Business Environment

HSDC's programs fully complement five of the six departmental objectives.

c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss performance results achieved during the past two years.

A number of quantifiable measures are used for tracking HSDC results, including number of new investment partnerships funded, amount of private sector leveraging, and the number of venture capital conferences and entrepreneurial training programs supported by HSDC.

Results were very good, given limited capital availability, with a new commitment approved by the board, generating at least 20X private sector leveraging. Conferences held have been on par with prior years and companies have provided feedback to HSDC that they have received excellent information and support resources specifically as a result of the TechEnterprise conference organized and sponsored by HSDC.

d. Discuss the actions taken by each program to improve its performance results.

A major reason for limited investment activity in Hawaii is that the state lacks serial entrepreneurs to grow businesses, despite the efforts of many organizations to build successful companies. Thus, creation of the HiTEN network is intended to increase the likelihood of success by Hawaii's entrepreneurs.

- e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

Through the Yearly Activity Planning process, the HSDC board has evaluated past performance, current resources and is moving towards a transitional program focusing on entrepreneurial development. Specific program objectives have been identified in the yearly activity plan. The rationale for these changes relates to availability of resources. HSDC will not plan for major new venture capital investments given capital constraints. Resources do adequately allow for support of workshops and sponsorship of private sector technology events.

3. Problems and Issues:

- a. Discussion of problems and issues encountered, if any.**

HSDC's programs are closely linked to market externalities. The current IPO market remains weak, offset by larger venture capital investments. This has been the case within national and international markets for the last several years, and Hawaii cannot escape these environmental factors. The specific impact on Hawaii is that the scale of our companies does not make them suitable for the larger investments at higher valuations.

It is also recognized that capital is not the only deterrent to new business development. Investors seek to invest in firms with experienced, capable managers, and the HiTEN network is intended to assist in this area.

- b. Program change recommendations to remedy problems.**

Given the above market trends, HSDC's current strategy is to shift focus to prepare entrepreneurs to grow their companies and make them attractive to venture investors.

- c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

Without new sources of funding, HSDC's ability to generate new investment pools for Hawaii companies is severely curtailed. HSDC will manage its resources to reflect realistic investment and expenditure capabilities relative to opportunities.

4. Expenditures for FY 2007 – 2008:

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)					-	-
Personal Services	200,878	3,345			204,223	204,223
Current Expenses	8,814,350				8,814,350	8,814,350
Equipment					-	
Motor Vehicles					-	
Total	9,015,228	3,345			9,018,573	9,018,573
(Pos. Count) Special Funds	4,742,500				4,742,500	4,742,500
(Pos. Count) Federal Funds					-	-
(Pos. Count) Other Funds	4,272,728	3,345			4,276,073	4,276,073
(Pos. Count) General Fund	-				-	-

a. Explain all transfers within the program I.D. and the impact on the program.

Not applicable.

b. Explain all transfers between program I.D.'s and the impact on the program.

Not applicable.

c. Explain any restrictions and the impacts on the program.

Not applicable.

5. Supplemental Budget Request for Fiscal Year 2008 – 2009:

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)			
Personal Services	200,878	112,904	313,782
Current Expenses	6,681,225	5,900,000	12,581,225
Equipment			
Motor Vehicles			
Total	6,882,103	6,012,904	12,895,007
(Pos. Counts)			-
Special Funds	2,609,375	6,012,904	8,622,279
(Pos. Counts)			-
Federal Funds			-
(Pos. Counts)	-		-
Other Funds	4,272,728		4,272,728
(Pos. Counts)			-
General Funds			-

a. Workload or Program Requests

Having drawn down its investment funds, HSDC's activities will be programmatic in nature and scale, focusing on entrepreneurial training workshops, venture capital showcases, and the development of the dual use follow-on fund and the Hydrogen Investment Capital Special Fund.

The Fiscal Biennium 2008-2010 Executive Budget includes the following requests:

- i. A description of the request, the reasons for the request, and the desired outcomes or the objectives to be accomplished by the proposed program.

Dual Use Fund

Funds are requested to implement the research and development follow-on funding program established under Act 267, SLH 2007. This act provided \$5 million in funding for companies which had received prior funding through the

National Defense Center of Excellence for Research in Ocean Sciences or the Hawaii Technology Development Venture.

A contract will be entered with the Pacific International Center for High Technology Research to oversee the fund and make contract awards. The outcomes of this program will be leveraging of state funds by federal funds by at least four times, and a strengthened tech sector better able to commercialize needed technologies. Such technologies could conceivably shorten the Iraq war and save American lives.

Hydrogen Investment Capital Special Fund

These program and budget requests are managed within DBEDT's Strategic Industries Division. This is a supplemental request for funding from the Hydrogen Investment Capital Special Fund (Fund) of \$112,904 for one (1) FTE budgeted exempt position (Hydrogen Program Manager), to be funded out of a total of \$6,012,904 requested from the (Fund), to implement the Hawaii Renewable Hydrogen Program (Program) as established by Act 240, SLH 2006 under Section 196-10, HRS, and for Program-related cost share and investment.

The Program is a key component of the Governor's Energy For Tomorrow package. However, Act 240 did not provide the requested three positions and necessary funding to support the Program or to provide oversight of the \$10 million Fund, also established by Act 240, under Section 211F-5.7, HRS, for the purposes of the Program. One FTE position is needed to provide, at a minimum level, management support and oversight of the Program and Fund.

\$5,900,000 of the Fund is budgeted to be deployed during the fiscal year (i) to develop the Program pursuant to Section 196-10, HRS and to (ii) provide cost share for federal and private R&D projects; and seed capital and investment capital for emerging Hawaii-based advanced energy technology companies pursuant to Section 211F-5.7, HRS.

Desired Outcomes/Objectives to be accomplished by the proposed program include:

- Pursuant to Section 196-10, HRS, the Program shall design, implement, and administer activities that include:
 - Strategic partnerships;
 - Engineering and economic evaluations;
 - Electric grid reliability and security projects;
 - Hydrogen demonstration projects;
 - A statewide hydrogen economy public education and outreach plan;
 - Promotion of Hawaii's renewable hydrogen resources;
 - A plan, for implementation during the years 2007 to 2010;
 - A plan, for implementation during the years 2010 to 2020; and
 - Evaluation of policy recommendations.

- Pursuant to Section 211F-5.7, HRS, the Fund will be used to:

- o Provide cost share for federal projects that will be implemented by Hawaii's hydrogen R&D agencies;
 - o Provide needed investment capital to stimulate renewable hydrogen business and infrastructure development and commercialization; and
 - o Provide funding for hydrogen program technical management services to work in conjunction with the Fund investment manager to ensure appropriate use of the Fund.
- ii. A listing/description of the positions requested, and funding requirements by cost category and source of funding. These new positions will be assigned to DBEDT's Strategic Industries Division.

Cost Category	MOF	FY 2009
Permanent Position	-	
Temporary Position	-	1.00
Personal Services	B	112,904
Other Current Expenses	B	5,900,000
Equipment	-	0
Motor Vehicle	-	0
Total		6,012,904

- iii. For all lump sum requests, please provide a detailed breakout indicating specific purposes for all planned expenditures.

Contracting specialized services for management of investments and program development; and cost match	5,840,000
Other expenses	60,000
Total	5,900,000

- b. For all position count reductions, specify whether the positions were new, filled or vacant.**

N/A

6. Program Restrictions:

N/A

7. Capital Improvement Program (CIP) Request for FY09.

N/A

8. Proposed Lapses of CIP Projects:

N/A



NATURAL ENERGY LABORATORY OF HAWAII AUTHORITY

An Attached Agency of the Department of Business, Economic Development & Tourism, State of Hawaii



Statement
Ron Baird, Chief Executive Officer
Natural Energy Laboratory of Hawaii Authority
Supplemental Budget Request for FY 2009
Before the
Senate Committee on Economic Development and Taxation
January 22, 2008

Chair Fukunaga, Vice-Chair Espero, and members of the Senate Committee on Economic Development and Taxation. Thank you for this opportunity of providing this statement regarding the Natural Energy Laboratory of Hawaii's Supplemental Budget request for Fiscal Year 2009 (FY09).

When the budget was developed last year, we foresaw no need for capital expenditures beyond those the Legislature appropriated for NELHA during the past two sessions. All of those projects are in various stages of implementation at the current time. It came to my attention last summer during the course of attempting to initiate repairs to pipelines caused by the October 15, 2006 earthquake, that NELHA's three deep seawater pipelines had not been inspected beyond divers depth since 1995. Inspection dives were ordered and procured, with a view that they would be precautionary in nature as no knowledge of any problems beyond the earthquake damage was known by NELHA staff.

December 2, 2007, 12 years after the last inspection of NELHA's deep water pipes had been undertaken; we were finally able to once again inspect them at a cost of about \$69,000, using the University of Hawaii's Pisces V submersible and engineering assistance from Makai Ocean Engineering. Inspection of the 40 inch deep seawater delivery pipe revealed a serious problem involving its anchors and bridles installed to contain its motion through a long buoyant catenary to a total depth of 2,000 feet.

It is unknown when or how a failure mode might occur, but it is highly probably that the 40" pipeline's service life is in jeopardy of a failure in its current condition. The alternatives at this time appear to be:

- A. Enhance the service life of this valuable state asset by upgrading and refurbishing the pipeline in the transition area at 450 ft. depth. This preserves some 200 private sector jobs at NELHA and the millions of dollars of investment made by its tenants.
- B. Allow its unpredictable failure and then deal with the possibility of salvaging approximately 4,500 feet of floating pipe. This scenario will subject the State to massive liability costs created by the hazard to navigation resulting from the floating pipeline. Should this pipeline fail, NELHA cannot guarantee that cold seawater can be delivered in the quantities required by aquacultural tenants.

Let me make several items very clear:

- 1.) We have a contingency plan for delivery of water from the 55” pump station to aquacultural tenants during the period of time it will take to repair the earthquake damage.
- 2.) If something happens to the 55” pump equipment and the 40” line is not available to serve the tenants, we cannot supply sufficient water for all the aquacultural tenants. Therefore, maintaining the 40” line in an operating condition well into the future is necessary for the benefit of state aquaculture.
- 3.) We are working on a procurement exemption to be able to engage Makai Ocean Engineering, which designed the line, had a representative on the 1995 and 2007 dives, and vast experience in water systems generally, to examine and prepare recommendations on how to proceed with the work necessary to prolong the 40” pipe’s service life. NELHA will be able to define the costs of the prolongation once that recommendation is completed. Right now, it appears that the cost may be in the range of \$3,000,000.

Details regarding the inspection follow:

It became immediately apparent after closely inspecting the transition area of this pipeline that conditions have worsened since 1995. Bridles C & D are now totally free and no longer attached to the 40-ton concrete transition anchor. Although it was not determined how this failure occurred, it is assumed that the main shackle or cable securing the bridle loop to transition anchor failed some time between 1995 and 2007. Bridles C & D are still attached to the pipeline sleeve, but no longer attached to the transition anchor.

Bridle “B” now appears to be even slacker than in 1995. This could be attributed to weight #51 moving further seaward. Further movement of weight #51 was evident, although it was not determined how much movement has occurred since 1995. It should be noted that the 1995 and 2007 inspection dives of the 40” pipeline were both conducted under similar physical oceanographic conditions (i.e. slight to no current).

The main bridle plate of bridle “A” has been pulled through the north side weight #51 and is now lying shoreward of the position it was at in 1995. Bridle “A” did not appear to be under heavy tension at the time of the most recent inspection, although it is likely that it would be under higher loads condition in medium to strong current events. If bridle “A” were to totally fail, there would be nothing to restrain the 40-ton transition anchor from being dragged down the slope when bridle “B” comes under tension. It is uncertain if this would happen considering the amount of slack in bridle “B”. Since the bridles are no longer restraining the load from the buoyant and moving catenary section of the 40” pipeline, it is assumed that the pipeline itself has been assuming this load for some time. Further proof of this follows in the next paragraph.

The most worrisome discovery of the 40” pipeline survey is the worn bottom edges of weight #51. The bottom, outer, edges of this concrete weight are being worn away on both the north and south sides of the weight. This can only happen if the weight has been tilting over onto its side during strong current events. This is troublesome considering that the pipeline may kink,

tear or totally shear off at this location. This type of pipeline weight was not designed to assume the load of the floating catenary or the rolling or twisting of the pipe it is attached to.

Your assistance and guidance in completing this vital project is deeply appreciated by NELHA and, I am certain, its tenants.

If you have any questions that I might be answer, I would be happy to take and answer them now to the best of my ability. Thank you again for your time.

**Department of Business, Economic Development, and Tourism
Supplemental Budget Request for Fiscal Year 2008 – 2009**

**Program I.D. and Title: BED 146 EL – Natural Energy Laboratory of Hawaii
Authority (NELHA)**

1. Introduction:

a. Summary of program objectives.

The Natural Energy Laboratory of Hawaii Authority (NELHA) promotes sustainable business development and supports economic diversification by providing resources and facilities for energy and ocean related research, education, public outreach, and commercial activities in an environmentally sound and culturally sensitive manner. This is achieved through marketing, managing and operating facilities that support sustainable utilization of available natural resources such as cold deep seawater, warm surface seawater, and high solar insolation and alternative distributed energy resources. Facilities are located at Keahole Point in Kailua-Kona and in Puna, both on the Island of Hawaii.

The objectives of the National Defense Center of Excellence for Research in Ocean Sciences (CEROS), attached for administrative purposes to NELHA, are to solicit and support innovative technology development for national maritime military applications and sustained technology-based economic development in Hawaii, and to develop and demonstrate state-of-the-art ocean technologies to address Department of Defense requirements and build residual benefit for the State.

b. Description of program objectives and activities as discussed in the Multi-Year program and Financial Plan.

NELHA's facilities at Keahole Point serve as the premiere site worldwide, where large volumes of both warm surface and cold deep seawater are consistently pumped ashore for use in aquaculture, marine biotechnology, manufacturing of highly valuable and desirable potable water, and other technologies. NELHA serves as a laboratory for research and development; as an incubator facility for developing innovative, new technologies and businesses; and as a base for commercial operations that utilize, or are otherwise related to the use of the seawater and other available resources. While NELHA continues to be recognized as the world leader in research on Ocean Thermal Energy Conversion (OTEC), NELHA is aggressively moving into other areas of energy research, development, demonstration, and deployment.

NELHA has continued to aggressively develop new and strengthen existing public-private sector collaborative efforts, thereby maximizing respective and collective resources to ensure outcomes that reflect higher achievement of success at quantitative levels.

c. Explain how your program intends to meet its objectives in the upcoming supplemental year.

The NELHA Board of Directors has been reassessing NELHA in a comprehensive manner including and not limited to, such diverse issues as land and other resource use and policies, budget, revenue opportunities, privatization of services, and meeting NELHA's goal to sustain self-sufficiency. FY07 was the first year NELHA did not receive any General Fund augmentation. To meet this goal, NELHA raised the price of its seawater from \$0.1086/thousand gallons (Kgal) in 2005 to \$0.1728/Kgal in 2007 and subsequently in FY 2008 to .2062/Kgal. Despite such a price increase, NELHA still finds itself losing money on seawater deliveries due to the more rapid escalation in electricity prices. All seawater supplied at NELHA depends on electricity from the grid for the energy to produce and transport those waters. NELHA is actively pursuing several projects that, if successfully implemented, will give it its own sources of electricity and thus more self-control over its energy costs. This in turn, will ensure that financial objectives can be more accurately estimated and ultimately realized.

Included in the administration FY08 and FY09 budgets are \$365,000 in each period for a seawater subsidy for aquaculture farmers. This will aid, in an important fashion, the continued development of aquaculture in Hawaii. NELHA has developed guidelines for the application of these funds. The subsidy was limited to those aquaculture companies already in operation at NELHA as the time the subsidy was implemented, not new tenants. The subsidy is being given to these tenants based on their percentage of seawater use and the total amount of seawater used collectively by the aquaculture tenants. Aquaculture tenants were made aware that this subsidy is for the Biennium year only and that they will pay the actual cost of pumping seawater when the subsidy ends. Aquaculture tenants are to supply NELHA with a report stating how the subsidy assisted their projects.

CEROS continues to support economic diversification by funding technical development projects that demonstrate leading edge maritime technologies that provide enduring residual value for Hawaii through enhanced employment or improved facilities and corporate capabilities. CEROS program objectives are met through public solicitation, competitive evaluation and selection of diverse proposals for technology development with selected projects funded through negotiated State contracts. From initiation, CEROS has been funded by appropriated federal funds designated specifically for CEROS through federal legislation and distributed through agreements with the Defense Advanced Research Projects Agency (DARPA).

2. Program Performance Results:

a. Discuss the performance results achieved by each program in FY07.

In FY06 and FY07, NELHA had a total of thirty-Seven (37) and forty-two (42) tenants respectively, including short-term research projects. Approximately 48% of NELHA's 870 acres of land at Keahole Point is in use including about 125 acres that are not leasable due to their classification as archeological preserves, pump stations, access roads, and the like. Marketing is achieved through a combination of public outreach and collaboration with the private sector.

In FY06 and FY07, the number of individuals participating in NELHA's public outreach programs increased. The increase in participation has been due to very active participation by the educational efforts of the Friends of NELHA, a non-profit group of citizens who provide seminars and tours for the public. The Friends of NELHA, at its own expense, provided furnishings for the Gateway Center, thus enabling the opening of this Leeds Platinum building to the public. The office and laboratory portions of the Gateway Center have been fully leased, thus mitigating the cash drain of the building on the NELHA budget.

CIP Planning and design and construction monies received for expansion of the 55" seawater distribution system will enable NELHA to attract new tenants and allow current tenants to expand, thereby adding to NELHA's future revenues.

NELHA and CEROS have also forged strong ties with several federal agencies including and not limited to, the U.S. Department of Defense, U.S. Department of Energy and National Laboratories, U.S. Department of Interior, and the U.S. Department of Agriculture.

NELHA, in collaboration with the State Department of Transportation Highways, has been working on a request for professional services for the planning, design and engineering of a connector road between NELHA and the Kona International Airport. NELHA will work with both the U.S. and State of Hawaii Departments of Transportation to coordinate and implement this project. NELHA continues to work with our congressional delegates for funding the construction phase.

NELHA spent a good portion of FY07 working with FEMA and State Department of Civil Defense on getting funding and approvals for repairs to NELHA seawater pipelines from the October 16, 2006 earthquake. Repair work should begin in early 2008.

In FY06 and FY07 negotiations with several alternative energy projects its seeing its fruition in FY08. Several have either signed lease agreements or in the process of finalizing. NELHA continues to work with alternative energy prospective tenants and plans to see more fruition in later FY08.

b. Explain how these results relate to the program's objectives and department's mission.

All of the aforementioned results demonstrate NELHA's on-going efforts and commitment to growth and expansion and to development and diversification of Hawaii's economy. NELHA's ongoing commitment in securing alternative energy projects keeps in line with the Governor's energy awareness mandates.

NELHA's participation in projects along with projects funded by CEROS for concept development and demonstration of ocean technologies and applied ocean sciences for military maritime purposes support both State and National security interests. These efforts also help to create sustainable technology-based employment and economic growth for Hawaii companies.

- c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.**

NELHA's measures of effectiveness include the total number of tenants (which have increased); increase and/or decrease in number of tenants (which have increased as can be seen from the tables below); tenants' gross sales (which have dramatically increased due to the increased sales volume of desalinated seawater); amount of investment at NELHA from both public and private sector sources (one company alone has invested \$90 million, for example); the number of current tenants expanding and leasing additional space at NELHA (two); the number of individuals served through outreach and interface activities (significantly through the efforts of the non-profit Friends of NELHA); the number of CEROS projects funded and completed; and the dollar value of grants distributed by CEROS.

The results of NELHA and CEROS work during the past year ensure continued opportunities for additional and increased federal funding; establishment of new and stronger alliances with both federal and private sector entities; and strengthening and diversifying Hawaii's economy.

Continued perseverance in establishing market-based lease rates for future tenants as well as those whose leases come up for renewal and incrementally raising the price at which seawater is sold by NELHA has materially aided in obtaining the goal of financial self-sufficiency.

- d. Discuss the actions taken by each program to improve its performance results.**

By increasing seawater and base land rates and decreasing and maintaining expenses at a minimum in FY07, NELHA has been able to establish its baseline for ensuring fiscal stability. The NELHA Board and staff have worked diligently to improve their efficiency in reviewing and processing tenant proposals and lease agreements. The Board has broadened its expertise base by including members of the community to participate in strategic planning sessions, and has ardently sought to "reinvent" a government agency and stay self-sufficient.

Increased costs for electricity and other components of pumping seawater to tenants are being addressed. The rapid nearly unabated increase in electricity costs has caused a tremendous hardship on NELHA tenants, which NELHA has sought to mitigate through increasing its rates more slowly and thus NELHA sought a subsidy for aquaculture for the benefit of all Hawaii.

Infrastructure challenges such as potable water transmission and land use are either under construction and/or in review. NELHA is seeking non-governmental funding to bring in more tenants and revenue opportunities.

Recent securing of Federal funds for the design of the airport connector road will lead to efforts to secure construction funds such that when the road is completed, about 200 acres of currently inaccessible land will be available to NELHA to lease and increase revenues.

- e. **Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.**

None. NELHA intends to make adjustments to its' measurements, when allowed, during preparation for the upcoming biennium budget preparation.

3. Problems and Issues:

- a. **Discussion of problems and issues encountered, if any.**

Special Fund Ceiling

As NELHA continues to grow and attract new tenants, additional demand is place on all resources including potable water and seawater. The costs involved to pump seawater to tenants are incurred by NELHA then reimbursed through monthly charges to tenants. An increase in the special fund ceiling is necessary to address both increased utility costs.

Potable Water

NELHA continues to require potable water in excess of its allocation. Although NELHA is in the final stage of construction on its freshwater main, the County of Hawaii Department of Water Supply (DWS) has indicated that NELHA will not be allowed to dedicate its freshwater system to the County until such time that NELHA can reduce its demand to within the established allocation or receive a larger allocation from BLNR. Meeting with key personnel from BLNR continue to mitigate the shortfall.

Security

On-going security problems are a source of concern. While funding has been provided for a greater level of security this year, increased public use of the facility dictates that levels be continued, if not increased.

55" Pipeline Expansion

This project is vitally necessary to meet projected tenant demand for DSW in future years. Planning and design funding allocated by the legislature in 2006 will enable NELHA to reach the point of construction, late in 2008. Part of this project, for which \$5.25 million in funding was appropriated in the 2007 legislative session, is essential for the construction of the proposed Ocean Thermal Energy Conversion plant at NELHA.

Inability to Estimate Seawater Demand

Tenant estimates of their seawater demand is the only basis upon which NELHA is able to forecast anticipated water and deliverability requirements. Past records indicate tenants' eyes are much larger than their realized appetites.

Executive Order

An Executive Order, separating the NELHA acreage from that of the Kona International Airport is vital to the future well-being of NELHA in a financial sense. The Federal Aviation Administration has called for the airport to collect what the FAA believes is due from NELHA since NELHA lands technically are considered a part of the DOT airport lands. Payment of a further percentage of NELHA revenues to the DOT and hence the FAA, on top of the 20% already paid to OHA and the administrative fees to DBEDT and Central Services would have a crippling effect on both NELHA and all the private businesses that rely on its operations.

b. Program change recommendations to remedy problems.

To ensure that NELHA is able to maintain its operations and support growth and expansion, the Special Fund ceiling is being increased.

NELHA continues to work with its tenants on forecasting seawater delivery demands. NELHA is addressing the seawater appetite dilemma by assigning a staff person full time to the critical area of seawater forecasting, pricing, management and implementation.

c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.

NELHA staff continues to work both DWS and tenants to ensure effective compliance with water conservation measures. The original allocation to NELHA was clearly not intended to provide for the expansion that NELHA has experienced and continues to support. NELHA will continue to work with DWS, DLNR, BLNR and others to identify and implement opportunities to enhance conservation efforts and also to increase the allocation of water to NELHA specifically and to the Keahole Point area in general. NELHA is also looking at possible tenants who would desalinate the seawater for cooling and their excess freshwater would become available for other current tenant use.

4. Expenditures for Fiscal Year 2007-2008:

Provide the appropriation data, transfers, restrictions, available resources, and the estimated expenditures for fiscal year 2007-2008. For new Program I.D.'s, please present the data as best as can be determined.

	Act 213/SLH 2007	Collective Bargaining	Transfer In/(Out)	(Restriction)	Net Allocation	Estimated Total Expenditures
(Pos. Counts)					-	
Personal Services	2,104,906	78,138			2,183,044	2,183,044
Current Expenses	10,477,328				10,477,328	10,477,328
Equipment	53,550				53,550	53,550
Motor Vehicles					-	
Total	12,635,784	78,138			12,713,922	12,713,922
(Pos. Count) Special Funds	5,387,491	51,836			5,439,327	5,439,327
(Pos. Count) Federal Funds	6,883,293	26,302			6,909,595	6,909,595
(Pos. Count) Other Funds					-	-
(Pos. Count) General Fund	365,000				365,000	365,000

a. Explain all transfers within the Program I.D. and the impact on the program.

Not applicable.

b. Explain all transfers between Program I.D.'s and the impact on the program.

None.

c. Explain any restrictions and the impacts on the program.

As applicable, provide a description of the impact of the transfers that have occurred within the program I.D. between the various cost elements, transfers occurring between different program I.D.'s, and restrictions imposed.

Not applicable.

5. Supplemental Budget Requests for Fiscal Year 2008-2009:

	Appropriation FY 2008-09	Budget Adjustment	Supplemental Request FY 2008-09
(Pos. Counts)			
Personal Services	2,104,907		2,104,907
Current Expenses	10,419,331		10,419,331
Equipment	118,397		118,397
Motor Vehicles			
Total	12,642,635		12,642,635
(Pos. Counts)			-
Special Funds	5,394,341		5,394,341
(Pos. Counts)			-
Federal Funds	6,883,294		6,883,294
(Pos. Counts)			-
Other Funds			-
(Pos. Counts)			-
General Funds	365,000		365,000

Provide the total position counts and funds requested.

a. Workload or program request:

None.

b. For all position count reductions, please specify whether the positions were filled or vacant.

Not applicable.

6. Program Restrictions:

None.

**7. Capital Improvement Program (CIP) Requests for Supplemental Year 2008-2009:
CIP data for all projects within the agency being heard shall be combined into a
single appendix in the department's testimony (if no request is being made,
please indicate "none").**

None.

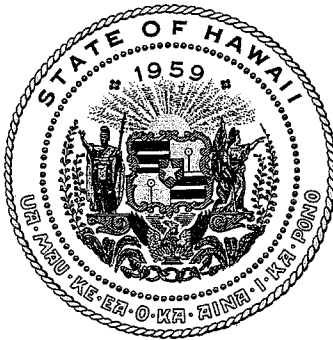
8. Proposed Lapses of CIP projects:

None.

Report to the 2008 Legislature:

Efforts to Support Emerging Growth Industries

**Pursuant to
Hawaii Revised Statutes §201-19
Act 148, SLH 2007**



Department of Business, Economic Development and Tourism

December 2007

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I. Introduction

On June 7, 2007 Governor Linda Lingle signed Senate Bill 709 into Law as Act 148 (SLH 2007). Act 148 requires the Department of Business, Economic Development and Tourism (DBEDT) to conduct extensive research into emerging growth industries in the state and explore the issues and support needs upon which these growth industries depend. Among the elements of Act 148 is the requirement to provide before each legislative session “a written performance report on the impact of activities of the department and attached agencies that demonstrate their efforts to support, promote, and facilitate the expansion and long-term viability of emerging growth industries including those identified [in the act].” The emerging growth industries identified were; Ocean Science and Technology, Biotechnology and Life Sciences, Astronomy, Technology and Information Services, Film and Creative Media, Diversified Agriculture, Aquaculture, and Specialty Tourism. The act encouraged the inclusion of additional emerging industries as were deemed appropriate. This report is the first by the department under that provision of Act 148.

The department appreciates the wisdom and commitment by the Legislature and Governor in enacting Act 148. Hawaii has entered a new era of global economic competition in which technology and digital communications are changing how regions grow and what product and service specialties they can or should have. Moreover, Hawaii’s major source of economic activity, tourism, has matured. It is more challenging to grow the industry and more difficult to accommodate that growth with limited resources. Hawaii needs to better explore its alternatives for future economic activity in light of these conditions and the direction and resources provided under Act 148 elevates that effort to a major priority.

This report represents a first effort to envision, organize and assemble information relevant to the purposes of this reporting requirement. Because Act 148 became effective at the mid point of 2007, a reporting system to generate program impact information by emerging industry sector was not in place. Such a system will be implemented for 2008. In lieu of such a system, this first report utilizes the next-best information available on program activities that can be related to the target industries. That information has been taken from annual reports by the department and the agencies, the programs’ yearly activity plans, and a brief survey of programs to highlight particularly significant activities in the emerging industries.

It is envisioned that the ultimate purpose of this report should be to inform the legislature and stakeholders about how the efforts of the department are making a difference in facilitating growth of emerging growth industries. That requires looking at both the activities of the programs and metrics of change in the emerging industries. Unfortunately, while those metrics on emerging industries are the subject of other research under Act 148, results could not be completed before the delivery of this first report. Consequently, this year’s report primarily focuses on providing an inventory of program actions that target or support specific emerging growth activity and available metrics. The development industry metrics and a reporting system for program impacts by those

industries will permit the next report to provide more insight into how program activities are impacting emerging industries.

It is also a purpose of this report to provide some context to the subject of emerging industry development. Over the last several years a number of efforts to better understand Hawaii's economic situation and options have provided a valuable framework for an evolving development strategy. In particular, they have helped show how economic development, workforce development and education must work together to provide a firm basis for Hawaii's economic future in the 21st century. Emerging industry development certainly plays an important role in that framework. But there are also a number of more systemic issues that determine the effectiveness of that development, such as the size and skill level of the emerging workforce, availability of workforce housing, the ability to engage the global economy and the capacity of our infrastructure. These issues and more are being addressed by Hawaii's emerging *Innovation Initiative*, involving all stakeholders in the public sector, business community, non-profit sector and the public.

We hope this report provides some valuable understanding of DBEDT programs and their relationship to both emerging industries and overall economic development priorities. As the first effort in an annual series, the department invites comments and recommendations on how this report can be improved in the future to better address the needs of the Legislature and stakeholders.

II. Hawaii's Economic Transformation Strategy

Act 148 and the State's emerging Innovation Initiative are important complements. The Innovation Initiative takes a systemic approach to economic development, integrating the roles of economic development, workforce development and education. This approach is consistent with recommendations by such organizations as the National Governors Association and mirrors efforts at the Federal level to ensure major programs of the Department of Commerce, Department of Labor and Department of Education are working together.

Act 148 focuses on improving our understanding the specific economic activities that can be the vehicles for innovation and economic development. It recognizes that solid research and analyses are the basis for good decisions and policy about how public sector development assistance should be applied to create a more competitive economy.

Before looking specifically at how DBEDT programs are addressing the needs of emerging growth activity, it is useful to briefly review the economic challenges facing Hawaii, the framework of the Innovation Initiative, and the current priorities of the department under that initiative. A more detailed discussion of these topics can be found on the department's website at: <http://www.hawaii.gov/dbedt/innovation/>.

Problems and Issues Compelling Change in Approach:

Hawaii faces a number of challenges if it is to compete effectively in the more global and technology-driven economy of the 21st century. According to recent studies that have looked at the performance of Hawaii's economy, there are several, core problem areas that are of concern:

- Per capita income (inflation adjusted) in the state has been growing slower than the national average for several decades. Data from the U.S. Bureau of Economic Analysis show that Hawaii moved from 7th best to 24th best in the national ranking for per capita income between 1980 and 2001. Hawaii's ranking improved to 19th by 2006, thanks to the strong economy. But this is still far from its top ten ranking or better during the 1980s and early 1990s.
- Hawaii's economy depends heavily on relatively lower-wage service industries, especially related to the visitor industry. According to the Department of Labor and Industrial Relations (DLIR), the largest occupations in Hawaii by number of jobs are retail salespersons, wait staff, general office clerks, cashiers, janitors and maids. Hawaii's relatively low-wage structure is made worse by a higher cost of living, particularly the cost of housing.
- The State Workforce Development Council (WDC) reports that in several important areas of the economy there are growing workforce shortages, including teachers, health care workers and law enforcement officers. Beyond this, the increased use of new technologies in traditional industries and the spread of information technology throughout the economy have accelerated the demand for a broad range of workers with the technical skills needed to keep the new economy moving forward.
- Despite Labor shortages in key skill areas and a low unemployment rate, Hawaii currently enjoys a particularly low unemployment rate, below 3 percent. Yet

according to the 2007 Report Card for the States, Hawaii ranks 39th highest in the nation in regards to the number of involuntary, part-time workers (part-time workers who want and are available to work full time, but are unable to because of some inability to find full-time work).

- Indeed, Hawaii has a fairly well-educated workforce overall compared to other states, ranking 17th best in workforce educational attainment. Yet according to the National Center for Educational Statistics, the state currently has a lower percentage of its 9th graders making it through to post secondary education and college degrees than nationally. This seeming contradiction is because the incumbent workforce is better educated on average than the generation of workers entering the workforce. Hawaii is one of the few states in which this is the case and it is troubling.
- Retirements over the next several decades will create labor shortages affecting the ability to fill positions in many areas, particularly the critical sectors of education, healthcare, public safety and technology. In 2005 the population 65 years and over was about 13 percent of the population in the State. In only 4 years (2012) the first boomers hit the current full, social security retirement age of 66. According to DBEDT Long Run Projects, the population 65 years and over will grow by nearly 90 percent between 2005 and 2030, compared with just 28 percent for the population as a whole. The 65 years and over group is expected to rise from its 13 percent share of population in 2005 to 20 percent by 2030. In addition to the gap this will leave in the experienced workforce, this imbalance in the size of the older population will present significant challenges for the health care and social services industry as well.
- DLIR's Research and Statistics Office forecasts that economic growth from 2004 to 2014 that will create a demand for nearly 24,000 new jobs per year. Roughly 40 percent of all openings over the 2004 to 2014 period will be trained on-the-job. This means that the balance of openings (60 percent) will likely require some formal post-secondary education or training. About 24 percent of those openings will require completion of formal academic programs at the university or community college level.

Some of these challenges are common to many states and some are not. Regardless, the National Governors Association (NGA) concluded in a 2007 report that public policy can effectively address the economic and workforce needs of states. NGA outlines a progressive, innovation-oriented public policy framework designed to foster success in the new global economy.

The framework identifies nine key policy areas states need to address in order to be positioned to experience strong growth, particularly growth in per-capita income. These are:

1. Align incentives behind innovation economy fundamentals
2. Co-invest in an infrastructure for innovation
3. Co-invest in the skills of the workforce
4. Cultivate entrepreneurship
5. Support industry clusters
6. Reduce business cost without reducing the standard of living

7. Help boost productivity
8. Reorganize economic development efforts
9. Enlist federal help

Transformation through Innovation:

For more than half a century, the primary force driving Hawaii's economy has been tourism. Tourism will likely remain a large component of Hawaii's economy in the foreseeable future. However, given the competitive nature of global tourism and the impact it has on Hawaii's resources, it will not guarantee long-term economic prosperity. NGA and other studies show that in order for Hawaii to move forward it must harness the power of innovation and expand the range of goods and services it offers. It is stressed that innovation --particularly innovation derived through universities, R&D investments, scientists, engineers, and entrepreneurial drive -- is increasingly what drives competitive success. These findings, as well as Hawaii's own studies and assessments, suggest that Hawaii must restructure priorities, reduce its dependence on land development, and refocus efforts to develop its people and their skills as its principal natural resources and economic drivers of the economy.

Taking into account the challenges facing Hawaii and the results of the various studies, the 2007 Legislature and Administration enacted several components of the *Hawaii Innovation Initiative*. The initiative lays a solid foundation to foster improved educational performance, workforce development capacity, and infrastructure investment to accelerate development of economic opportunities, including emerging growth industries. The elements include:

- **Innovation in Education:** Recognizes the importance of science, technology, engineering and mathematics (STEM) skills for an innovation economy and establishes STEM academies; programs of contextual learning; experiential learning opportunities for students; more opportunities for teacher development; and improved educational and industry needs alignment.
- **Innovation in Economic Development:** Hawaii needs to make investments in infrastructure to support a range of technology, digital media and other emerging industries and entrepreneurial development; support key growth activities, accelerate university technology transfer; develop new venture capital sources; promote alternate energy development; and stimulate workforce housing development.
- **Innovation in Workforce Development:** As an important complement to STEM education, it is also vital that Hawaii support economic transformation with new and better workforce and training tools such as Lifelong Learning Accounts; attracting back skilled, former residents into the shrinking labor pool; developing rapid response custom training capability; improving labor market information; and better aligning workforce and economic development efforts.
- **Establishing a More Global Orientation:** Thanks to better transportation, communications and particularly the internet, Hawaii competes more than ever in a

global market place. In order to establish global ties for innovation and to explore new markets, the State is expanding its international ties through the state Office of International Affairs; providing high school students throughout the region with overseas learning opportunities; and expanding support for the increased export of goods and services.

Innovation Initiative in Practice: Addressing Education, Economy, Workforce & Global Outreach:

Since the 2007 legislative session, the department has been addressing these elements with partner agencies and stakeholders, and through the activities of its divisions and attached agencies. Currently, DBEDT divisions and attached agencies are actively supporting the innovation initiative and assistance to emerging growth industry, through a variety of programs and partnerships.

1. Education:

DBEDT has initiated several programs to help foster STEM education throughout Hawaii.

- DBEDT in partnership with the DOE was awarded a prestigious, Bill and Melinda Gates Foundation grant for STEM education through the National Governors Association in July, 2007. Among other things, the implementation of the grant will develop a database to track students through Hawaii's STEM academies and post secondary education, in order to effectively evaluate the effectiveness of the program.
- The Hawaii Strategic Development Corporation (HSDC) has provided financial sponsorship to the First Lego League, which assisted the program to expand from 24 schools to 64 schools over the past year. On December 1, 2008, 564 students participated in the statewide competition.
- Strategic Industries Division (SID) is supporting programs designed to supplement the current education system and offer students and teachers added programs/tools to raise the standards of STEM education. The division is helping implement STEM academies, partnering with DOE to implement the NGA STEM grant project noted above, and partnering with the University of Hawaii's Office of Technology Transfer to establish a secondary and post-secondary internship program that will expand opportunities for students to experience work environments in the private sector related to their field of study.
- The Strategic Marketing and Support Division (SMSD) is coordinating the planning, organizing, and implementing of the FIRST (For Inspiration and Recognition of Science and Technology) Hawaii Regional Robotics Competition. From March 27-29, 2008 at the Stan Sheriff Center, University of Hawaii at Manoa, 38 high school teams are expected to participate, with 26 of them from Hawaii.

2. Innovation in Economic Development:

In order for emerging industries to flourish, they must have the infrastructure and financial resources to take root. DBEDT is helping to establish that foundation in a number of ways

- HSDC has advised digital media companies seeking financing for their digital media storage and sharing businesses. Working with these companies, HSDC has advised entrepreneurs how to restructure their business plans and investment marketing to better attract venture capital.
- HSDC has initiated the development of a collaborative network of organizations involved in entrepreneurial assistance. Often emerging company CEO's do not know where to turn for assistance and are confused by the "alphabet soup" of service providers. This collaborative network is developing a map of organizations to guide entrepreneurs on how to find business planning assistance, product development expertise, equity financing, etc.
- HSDC has been working closely with the UH Office of Technology Transfer and Economic Development and non-profit economic development agencies to assist companies licensing UH technologies. Assistance is provided to these companies in the areas of business planning, marketing, and introductions to potential investors.
- HSDC continues to develop local and national networks to link entrepreneurs and venture capital firms. Through its introductions, co-investment opportunities are being developed between investment groups based on both sides of the Pacific to consider Hawaii investments. HSDC has also leveraged its public investment capital with private investors through a new commitment to a fund specializing in early stage companies.
- HSDC is working with DBEDT to implement the \$10 million Hydrogen Investment Capital Special Fund which will identify new sources of energy production that can support hydrogen development on the big island. HSDC is also working with bio-fuel companies and assisting in linking them to investment sources in Hawaii and in Silicon Valley.
- The Aloha Tower Development Corporation (ATDC) and the Department of Transportation, Harbors Division, have formed a partnership for the development of Honolulu Harbor infrastructure projects on an expedited basis to meet the critical demand for harbor expansion and upgrades. The Legislature recognized the progress made under the joint effort and formally authorized the partnership by the adoption of Act 127, SLH 2007.
- Critical to ATDC is the completion of the new Kapalama Container Terminal development plan which features advances in technology and sustainability such

as high efficiency gates, solar photovoltaic systems and cold ironing to reduce ship emissions.

- The Hawaii Center for Advanced Transportation Technologies (HCATT) programs support investment in infrastructure and promotion of alternative energy development. Through the partnership between the State and the Air Force, HCATT has taken a leading role in pursuit of the hydrogen-based economy by being the first to establish hydrogen infrastructure to support fueling of fuel cell powered vehicles. The introduction of the hydrogen production and fueling station and the fuel cell vehicles put into operation at Hickam AFB represent firsts within both the State and the DOD, and set the stage for expansion of hydrogen programs to support the recently established renewable hydrogen economy initiative.

3. Innovation in Workforce Development:

Hawaii is faced with the challenge of developing a workforce that drives growth and prosperity in an increasingly global and competitive marketplace. Our current system is lagging in its ability to produce people who are prepared for entry into the workforce and for post-secondary education. This translates to an individual's ability to close the cost-of-living gap concerning basic needs such as housing and food. Despite reasonably good economic performance and low unemployment rates over the last few years; several recent economic and workforce performance audits have identified troubling conditions (noted in the beginning of this section) that suggest long-term difficulties for the region.

To address these needs DBEDT's Divisions and attached agencies supported activities and legislation in the 2007 Legislative Session to create program and structural changes that would better serve the needs of Hawaii's workforce. Legislation focused on establishment of Life Long Learning Accounts (LiLAs), efforts to encourage the return of former residents with vital skills needed in Hawaii's economy, realignment of workforce development programs, and expanded rapid response, custom training to support business development and expansion. While these efforts did not, for the most part, advance through the legislative process, they focused legislative attention on a complex but vital aspect of economic development that has not been addressed comprehensively in the past.

4. Establishing a More Global Orientation:

Despite Hawaii's strategic location between the world's two largest economies, and the world's fastest growing economy, Hawaii has not participated in this global expansion. However, given its close proximity to Japan, China and other Asian countries, there is a significant untapped opportunity to grow this sector of Hawaii's economy.

- With the Legislature's support DBEDT is establishing the Office of International Affairs to help expand Hawaii's international ties and relationships with foreign governments, agencies, and companies in markets outside of Hawaii.

- DBEDT has enlisted the services of the Pacific Asian Affairs Council (PAAC) to develop programs that would establish global linkages with markets outside of Hawaii to promote and attract education and training. The activities of the PAAC focus on the development of business, trade and education linkages and opportunities to promote the growth of such areas as student exchange programs.

IV. Program Impacts on Emerging Growth Industries

Act 148 identifies a number of specific emerging growth industries for the focus of research and analysis. These are; Ocean Science and Technology, Biotechnology and Life Sciences, Astronomy, Technology and Information Services, Film and Creative Media, Diversified Agriculture, Aquaculture, and Specialty Tourism. In addition the act encourages the inclusion of additional emerging industries as appropriate.

This section describes how the program activities of DBEDT and its attached agencies are working to support, promote, and facilitate the expansion and viability of the industries identified in Act 148. Future reports will add to the inventory of emerging growth industries as concurrent research and stakeholder input validates them as viable candidates.

As indicated in the introduction, a reporting system specifically tailored to isolating program information by emerging growth industry was not in place for this first report. That system is in the process of being developed. Therefore, the best information available from existing reports has been combined to provide a picture of what is being done to address the development needs of these industries. In addition to the activities that relate specifically to the emerging industries of Act 148, a large number of program activities support these industries indirectly. The nature of that assistance is contained in the first part of this section dealing with comprehensive support.

This report is intended to contribute to a strategic understanding of how DBEDT programs impact emerging industries, rather than overload readers with narrative on program details. However, that detail is readily available. Nearly all of the information in this section is available in published form elsewhere. Much of it is derived from the annual, Yearly Activity Plans of DBEDT programs, which can be reviewed at <http://www.hawaii.gov/dbedt/programs/>. This report also uses information from the DBEDT and individual annual reports, which can be reviewed at: <http://www.hawaii.gov/dbedt/main/about/annual>.

An effort has been made to minimize redundancy in the following sections by listing only the activities of a given DBEDT program that are directly relevant to a given emerging industry. For instance, activities that benefit an industry indirectly have been consolidated into a single section on comprehensive support activities, instead of repeating them in each industry's section. Still, a program activity may often directly address more than one industry. Therefore, some redundancy is difficult to avoid.

A description of DBEDT core and attached agency programs is provided in Appendix A. Acronyms used in the following sections are explained in Appendix B.

Comprehensive Support for Economic Growth and Development

While many of the activities engaged in by DBEDT and attached agencies are focused directly on assistance to emerging growth industries, many other activities of the divisions and agencies are addressing more comprehensive issues of infrastructure, marketing, resource availability, and other support. The following sections identify activities that provide comprehensive support. Activities that target the growth of specific emerging growth industries are presented in the subsequent sections.

ACTIONS UNDERTAKEN AND IN-PROGRESS:

Comprehensive Business Support

- Increasing level of international activity as source of high skilled jobs through the Global Links program. Seeking to involve 15 firms in new export activity, 30 firms into increased export sales and achieving an increase in overall Hawaii exports by \$16 million per year. **SMSD**
- Establishing international links to local companies in environmental, tourism, planning and development, life science, defense contracting & diversified agriculture. **SMSD**
- Seeking to increase investment in Hawaii by foreign firms (Global Initiatives). Targeting 10 international visits to Hawaii focusing on target industries **SMSD**
- Promoting exports by providing Trade Zone status to export oriented activities that need to import intermediate goods. Currently there are 13 sites on the islands of Oahu, Maui, and Hawaii that have received FTZ designation. Of the 13 sites, three general-purpose zones and four special-purpose sub-zones are active. **FTZ**
- Promoting Energy efficiency through the adoption of efficiency technologies/practices and accelerate the adoption of renewable energy technologies. **SID**
- Coordinating implementation of the Energy for Tomorrow (ETF) program. **SID**
- Developing comprehensive data and information on the economy for decision-making. **READ**
- Developing baseline data & trends for emerging growth industries and analyzing issues related to growth industries and economic development **READ**
- Developing an on-line, data warehouse for more effective information delivery. **READ**
- Increasing world links among students and teachers to improve future workforce links. **SMSD**
- Seeking to achieve economic viable in community-based business and community economic self sufficiency by providing technical assistance, capacity building,

grants & loans through the CBED revolving fund. Expected to add 61 new businesses, 151 expanded businesses to portfolio in FY 2008.

- Working with state and county agencies to provide incentives such as Gross Excise Tax exemptions & services for businesses to locate and expand in economically depressed areas of the state (EZ) **SMSD**
- Providing small business a bigger voice in the regulations issued by state and local governments (SBRRB). More than 260 regulations reviewed by the board from Mid 2002 to end of 2006 **SMSD**
- Developing advanced transportation technologies and successfully managing demonstration projects featuring commercial vehicles using hydrogen fuel cell technology. (HCATT). **HCATT**

Maintaining the Health and Economic Contribution of Tourism

- Managing Hawaii tourism in a manner that addresses Hawaii's economic goals, cultural values, preservation of natural resources, community desires and visitor industry needs. **HTA**

Support for Planning and Infrastructure Development

- Evaluating strategic, long term planning issues. **OP**
- Coordinating and provide leadership for the Leeward Coast Initiative involving the targeting of projects to address systemic issues underlying homelessness and economic underperformance of the region. **OP**
- Coordinating update of the Comprehensive Economic Development Strategy (CEDS) for counties and the State, which is used to evaluate projects for EDA funding. **OP**
- Securing an Enterprise license that will permit a broader range of agencies to use and contribute data to the State Geographical Information System (GIS) system for planning and development **OP**
- Reviewing and evaluating development proposals for their impact on Hawaii and recommending improvements to the land regulatory system. **OP**
- Implementing with DOT, major harbor improvements at Kapalama and other critical ports. **ATDC**
- Redeveloping Kakaako. Over \$200 million invested by State so far in Kakaako has resulted in over \$2 billion in investment by private sector. **HCDA**
- Implementing the Kalaeloa Master Plan to encourage business development to support new business and jobs in region. **HCDA**
- Facilitating and developing workforce and affordable housing that will support jobs and other social goals. **HHFDC**
- Facilitating the retention of affordable housing that would otherwise leave the market. **HHFDC**

-
- Develop or retain about 6,400 units by 2012. To date, HHFDC has successfully facilitated the delivery of 566 affordable rentals **HHFDC**
 - Improve land use and permitting process to encourage desirable private housing development. **HHFDC**
 - Supporting implementation of Act 183 (2005) and proceeding with the UH/DURP Important Agricultural Lands (IAL) mapping project. **LUC**
 - Proposing updates to the State Land Use Law, Rural Districts and associated regulations to bring clarity, certainty and consistency to land use regulation. **LUC**
 - Participating in reform of State land use legislation. **LUC**

Ocean Science & Technology

Ocean Science & Technology is a specialty area of the technology sector. It includes science and technology development activity that either takes place in or is focused on the nature of the Ocean and its resources. For that reason the sector overlaps a number of other science and technology activities presented in later sections of this report.

Benchmark Information:

2005: \$164 million in Revenues among companies (down from \$176 mil. In 2004)

2001 to 2005: 24%

Development of additional benchmarks underway

ACTIONS UNDERTAKEN AND IN-PROGRESS:

Research and Analysis

- Developing baseline data & trends for Ocean Science and Technology. **READ**
- Analyzing issues related to Ocean Science and Technology growth and development. **READ**
- Developing capacity for research and analysis into economic development issues and growth industries including Ocean Science and Technology. **READ**
- Working with the Hawaii Science and Technology Council to develop Science & Tech industry directory and profile including information on Ocean Science and Technology. **READ**

Industry Development & Liaison

- Providing export assistance, raising the profile of the industry and promoting UH-Industry partnerships. **SID**
- Helping to implement Science, Technology, Engineering and Math (STEM) education and & internship programs from 2007 Legislature and the NGA STEM Grant. **SID**
- Increasing UH-Industry collaboration through the Experimental Program to Stimulate Competitive Research program (EPSCoR). **SID**
- Participating in trade shows with the goal of adding 10 to 15 new companies, resulting in \$2 million additional sales in following 12 months. **SID**
- Working with READ, HTDC, other agencies and industry organizations to analyze and understand the development potential and needs of biotechnology and life science. **SID**

Enterprise Development

- Developing and will manage wet-lab space in the Kakaako Life Science center. **HTDC**
- Construction and occupancy of the Life Sciences Incubation and Innovation Center in 2-6 years. **HTDC**
- Moving beyond providing facilities for tech start up companies to building tech communities at the Manoa Innovation Center, Maui Research and Technology Center, and the Hawaii Innovation Center at Hilo. **HTDC**
- Seeking to maintain high, 75% company success rate for 5 year survival. **HTDC**
- Seeking to increase number of companies achieving IPO or comparable event past graduation. **HTDC**
- Providing training and strategic management training through the Manufacturing Extension Partnership (MEP). **HTDC**
- Increasing the number of Hawaii manufacturing's utilizing best practices in manufacturing techniques (MEP). **HTDC**
- Assessing and providing technical assistance to high technology manufacturing firms with the help of National Institute of Standards and Technology (NIST). **HTDC**
- Providing matching seed funds to Hawaii tech start up programs under the federal Small Business Innovation Research (SBIR) awards and Small Business Technology Transfer (STTR) awards programs. (See companies below) **HTDC**
- Increased inventory of successful tech companies, increasing the number of jobs, income and tax revenues for Hawaii. **HTDC**
- Seeking to increase commercial success from one of every 25 phase II SBIR awards to one of every 15 awards. Teaming SBIR with MEP program to help achieve this. **HTDC**

SBIR funding of Companies related to Ocean Science and Technology

Navatek Ltd.

Navatek researches, designs and constructs high-tech ships.

Neptune Technologies, Inc.

Neptune Technologies develops and manufactures marine electronics.

Neugenesis

Oceantek

Oceantek specializes in ocean engineering.

OCEES (Ocean Engineering and Energy Systems) International, Inc.

OCEES is intent on commercializing its integrated, multi-product

Ocean Thermal Energy Conversion (OTEC) systems worldwide.

OCEES is involved in every aspect of development from marketing, design, construction to operation.

Hawaii Kai Salts

Hawaii Kai Salts performs research and development in the commercial production and processing of sea salt.

Innovative Technical Solutions (NovaSol)

NovaSol does engineering research and development, specializing in advanced optical sensors and precision pointing systems, high speed computing and data analysis.

Makai Ocean Engineering, Inc.

Financial and Infrastructure Resources

- Developing a thriving venture capital sector serving Hawaii companies as indicated by the amount of investment by VCs and the success of the companies. **HSDC**
- Providing a conduit of venture capital to Hawaii startup firms, including Ocean Science & Technology **HSDC**
- Establish the Hawaii Technology Enterprise Network (HiTEN) to assist startups in commercializing their research and presenting well thought-out business plans to investors. **HSDC**
- Strengthening the entrepreneurial climate of Hawaii and managerial capability of early stage companies. **HSDC**
- Implementing the legislatively established dual-use fund to better fund research in Ocean Sciences. **HSDC**
- Promoting the use of deep-sea water to support new economic activity, especially research and development that results in new products. **NELHA**
- Developing the “NELHA” Brand as a unique marketing asset. **NELHA**

Biotechnology & Life Science

The Biotechnology and Life Sciences sector includes biotechnology, pharmaceuticals, biomedical technologies, and other cellular and sub-cellular based research and development. Seed corn research has become the largest single sub-sector of biotechnology and life science. However, the difficulty of isolating data on biotechnology and life science from other technology, health care, educational and government activity may be obscuring the growth outside of seed corn research. Identifying all elements of this sector is a major priority for research.

Benchmark Information (partial):

2006: Agricultural Bio Tech and Medicinal/Pharmaceutical Mfg. 1,367 Jobs

2001 to 2006 Growth: 34%

Development of additional benchmarks underway

ACTIONS UNDERTAKEN AND IN-PROGRESS:

Research and Analysis

- Developing baseline data & trends for biotechnology and life sciences. **READ**
- Analyzing issues related to growth and development of biotechnology and life sciences. **READ**
- Working with the Hawaii Science and Technology Council to develop Science & Tech industry directory and profile including information on biotechnology and life sciences. **READ**

Industry Development & Liaison

- Providing export assistance, raise profile of biotechnology and life sciences industry. **SID**
- Helping to implement STEM education and & internship programs from 2007 Legislature and the NGA STEM Grant to increase supply of skilled labor to biotechnology and life sciences industry. **SID**
- Increasing UH-Industry collaboration through the Experimental Program to Stimulate Competitive Research program (EPSCoR). **SID**
- Participating in industry trade shows with the goal of 10 to 15 new companies in trade shows. **SID**
- Working with READ, HTDC, other agencies and Industry organizations to analyze and understand the development potential and needs of biotechnology and life science. **SID**

Enterprise Development

- Seeking to increasing number of companies achieving IPO or comparable event past graduation from incubation. **HTDC**
- Seeking to maintain high, 75% company success rate for 5 year survival past graduation. **HTDC**
- Providing matching seed funds to Hawaii tech start up programs under the federal Small Business Innovation Research (SBIR) awards and Small Business Technology Transfer (STTR) awards programs. (See companies below) **HTDC**
- Seeking to increase commercial success for phase II Small Business Innovation Research (SBIR) Assistance awards. Teaming with MEP program to help achieve this. **HTDC**
- Provide training and strategic management training through the Manufacturing Extension Partnership (MEP). **HTDC**
- Providing assessment and technical assistance to high tech manufacturing firms (MEP) with the help of National Institute of Standards and Technology. **HTDC**
- Seeking to increase the number of Hawaii mfg's utilizing best practices in manufacturing techniques (MEP). **HTDC**

SBIR funding of Biotech Companies

Kuehnle AgroSystems Co.

Kuehnle AgroSystems specializes in biotechnology.

Moana BioProducts

Hawaii Biotech, Inc.

Hawaii Biotech creates, develops and markets products and services to improve human health through biotechnological research.

Oceanit

Oceanit does business in biotechnology, information technology, Environmental and Industrial Technology and Solutions, including engineering, scientific and technical consulting service.

Synthetic Technology Corporation

Synthetic Technology Corporation specializes in biotechnology.

Infrastructure and Financial Resources

- Developing and will manage wet-lab space in the Kakaako Life Science center. **HTDC**
- Construction and occupancy of the Life Sciences Incubation and Innovation Center in 2-6 years. **HTDC**
- Providing a conduit of venture capital to Hawaii startup firms. **HSDC**

- Strengthening the entrepreneurial climate of Hawaii and managerial capability of early stage companies. **HSDC**
- Establishing the Hawaii Technology Enterprise Network (HiTEN) to assist startups in commercializing their research and presenting well thought-out business plans to investors. **HSDC**

Astronomy, Aerospace & Space Science

According to estimates by Enterprise Honolulu, Hawaii's astronomy industry employed 796 people in 2006 and generated \$145 million in annual revenues. The space sciences industry is driven by the market opportunity created by defense space situational awareness system from the Air Force on top of Mt. Haleakala on the Island of Maui. Hawaii's development of the astronomy, aerospace and space science sector has helping to drive global innovation in optics and photonics, modeling and simulation, and precision mechanics.

Benchmark Information:

Benchmarks are being developed.

ACTIONS UNDERTAKEN AND IN-PROGRESS:

Research and Analysis

- Developing baseline data & trends for the astronomy, aerospace and space science sector. **READ**
- Analyzing issues related to growth and economic development potential of the sector. **READ**
- Working with the Strategic Industries Division, Technology and Aerospace programs and Hawaii Science and Technology Council to develop information and analysis of the sector and add to the HSTC industry directory and profile. **READ**
- Conducting an assessment of current status and future potential (Office of Aerospace Development). **SID**
- Working with READ, HTDC, other agencies and Industry organizations to analyze and understand the development potential and needs of astronomy, aerospace and space science. **SID**

Industry Development & Liaison

- Developing Office of Aerospace Development Serve as a facilitator of growth in the aerospace sector. **SID**
- Establishing the Aerospace Advisory Board. **SID**
- Establishing the Pacific International Space Center for Exploration Systems (PISCES). **SID**
- Seeking a Commercial Space port license for Honolulu International Airport for space plane launches. **SID**
- Supporting implementation of STEM initiatives: Acts 111 and 271 (SLH 2007) and a STEM grant from National Governors Association in order to expand workforce for astronomy, aerospace and space science. **SID**

Enterprise Development

- Providing matching seed funds to Hawaii tech start up programs under the federal Small Business Innovation Research (SBIR) awards and Small Business Technology Transfer (STTR) awards programs. **HTDC**
- Providing assessment and technical assistance to high technology manufacturing firms related to astronomy, aerospace and space science with the help of National Institute of Standards and Technology. **HTDC**
- Providing training and strategic management training related to astronomy, aerospace and space science through the Manufacturing Extension Partnership (MEP). **HTDC**
- Increasing the number of Hawaii's technology manufacturers utilizing best practices in manufacturing techniques. **HTDC**
- Increasing the commercial success of phase II SBIR companies related to astronomy, aerospace and space science by teaming SBIR and MEP programs **HTDC**

Financial and Infrastructure Resources

- Providing a conduit of venture capital to Hawaii startup firms commercializing new technologies, including astronomy, aerospace and space science. **HSDC**
- Improving the entrepreneurial climate of Hawaii and managerial capability of early stage companies. **HSDC**
- Establishing the Hawaii Technology Enterprise Network (HiTEN) to assist startups in commercializing their research through collaboration and integration of efforts among entrepreneurial support organizations. **HSDC**
- Implementing the legislatively established dual-use follow-on fund to provide R&D commercialization financing for defense-related companies. Providing \$5 million of new funding for companies. **HSDC**

Technology & Information Services

The category of Technology and Information Services is very broad, involving about 14,700 paid employees in 2006. It includes all technology and information development and implies the use and implementation of technology to improve the productivity of the economy. In both concept and sources of data this category is integral with other emerging growth areas discussed in this report such as Astronomy, Ocean Science and Technology, and Biotechnology/Life Science.

In the area of information services, Hawaii in 2006 had about 9,900 paid employees engaged in computer software and programming, computer systems design and related services, and internet infrastructure and services.

Discussed below are programs with the strongest interest in the Technology and Information Services sector. The direct or indirect interest of other programs was noted in the section on overall support for emerging growth industries.

Benchmark Information:

- 2006: All technology activity by DBEDT measure; 14,700 jobs
- 2001-2006 Growth: 9%
- 2006: Information Services (included in above); 9,900 jobs
- 2001-2006 Growth: 3%

ACTIONS UNDERTAKEN AND IN-PROGRESS:

Research and Analysis

- Refining baseline data & trends for Technology and Information Services. **READ**
- Analyzing issues related to Technology and Information Services growth and development. **READ**
- Working with the Strategic Industries Division, High Technology Development Corporation (HTDC) Hawaii Science and Technology Council (HSTC) and other stakeholders to develop information and analysis of the sector and add to the HSTC industry directory and profile. **READ**

Industry Development & Liaison

- Moving beyond providing facilities for tech start up companies to building tech communities at the Manoa Innovation Center, Maui Research and Technology Center, and the Hawaii Innovation Center at Hilo. **HTDC**
- Providing export assistance, raising profile of industry, and encouraging UH-Industry partnerships. **SID**
- Supporting implementation of STEM initiatives: Acts 111 and 271 of the 2007 legislature, and the STEM grant from the National Governors Association. **SID**
- Increasing UH-Industry collaboration through the Experimental Program to Stimulate Competitive Research (EPSCoR). **SID**

- Developing advanced transportation technologies for both military and commercial applications. Successfully managing several demonstration projects featuring commercial vehicles using hydrogen fuel cell technology **HTDC**
- Working with READ, HTDC, other agencies and industry organizations to analyze and understand the development potential and needs of Technology and Information Services. **SID**

Enterprise Development

- Providing matching seed funds to Hawaii tech start up programs under the federal Small Business Innovation Research (SBIR) awards and Small Business Technology Transfer (STTR) awards programs. As of June 2007, 76 companies have been awarded SBIR funding, with 285 phase I and II awards totaling over \$66 million. These awards have cost the State \$4.4 million in matching grants. For every state dollar invested, Hawaii companies have attracted \$15 in federal funds. In 2006, phase I awards were increased by 100% to 27. New companies also increased 100% from 4 to 8. However, phase II awards fell from 6 in 2005 to 5 in 2006. **HTDC**
- Seeking to maintain high, 75% company success rate for 5 year survival. **HTDC**
- Seeking to increase commercial success from one for every 25 phase II awards to one for every 15 phase II awards. Team with MEP program to help achieve this. **HTDC**
- Seeking to increase number of companies achieving IPO or comparable event past graduation. **HTDC**
- Providing assessment and technical assistance to high tech manufacturing firms with the help of National Institute of Standards and Technology (MEP). **HTDC**
- Providing training and strategic management training through the Manufacturing Extension Partnership (MEP). **HTDC**
- Increasing number of Hawaii manufacturers utilizing best practices in manufacturing techniques. **HTDC**

SBIR Awards Supporting Technology and Information Services Companies

Database Associates

Detection Limit Technology

Ergo Linguistic Technologies

Ergo Linguistics developed technologies for natural language processing.

Hoku Scientific

Hoku Scientific is developing proprietary fuel cell technology with distinct advantages over existing designs, which will enable fuel cells to compete with conventional solutions for the future of the energy market.

Hokupa'a Technologies, Inc.

Development of advanced protocols for broadband wireless Internet access.

InkiTiki Corporation

InkiTiki Corporation researches and develops advanced software technologies.

Kolaka No'Eau Incorporated (KNI)

Technology-based solutions in simulation, systems, and software.

World Health Innovations, Inc.

High technology research and development, such as lidar detector systems, and software products.

Multipath Systems, Inc.

Multipath Systems develops electronic travel aids for the blind in real, virtual and cyber space.

ORINCON Hawaii

ORINCON designs, develops and evaluates signal processing, communication, navigation, artificial intelligence and tracking systems for a range of Department of Defense customers.

Pacific Island Technology, Inc.

Pacific Island Technology designs, develops and applies remote sensing instrumentation and geophysical field studies.

Science & Technology International (STI)

STI Industries is a world leader of optical imaging systems developed for a wide array of applications including medical, environmental and national defense.

Systems Technology Associates**Structural Solutions**

Cable design software

Financial and Infrastructure Resources

- Providing a conduit of venture capital to Hawaii startup firms, particularly those commercializing new technologies in the dual use, clean tech, life sciences, and digital media sectors. **HSDC**
- Improving the entrepreneurial climate of Hawaii and managerial capability of early stage companies. **HSDC**
- Establishing the Hawaii Technology Enterprise Network (HiTEN) to assist startups in commercializing their research through collaboration and integration of efforts among entrepreneurial support organizations. Six companies initially supported by the network. **HSDC**
- Implementing the legislatively established, dual-use follow-on fund to provide R&D commercialization financing for defense-related and ocean sciences companies. Provide \$5 million of new funding for companies. **HSDC**

Film and Creative Media

Film and Creative Media includes traditional film & television production, the emerging digital media sector (video games, computer animation and dynamic web design) and the recording industry, mainly music. In 2004, spending on film and television production was \$164 million with an economic affect of \$262 million. Film and creative media are a central part of Hawaii's creative sector.

Benchmark Information:

2006: Provisional benchmark; 1,235 jobs (however, jobs peaked at 1587 in 2004)

2001 to 2006 growth: 14%

Development of additional benchmarks underway

ACTIONS UNDERTAKEN AND IN-PROGRESS:

Research and Analysis

- Develop baseline data & trends for Film and Creative Media. **READ**
- Analyze issues related to growth and development of Film and Creative Media. **READ**
- Working with the Creative Industries Division to better understand and measure the industry, and support the efforts of that division to further develop of the Film and Creative Media sector. **READ**

Industry Enterprise and Infrastructure Development

- Seeking to exceed \$100 million in production value yearly and \$300 million by FY 2013. **CID**
- Facilitating film local and off shore production by streamlining permits, providing facilities and administering funding/incentive (Act 88) programs. **CID**
- Will process about 800 permits for filming (FY 08). **CID**
- Will process about 150 tax credit applications (FY 08). **CID**
- Conducting education outreach to local film makers. **CID**
- Increasing maintenance of Diamond Head Studio. **CID**
- Seeking to facilitate two additional professional sound stages and two professional post-production houses in the state. **CID**
- Supporting the Music Entertainment Learning Experience (MELE) program at Honolulu Community College, affiliated with Belmont University of Nashville. **CID**
- Promoting development of new businesses & activity involved in artistry, design, aesthetic value & cultural enterprise – digital media (apart from film), Visual arts, performing arts, applied arts and literary arts. **CID**

Diversified Agriculture

Diversified agriculture includes a multitude of agricultural growing and processing activities. Even elements of the formerly dominant plantation crops of sugar and pineapple have potential roles to play in this emerging sector of Agribusiness in Hawaii. Coffee, macadamia nuts, papaya, tropical flowers and a range of processing and packaging of agricultural products fall into this sector.

The primary responsibility for development of this industry lies with the Hawaii Department of Agriculture (DOA). However, DBEDT collaborates with DOA on the mutual goal of encouraging additional economic activity and productive use of Hawaii's resources. In addition, several DBEDT programs have direct impact on agricultural activity.

Benchmark Information:

2006: 13,312 wage and salary jobs in agriculture and food processing

2001 to 2006 change: -7%

Development of additional benchmarks underway

ACTIONS UNDERTAKEN AND IN-PROGRESS:

Research and Analysis

- Developing baseline data & trends for growth industries including Diversified Agriculture. **READ**
- Analyzing issues related to growth and development of Diversified Agriculture. **READ**
- Working with the Hawaii Department of Agriculture to develop an updated measure of diversified agriculture. **READ**
- Building a broad range of data in a spatial (geographical) format to permit synthesis of information bearing on issues related to agriculture development that is best seen in a geographical context. (GIS). **OP**

Enterprise Development & Financial Resources

- Providing technical assistance, capacity building, grants, loans and support to rural communities through the Community Based Economic Development (CBED) Program's revolving fund (companies listed below). **SMSD**
- Providing matching seed funds to Hawaii agricultural start ups under the federal Small Business Innovation Research (SBIR) awards and Small Business Technology Transfer (STTR) awards programs (See companies below). **HTDC**
- Helping rural communities develop projects through the Enterprise Zone (EZ) program, which provides state and county incentives such as GET exemptions & services for businesses to locate and expand in economically depressed areas of the

state.

SMSD

- Helping small & medium size companies, including those in agriculture, to establish international links and compete in world markets through the Global Links program.

SMSD

SBIR Grants Supporting Diversified Agricultural Companies

Hawaii Agriculture Research Incorporated

Research and development of new and traditional crops grown in Hawaii.

Research and development with botanical extracts from plants grown in Hawaii, with emphasis on economically important botanical products.

Hawaii Taro Growers Hui

Hawaiian Vanilla Company, Inc.

Hawaiian Vanilla Company cultivates, propagates and manufactures all its products from Hawaiian-grown vanilla.

Jo Ann Johnston & Co.

Jo Ann Johnston & Co. specializes in agricultural marketing.

Kini Po-Po Creations, Inc.

Kini Po-Po Creations manufactures, distributes and markets Hawaiian-grown products to tourist-related retailers. Kini Po-Po is also a certified nursery, commercial grower and marketer of certified organic herbal teas in Hawaii.

Kona Cinder and Soil

W.T. Haraguchi Farm, Inc.

Pacific Paradise Orchids

Production and marketing of potted orchid plants.

Examples of CBED Loan & Grant Projects Assisted in Recent Years

Rural Community Assistance Corp

Plan, organize, and conduct a statewide community-based economic development-training institute to improve the capacity of fledgling and established non-profit organizations. The institute consisted of on-island workshops and an overall training conference bringing in community representatives statewide. It also included a needs assessment survey and plans for follow-up projects.

Hawaii Organic Farmers Association

Proposed an educational training and information manual in tropical/organic agricultural research and training and post harvest treatment that could start and sustain organic communities and its members.

Ke Kua'aina Hanauna Hou

Limu production and processing, training, establishment of a community packing and processing facility, and development of a cooperative marketing effort for a network of agriculture/aquaculture related businesses.

Hawaiian Farmers of Hanalei

- Planning and feasibility analysis of specific projects with emphasis on kalo production and processing, microenterprise.
- Lanai Community Development Corporation
Planning and feasibility analysis of a microenterprise development program to support LCDC community marketplace, aquaculture, and community farming projects.
- Laulima Kuha‘o
Develop a farm plan for up to 100 acres of State Agricultural Park lands on Lanai to include boosting community membership and establishing a farmer's market.
- Hui Ulu Mea Ai
Continue to develop its business incubator service in Waiahole as a mean of generating additional opportunities and support for the local businesses in this community. Develop an operating procedure and policy manual for the management of a community-based food-processing incubator for use by other shared-use kitchens.
- Kokua Country Foods Cooperative
Relocation and expansion of Kokua Market, a consumer cooperative store. Loan funds used in purchasing equipment and other material for the new store.
- Waialua Farmer's Cooperative
Planning and feasibility analysis for the development of an economic development project for this community of Waialua's displaced sugar worker community. Concepts include open market development, diversified agricultural products, and business and technical training activities.
- Hale Ku‘ai Cooperative
Planning and feasibility analysis of specific economic ventures that support the production and sale of native Hawaiian products.
- North Shore Country Market
Development of a permanent community-controlled open market for the North Shore community. Activities include site location, planning, and member training.
- Ka‘ili‘ula Ohana Corp.
Development of community-supported agriculture (subscription farming) projects in the Ka‘u area that integrate sustainable agriculture, aquaculture, and bioenergy conversion. Establishment of a microenterprise development program for businesses related to agriculture, agroforestry, and recycling.

Infrastructure Resources

- Evaluating and considering recommendations for improvement of land use regulatory system, including agricultural lands. OP
- Participating in reform of State land use legislation. LUC
- Coordinating update of the Comprehensive Economic Development Strategy for counties and State that is used to evaluate projects for EDA funding including support of agricultural projects. OP

-
- Supporting implementation of Act 183 (2005) and proceed with the UH/DURP Important Agricultural Lands (IAL) mapping project. **LUC**
 - Proposing updates to the State Land Use Law, Rural Districts and associated regulations to bring clarity, certainty and consistency to land use regulation. **LUC**

Aquaculture

The lead agency for Aquaculture development is the Hawaii Department of Agriculture (DOA). DBEDT supports that department's efforts with its research, the grant activities of HTDC and the infrastructure of NELHA. According to the DOA's Aquaculture Development Program, Hawaii aquaculture industry is comprised of two major sectors. The first is Commercial Production, with value of sales of \$21 million in 2006. Research and Technology Transfer (i.e., research, training, training, professional conferences, degree education and consulting services) is the second sector and was valued at \$12 million in 2003.

Benchmark Information:

2006: \$21.3 million in commercial production; (down from \$28.4 mil. in 2005)

2001 to 2006: -4.2%

Development of additional benchmarks underway

Commercial Products Being Grown	Active Research Underway
Abalone (red, and Japanese,	Deepwater snappers
Aquatic snails	Groupers (various species)
Carp	Halibut
Catfish	Jacks (various species)
Freshwater ornamental fish and aquatic plants (various species)	Live rock
Broodstock and juvenile shrimp	Marine ornamental fish (various species)
Freshwater prawns	Marine ornamental invertebrates (various species)
Giant clams	Sable fish
Japanese Flounder	Sturgeon (various species)
Kahala (amberjack)	
Lobster	
Marine ornamental fish and plants	
Marine ornamental invertebrates	
Marine shrimp for food <i>i</i>	
Microalgae	
Milkfish	
Moi (Pacific threadfin)	
Mullet	
Seahorses	
Seaweed or sea vegetables	
Seed clams)	
Seed oysters and clams	
Seed pearl oysters	
Tilapia	

Source: DOA Web Site: <http://www.hawaii.gov/hdoa/adp/products>

ACTIONS UNDERTAKEN AND IN-PROGRESS:**Research and Analysis**

- Developing baseline data & trends for growth industries including Aquaculture. **READ**
- Analyzing issues related to growth industries such as Aquaculture. **READ**
- Work in 2008 with the Aquaculture Development Program of the Department of Agriculture, DBEDT's HTDC and SMSD to refine benchmark data and identify key issues related to growth and development of this activity. **READ**

Enterprise Development, Financial and Infrastructure Resources

- Providing matching seed funds to Hawaii technology start up programs under the Federal Small Business Innovation Research (SBIR) awards and Small Business Technology Transfer (STTR) awards programs. **HTDC**
- Promoting the use of deep-sea water to support new economic activity, especially research and development that results in new products. **NELHA**

SBIR Awards Supporting Aquaculture

Amorient Aquafarm, Incorporation

Amorient Aquafarm grows prawns, shrimp and other seafood in a controlled environment.

Aquaculture Technology

Aquaculture Technology specializes in aquaculture and biotechnology.

Aquatic Farms

Aquatic Farms conducts genetic research on aquatic species and production management technologies.

Big Island Abalone Corporation

Big Island Abalone Corporation is an aquaculture farm focusing on commercial production of abalone (a marine snail) for the world market.

Black Pearls, Inc.

Black Pearls develops new technology for pearl farming and commercial pearl farming for Hawaii, Asia, Australia and the South Pacific.

BOKE Farms

specializes in aquaculture.

Cates International, Inc.

Offshore aquaculture farm, producer of high value finfish for restaurant and retail customers.

Hawaii Aquaculture Company

Hawaii Fish Company

Hawaii Fish Company specializes in aquaculture.

High Health Aquaculture, Inc.

High Health Aquaculture breeds and grows the world's most diverse

collection of SPF shrimp broodstock for worldwide distribution from its biosecure facility located on the Island of Hawaii.

Mangrove Tropicals, Inc.

Mangrove Tropicals specializes in marine ornamental aquaculture.

Royal Hawaiian Sea Farms

Royal Hawaiian Sea Farms specializes in commercial aquaculture, performing research in the cultivation of sea cucumbers, opihi and warm water abalone.

Twenty 20 companies in the pre-commercial, commercial and research categories are currently engaged in aquaculture related activities at the Keahole Point facilities.

PRE-COMMERCIAL

Hawaii Deep Ocean Water, Inc.

Moana Technologies, Inc.

Pacific Ocean Ventures Llc

Pacific Planktonics

COMMERCIAL

Big Island Abalone Corporation

Black Pearls, Inc.

Cyanotech Corporation

Deep Seawater International, Inc.

Enzamin Usa, Inc.

Hawaii Deep Marine, Inc.

High Health Aquaculture, Inc.

Indo-Pacific Sea Farms, Inc.

Kona Bay Marine Resources, Inc.

Kona Cold Lobsters, Ltd.

Mera Pharmaceuticals, Inc.

Ocean Rider, Inc.

Royal Hawaiian Sea Farms, Inc.

Taylor Shellfish - Kona

Uwajima Fisheries, Inc.

RESEARCH

The Oceanic Institute

Specialty (Niche) Tourism

Specialty or Niche tourism represents an effort to diversify the visitor industry while respecting the goal of increasing the value of tourism to Hawaii, but not necessarily the number of tourists. Niche tourism focuses on activities and visitors that can help fill in seasonal or cyclical lows in tourist activity or provide higher than average return per visitor. Niche tourism activities appeal to the interests of certain visitors rather than geographical or socio-economic visitor markets.

Benchmark Visitor Counts for selected major niche markets 2006 and growth from 2005 to 2006 (by air only except for cruise market. Rounded to nearest 1000):

Cruise	416,000 (31%)
Honeymoon/Weddings:	637,000 (11%)
Conventions:	318,000 (-12%)
Sports events	114,000 (na)
Cultural events:	44,000 (na)

Development of additional benchmarks underway

ACTIONS UNDERTAKEN AND IN-PROGRESS:

Research and Analysis

- Working with HTA to analyzing issues related to identification, growth and development and baseline data for Niche Tourism. **READ**

Industry Development & Liaison

- Developing sustainable growth marketing programs (business destination, vertical markets, sports events). **HTA**
- Diversifying and enriching the tourism product for the benefit of visitors and residents. **HTA**
- Funded implementation of county tourism strategic plans to help identify and develop niche segments that are appropriate to each county and island.

APPENDIX A

Description of DBEDT Core Programs and Attached Agencies

Divisions

Strategic Marketing & Support Division (BED 100)

The Strategic Marketing & Support Division (SMSD), promotes industry development and economic diversification in Hawaii by supporting existing and emerging industries, attracting new investment and businesses that can create more skilled, quality jobs in the state, and work to increase exports of Hawaii products and services. Business support provides new and existing businesses direct loans, licensing and permit information and referral, business advocacy, planning and coordination of programs and projects aimed at specific business sectors or economically-distressed areas (including rural areas and areas affected by natural disaster); and to promote the statewide economic development of the film and video industry in Hawaii.

Creative Industries Division BED (105)

The Creative Industries Division promotes the development and growth of Hawaii's Creative Economy, whose primary and core sector consists of Copyright Based Industries, with a focus on businesses that create/design exportable products and services and depend on the protection of their Intellectual Property in order to market to a global community. IP protection is a crucial base to profitability and survival. These are the core businesses that contribute to our economy with job creation and tax revenue.

This cluster is comprised of producers and service providers in film, video and digital media production, commercial and applied design firms and diverse range of creative (visual and performing) and cultural businesses in Hawaii. Surrounding this core sector are a great variety of arts and cultural organizations, service organizations, educational institutions, foundations, community groups and a variety of individual artisans.

Foreign-Trade Zone Division (BED 107)

The Foreign-Trade Zone Division (FTZ) administers the federal grant issued to Hawaii in 1965 by the Foreign-Trade Zones Board in Washington D.C. FTZ's mission is to increase the amount of international trading activity in Hawaii, to encourage value-added activities, stimulate capital investment and generate employment opportunities by using the federal trade development program to reduce the costs associated with international trade. There are currently 13 sites on the islands of Oahu, Maui, and Hawaii that have received FTZ designation. Of the 13 sites, three general-purpose zones and four special-purpose subzones are active. The Foreign-Trade Zone Division is responsible for ensuring that U.S. Customs and Foreign-Trade Zones Board regulations are followed at these sites.

Strategic Industries Division (BED 120)

Strategic Industries Division's (SID) mission is to support statewide economic efficiency, productivity, development and diversification by promoting, attracting and facilitating the development of Hawaii Technology-based industries which engage in the sustainable development of Hawaii's energy, environmental, ocean, recyclable, and technological resources.

Research & Economic Analysis Division (BED 130)

The Research & Economic Analysis Division (READ), works to enhance and contribute to the economic development of the State by providing analyses and policy recommendations on economic issues. READ provides economic forecasts that contribute to long-term statewide planning and infrastructure needs assessment, and also conducts and reports on basic research into the economy of the state. These functions are conducted by collecting compiling, interpreting and publishing data and statistics on all aspects of business activity, the economy and demographic characteristics of the State. READ also developed and maintains a statewide statistical reporting system.

Attached Agencies**Land Use Commission (BED 103, Statewide Land Use management)**

The Land Use Commission works with the State Legislature, County Planning Departments, interest groups and landowners to define constitutionally mandated standards and criteria for protecting important agricultural lands in the State of Hawaii. The Commission also engages the county planning departments in enhancing and clarifying the special permit process in the Agricultural Land Use District.

The Land Use Commission is also working to establishing data warehouses with the county planning departments with respect to storage and retrieval of land use data; and developing cooperative memorandum-of-understanding with the University of Hawaii Department of Urban and Regional Planning with respect to planning practicum and faculty consultation.

Hawaii Tourism Authority (BED 113, Tourism)

The Hawaii Tourism Authority (HTA) is the lead tourism agency responsible for creating a vision and developing a long-range plan for tourism for the State of Hawaii. The HTA is composed of a thirteen-member board of directors to oversee the Tourism Special Fund, create a vision for tourism, and administer tourism development from a statewide perspective.

The HTA's tourism strategic plan, titled *Ke Kumu*, provides a framework for bringing together the common goals for the good of Hawaii and its people, and also serves to guide the HTA in fulfilling its leadership role as steward of Hawaii's tourism industry. Seven initiatives are identified to achieve HTA's overall goal of increased visitor expenditures - a combination of spending per day, length-of-stay, and visitor arrivals.

Tourism funds will be expended according to a plan with specific goals and measures of accountability that will help the agency achieve its mission - To manage the strategic growth of Hawaii's visitor industry in a manner consistent with the economic goals, cultural values, preservation of natural resources, and community interests of the people of Hawaii.

High Technology Development Corporation (BED 143)

The High Technology Development Corporation (HTDC) works to facilitate the growth and development of the commercial high technology industry in Hawaii. HTDC's functions include developing, managing, and assisting technology centers statewide; create business opportunities for the growth of technology companies and industry; market and promote Hawaii's technology assets; and provide support needed by Hawaii's technology industry.

HTDC assists in developing, managing, and operating technology centers statewide, including the Manoa Innovation Center, Maui Research & Technology Center and the West Kauai Technology and Visitor Center. These sites serve as high technology company incubation facilities to ease the transition from start up ventures to full fledged, independent commercial enterprises.

Office of Planning (BED 144, Statewide Planning and Coordination)

The Office of Planning works to maintain an overall framework to guide the development of the State through a continuous process of comprehensive, long-range, and strategic planning to meet the physical, economic, and social needs of Hawaii's people, and provide for the wise use of Hawaii's resources in a coordinated, efficient, and economical manner - including the conservation of natural, environmental, recreational, scenic, historic, and other limited and irreplaceable resources which are required for future generations.

The Office of Planning's 3 main objectives are: 1) fix responsibility and accountability to successfully carry out statewide programs, policies and priorities; 2) improve the efficiency and effectiveness of the operations of the executive branch; and 3) Ensure comprehensive planning and coordination to enhance the quality of life of the people of Hawaii.

Hawaii Strategic Development Corporation (BED 145)

The Hawaii Strategic Development Authority's (HSDC) mission is to develop a sustainable venture capital industry in Hawaii which will stimulate the growth of viable new businesses. HSDC works to diversify the state's economy by commercializing emerging technologies and providing skilled employment opportunities for citizenry.

Near-term objectives are to develop venture capital investment funds in Hawaii which will attract external sources of private investment; to establish a fund of funds to raise capital for Hawaii venture funds, to expand the business infrastructure supporting the venture industry and the growth of emerging companies; and to assist entrepreneurial development through focused conferences and seminars.

Natural Energy Laboratory of Hawaii Authority (BED 146)

The mission of NELHA is to participate in the development and diversification of the economy of Hawaii by providing resources and facilities for energy and ocean related research, education, and commercial activities in an environmentally sound and culturally sensitive manner. This is achieved through managing, operating, marketing and leasing that provide sites and resources for the development of research and commercial businesses and technologies that utilize the natural resources available such as cold deep seawater, warm surface seawater, and high solar energy. Facilities are located at Keahole Point in Kona and in Puna, both on the Island of Hawaii.

NELHA at Keahole Point is the only location in the world, which consistently pumps large quantities of warm and cold seawater ashore for use in aquaculture, marine biotechnology, and other related technologies. NELHA serves as the laboratory for research and development, as an incubator facility for developing innovative, new technologies and businesses, and as a base for commercial operations that utilize or are related to the use of the cold and warm seawater and other resources available.

Hawaii Community Development Authority (BED 150)

The Hawaii Community Development Authority (HCDA) works to stimulate the economic development of specific community districts by planning and implementing community development programs and facilitating capital investments. HCDA's main objectives are: 1) plan and implement capital improvement projects to upgrade infrastructure and develop public facilities to meet Hawaii's economic and recreational needs, and 2) implement long term planning initiatives to support residential development in a mixed-use community.

Aloha Tower Development Corporation (BED 151)

The Aloha Tower Development Corporation (ATDC) was mandated to redevelop an area of land surrounding the Aloha Tower in order to strengthen the international economic base of the community in trade activities, to enhance the beautification of the waterfront; in conjunction with the Department of Transportation, to better serve modern maritime uses; and to provide for public access and use of the waterfront property. The objective of the corporation is to enhance and strengthen Hawaii's economy by facilitating and providing redevelopment opportunities in the Aloha Tower Complex for private capital investments as well as through the formation of public-private partnerships, and to encourage redevelopment to take place in an orderly and incremental fashion.

Hawaii Housing Finance and Development Corporation (BED 160)

The Hawai'i Housing Finance and Development Corporation (HHFDC) was created in 2006 and is administratively attached to the Department of Business, Economic Development, and Tourism (DBEDT) as part of the strategic objective to create workforce and affordable housing for a skilled labor force.

The HHFDC manages assets of approximately \$729 million, of which \$436 million is attributable to the issuance of tax-exempt bonds. To date, HHFDC has successfully facilitated the delivery of 566 affordable rentals and plans to deliver 6,227 workforce or affordable units over the next five years.

APPENDIX B

Acronyms Used in this Report

ATDC	Aloha Tower Development Corporation (BED 151)
CBED	Community Based Economic Development (SMSD)
CID	Creative Industries Division BED (105)
DBEDT	Department of Business, Economic Development and Tourism
DOA	Department of Agriculture
EZ	Enterprise Zone (SMSD)
FTZ	Foreign-Trade Zone Division (BED 107)
GIS	Geographical Information System (OP)
HCATT	Hawaii Center for Advanced Transportation Technologies (HTDC)
HCDA	Hawaii Community Development Authority (BED 150)
HHFDC	Hawaii Housing Finance and Development Corporation (BED 160)
HSDC	Hawaii Strategic Development Corporation (BED 145)
HSTC	Hawaii Science & Technology Council
HTA	Hawaii Tourism Authority (BED 113)
HTDC	High Technology Development Corporation (BED 143)
LUC	Land Use Commission (BED 103)
NELHA	Natural Energy Laboratory of Hawaii Authority (BED 146)
IPO	Initial Public (stock) Offering
OAD	Office of Aerospace Development (SID)
OP	Office of Planning (BED 144)
PISCES	Pacific International Space Center for Exploration Systems (SID)
READ	Research & Economic Analysis Division (BED 130)
SBIR	Small Business Innovation Research grant & assistance program (HTDC)
SBRRB	Small Business Regulatory Review Board (SMSD)
SID	Strategic Industries Division (BED 120)
SMSD	Strategic Marketing & Support Division (BED 100)
STB	Science & Technology Branch (SID)
STTR	Small Business Technology Transfer grant and assistance program (HTDC)

**TESTIMONY OF THE DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE OF HAWAII**

**TO THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TAXATION
ON JANUARY 22, 2008**

Chair Fukunaga and Members of the Senate Committee on Economic Development and Taxation:

Thank you for allowing me to testify on four department programs.

1. AGS-131 Information Processing and Communication Services
2. AGS-818 King Kamehameha Celebration Commission
3. AGS-881 State Foundation on Culture and the Arts
4. AGS-889 Spectator Events and Shows – Aloha Stadium

The Information Processing and Communication Services program improves government efficiency and effectiveness through information processing and communication technologies.

The King Kamehameha Celebration Commission educates and entertains residents and visitors. It also provides activities for leisure time, in addition to bringing awareness to a wider audience concerning the traditions and history of Hawaii.

The State Foundation on Culture and the Arts promotes, perpetuates, and encourages culture and the arts, history and the humanities as central to the quality of life of the people of Hawaii.

The Spectator Events and Shows – Aloha Stadium program provides people of all ages with the opportunity to enrich their lives through attendance at spectator events and shows.

The total requirement of our four operating programs is \$36,025,598 (271.50 positions) for FY 2009. The general fund requirement is \$19,408,392 (180 positions) for FY 2009. The non-general fund requirement is \$16,617,206 (91.50 positions) for FY 2009.

\$275,000 has been requested for the Information Processing and Communications Services program to enhance internet services.

\$100,000 was requested for the State Foundation on Culture and the Arts interdepartmental transfers account to accommodate increased transfers of federal grants from the Department of Human Services. We are also requesting the conversion of three temporary positions (Arts Program Specialists) in the special fund to permanent.

\$117,761 was requested by Aloha Stadium for pay increases for part-time intermittent employees and \$759,000 was requested for various operating expenses and repairs. The Aloha Stadium also has an emergency appropriation requested for FY 2008 of

\$271,852 for funds to cover shortfalls in the electricity, sewer, refuse collection and insurance premium payments.

Testimonies related to the four programs are attached.

My staff and I are available to answer any questions you may have concerning these programs.

**Senate Committee on Economic Development and Taxation
Budget Requests for Supplemental Budget 2008-2009
January 22, 2008**

**Testimony of the Department of Accounting and General Services
Information Processing and Communication Services**

Program Structure Number:

11 03 02

Program I.D. and Title:

AGS 131 Information Processing and Communication Services (IPCS)

Page Reference in the Supplemental Budget Document:

Volume 1 Pages 124-125

1. Introduction:

- a. Summary of program objectives.

To enable State agencies to improve the management, operation, and efficiency of their programs by enhancing computer and telecommunications capabilities, technical advice, and related consultation services provided to them.

- b. Description of program objectives.

The key activities of the program are to: (1) provide computer operations and data input preparation services to State agencies; (2) provide systems programming and database services to State agencies; (3) develop and maintain statewide application systems; (4) develop and maintain online enterprise systems, including email and access to Internet to improve efficiency of internal State business processes; (5) develop and maintain telecommunications infrastructure, connectivity, and remote access services for State agencies; (6) develop, maintain, and promote enterprise-wide policies for effective use of computer and telecommunications facilities and resources; (7) provide leadership, guidance, and technical expertise for government radio communications users and in the administration of public safety radio frequencies; (8) develop, manage, and promote services for public access to information; and (9) develop, manage, and maintain policies and procedures to protect confidential information and to secure systems against unauthorized access.

- c. Explain how your program intends to meet its objectives in the upcoming supplemental year.

The IPCS program will continue to prioritize projects in order to support increased demands to statewide information technology support. Key policies that are being pursued during Fiscal Year 2008-2009 include: (1) 24x7 monitoring, trouble reporting center, and problem determination and resolution for the State telecommunications infrastructure and business processing computer systems; (2) implementation of the State Continuity of Operations Plan; (3) timely upgrades of computer, database management, and telecommunications capabilities and capacities to effectively support current processing requirements as well as natural growth of State agencies' needs; (4) transformation of State business processes to a state-of-the-art electronic base to improve the quality and responsiveness of government services to the public; (5) timely updates of policies, standards, and methodologies to optimize the planning, budgeting, expenditure, and management of scarce and precious information technology funds; (6) development of an information security program for the State including the establishment of a State Cyber Security Office within the IPCS program; and (7) continuation of the joint State-U.S. Coast Guard Anuenue partnership to rebuild and upgrade the shared statewide digital microwave radio infrastructure to stabilize and enhance radio communications capabilities for federal, State, and county public safety agencies, including facilitating solutions to interoperability issues for radio communications and information exchange among these agencies.

2. Program Performance Results:

- a. Discuss the performance results achieved by each program in FY07.

The majority of all requests for information processing services were completed on schedule, and all trouble calls were resolved.

- b. Explain how these results relate to the program's objectives and department's mission.

Computer services were provided to departments in a timely and complete manner.

- c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.

The program's PPB Measures of Effectiveness are comprehensive; therefore, other than the PPB, the program uses no other measurements. In the last two years, there have been no significant variances from the targeted performance levels.

- d. Discuss actions taken by each program to improve its performance results.

The Information and Communication Services Division had implemented efficiency and cost reduction measures, triaged and discontinued less critical services such as computer related training, and prioritized existing services, as necessary, to direct sufficient resources to the highest priority objectives. The IPCS program cannot absorb further cuts to its budget, programs, or services without negatively affecting the State's ability to meet its business processing requirements and obligations to the public.

The program has conceived and implemented innovative and cost-effective strategies and technologies to provide processing services required by State agencies. It has been able to meet the higher priority requirements and actually added some technical services. However, focusing primarily on the high priorities and ignoring other important but lower priority information processing services and support to State agencies or the public is risky and cannot be continued on a long-term basis.

- e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.

None

3. Problems and Issues:

- a. Discussion of problems and issues encountered, if any.

The major challenges facing the program include:

Insufficient operating budget - the program has had difficulty in maintaining its operations at the proper levels of readiness and preparedness.

Data Center Recovery Site - The program has had difficulty in finalizing its continuity of operations plan due to the lack of an alternate data center.

Increasing requests for service - The program has had difficulty in fulfilling all requests for services. Demand for video and audio content on State supported websites has increased requiring additional funding to size the technology appropriately. Public

use of sites has increased as well, to the point that citizens wishing to visit the site were frustrated when they were unable to view the Super Ferry broadcast due to limitations in available ports and licenses.

Rapid technological advances - the challenge is to keep up with technological changes.

Difficulty in recruiting and retaining highly skilled and qualified information technology specialists.

b. Program change recommendations to remedy problems.

Funding is required for enhanced Internet services. This request will meet the Administration's objective of keeping the public informed of activities in the State Government through various technologies over the Internet. Web sites are migrating from a text only, published site to a media rich environment by including audio and video.

More people respond favorably to audio or video content on Web sites. Some citizens do not want to read text. These may be mobile users or individuals who find it too time consuming to read when they can listen or watch. Some customers cannot read text. These may be customers for whom English is their second language or aging population and have difficulty reading computer screens. By offering audio and video in addition to text, the State of Hawaii can meet the information dissemination preferences to a larger constituency.

Based on the evaluation of non-State resources to provide these services, coupled with our measures of past and increasing volumes, resulted in an assessment that providing these services within IPCS would yield better response time, reduced cost, and increased control over the process.

In FY06, the ICSD produced 45 news conferences, 2 live video conferences, 2 training sessions, and 6 special events/seminars. The State demand for these types of services is continuously growing.

In FY07, the ICSD produced 61 news conferences (35% increase); 19 special video events (200% increase); and 120 radio shows (new).

Alternatives considered: Hire a private company to provide these services. The approximate costs to outsource these services on a per broadcast basis are:

Webcast	\$1,750
Encoding (60 minute-video)	\$250 – \$1,000

Using FY07 work statistics, the total annual cost to hire a consultant would have been approximately \$180,000=80 events x (\$1750 for webcast + \$500 for encoding). Over three years the cost to broadcast the events would be approximately \$540,000.

With the increasing demand for video webcasts, the costs of using a consultant would increase exponentially. Assuming a 20% annual increase in demand for services with constant consultant costs over three years the cost would be approximately \$785,250.

- c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.

Any natural or intentionally caused event that disrupts the information processing services of the State's primary data center would leave the State in a vulnerable position and open to liability , resulting in limited backup/recovery capability and no disaster recovery site identified for alternate processing capability. The inability to restore its information processing services in a timely manner will severely handicap the State's ability to continue or quickly resume its business transactions or meet its obligations to the public.

Availability of State resources to accommodate the anticipated volume of work will affect implementation of the program. Our corrective measures and planned remedies include limitations on the quantity of requests we can handle, value based prioritization, and lead time restrictions that require advanced forecasting and planning of video/audio requests by departments.

Other anticipated problems include our ability to respond to immediate-need requests or short-notice requests. We will be faced with deferring other work to do so. Furthermore, added stress and bandwidth requirements to our telecommunications infrastructure may require use to vary class of service to avoid potential network capacity overload. Additionally, there is the risk that our inability to respond in the timeframe expected due to lack of resources can lead to our departments utilizing alternative sources of audio/video creation, which could ultimately result in increased cost to the State and an inconsistency in presentation that would detract from the public perception of cohesiveness in State information dissemination.

4. Expenditures for Fiscal Year 2008:

	Appropriation			Available	Estimated
	Budget Act	Collective	Transfer In	Resources	Expenditures
(Pos. Count)	<u>FY 2007-08</u>	<u>Bargaining</u>	<u>Transfer(Out)</u>		
			<u>Restrictions</u>		
(Pos. Count)	(203.00)			(203.00)	(203.00)
Personal Services	11,350,132	303,953	(586,624)	11,067,461	11,067,461
Current Expenses	8,077,343		574,005	8,651,348	8,651,348
Financing Agreements	0		0	0	0
Equipment	1,598,303		12,619	1,610,922	1,610,922
Motor Vehicles	0		0		0
Total	21,025,778	303,953	0	21,329,731	21,329,731
Less:					
(Pos. Count)	(33.00)			(33.00)	(33.00)
Interdepartmental Transfers	2,237,432	37,827	0	2,275,259	2,275,259
(Pos. Count)	(170.00)			(170.00)	(170.00)
General Fund	18,788,346	266,126	0	19,054,472	19,054,472

- a. Explain all transfers within the Program I.D. and the impact on the program.

Moneys were transferred between payroll, other current expenses, lease payments, and equipment as necessary for program operations.

- b. Explain all transfers between Program I.D.s and the impact on the program.

None

- c. Explain any restrictions and the impacts on the program.

None

5. Supplemental Budget Requests for Fiscal Year 2009:

	Act 213/07 <u>FY 2009</u>	Budget Adjustment <u>FY 2009</u>	Supplemental Budget <u>FY 2009</u>
(Pos. Count)	(203.00)		(203.00)
Personal Services	11,350,132		11,350,132
Current Expense	7,045,343	150,000	7,195,343
Financing Agreements	0		0
Equipment	759,303	125,000	884,303
Motor Vehicles	<u>0</u>	<u>0</u>	<u>0</u>
Total	19,154,778	275,000	19,429,778
(Pos. Count)	(170.00)		(170.00)
General Fund	16,917,346	275,000	17,192,346
(Pos. Count)	(33.00)		(33.00)
Interdepartmental Transfers	2,237,432		2,237,432

a. Workload or program request:

- i. A description of the request, the reasons for the request, and the desired outcomes or the objectives to be accomplished by the proposed program.

The program is requesting \$275,000 for additional equipment and software, which is needed to enable the capture, creation, editing, and publishing of audio and video content on State supported web sites.

- ii. A listing/description of the positions requested, and funding requirements by cost category and source of funding.

Other Current Expenses

Software (editing, web stats)	\$100,000 (A)
Installation/Configuration Services	\$ 25,000 (A)
Training	<u>\$ 25,000 (A)</u>
Total Other Current Expense	\$150,000 (A)

Equipment

Video Equipment	\$120,000 (A)
Miscellaneous Accessories	<u>\$ 5,000 (A)</u>
Total Equipment	\$125,000 (A)

Total Request \$275,000 (A)

- iii. For all lump sum requests, please provide a breakout indicating specific purposes for all planned expenditures.

None

- b. For all position count reductions, please specify whether the positions were filled or vacant.

None

6. Program Restrictions:

- a. A description of the reduction, the reasons for the reduction, and the impacts to the objectives to be accomplished by the program.

None

- b. A listing/description of the positions cut including source of funding; please specify whether the positions were filled or vacant.

None

7. Capital Improvement Program (CIP) Requests for Fiscal Year 2009:

None

8. Proposed Lapses of CIP projects:

None

**Senate Committee on Economic Development and Taxation
Budget Requests for Supplemental Budget 2008-2009
January 22, 2008**

**Testimony of the Department of Accounting and General Services
King Kamehameha Celebration Commission**

Program Structure Number:

08 01 04

Program I.D. and Title:

AGS-818 King Kamehameha Celebration Commission

Page Reference in the Supplemental Budget Document:

None.

1. Introduction:

a. Summary of program objectives.

King Kamehameha Celebration Commission was established by the Territorial Legislature in 1939, to plan and implement an annual celebration on a statewide basis to honor the life and accomplishments of Kamehameha the Great. Our objective is to educate and entertain the residents and visitors and provide activities for leisure time, in addition to bringing awareness to a wider audience concerning the traditions and history of Hawaii.

b. Description of program objectives.

For nearly 70 years, this commission has worked as a hands-on body, creating and providing many of the statewide activities themselves. Events held on Oahu include Statue Decoration Ceremony, 91th Annual King Kamehameha Celebration Floral Parade and the Na Hana No`eau highlighting various ethnic cultures. On the island of Hawaii, Kailua-Kona, a parade with pa`u riders, floats and a ho`olaule`a is held at the old Kona airport. On Molokai a ho`olaule`a in Kaunakakai is held with various performers and choral groups to entertain the visitors and residents, including arts and crafts and hands on workshops honoring ali`i. Maui and Kaua`i will be included, as commissioners have been newly appointed.

c. Explain how your program intends to meet its objectives in the upcoming supplemental year.

We are continuously seeking funds through applications for State and Federal grants as well as private donations.

2. Program Performance Results:

- a. Discuss the performance results achieved by each program in FY07.

The celebration events draw visitors from all over the world, including large bands and their supporters. The television broadcast of the Parade and the hula competition brings them to the neighbor islands, to hospital patients and to the mainland and Japan audiences.

- b. Explain how these results relate to the program's objectives and department's mission.

Mainland Bands exposure has encouraged bands to apply for participation in the parade. This past year's event brought bands from the mainland. We are expecting an increase in continued interest from bands inquiring about future participation.

- c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.

Parents, siblings, boosters and friends accompany these bands spending money for food, admissions, transportation, gifts, accommodations and other necessities. Viewing audiences tend to travel during winter months to our tropical setting.

- d. Discuss actions taken by each program to improve its performance results.

Effectiveness of the program is successful due to its widespread attendance, participants, volunteers, commercial sponsorships, pa'u units, floats and decorated vehicles.

- e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.

There have been no significant modifications to the celebration events. This past year presented a challenge with a new starting time as instructed by our permit to accommodate the neighboring businesses along the parade route.

3. Problems and Issues:

- a. Discussion of problems and issues encountered, if any.

The lack of program funding continues to challenge the commission to secure matching funds for grant opportunities.

b. Program change recommendations to remedy problems.

Changes have been made to charge entry fees for participants due to lack of funding.

c. Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.

Implementation of program events and activities will require a reduction or elimination without sufficient funding to continue. Along with entry fees, marketing efforts with increased advertising, promotions and sponsorship selection continues. Consistent, long range funding is required to sustain the celebration.

4. Expenditures for Fiscal Year 2008:

	Appropriation Budget Act <u>FY 2007-08</u>	Collective <u>Bargaining</u>	Transfer In <u>Transfer (Out)</u>	<u>Restrictions</u>	Available <u>Resources</u>	Estimated <u>Expenditures</u>
(Pos. Count)	(0.00)				(0.00)	(0.00)
Personal Services	51,820				51,820	51,820
Current Expenses						
Financing Agreements						
Equipment						
Motor Vehicles						
Total	51,820				51,820	51,820
(Pos. Count)	(0.00)				(0.00)	(0.00)
General Fund	51,820				51,820	51,820

a. Explain all transfers within the program I.D. and the impact on the program.

None.

b. Explain all transfers between program I.D.s and the impact on the program.

None.

c. Explain all restrictions and the impacts on the program.

None.

5. Supplemental Budget Requests for Fiscal Year 2009:

	Act 213/07 <u>FY 2009</u>	Budget Adjustment <u>FY 2009</u>	Supplemental Budget <u>FY 2009</u>
(Pos. Count)	(0.00)		(0.00)
Personnel Services	51,820		51,820
Current Expense			
Financing Agreements			
Equipment			
Motor Vehicles	_____	_____	_____
 Total	 51,820		 51,820
(Pos. Count)	(0.00)		(0.00)
General Fund	51,820		51,820

a. Workload or program request:

- i. A description of the request, the reasons for the request, and the desired outcomes or the objectives to be accomplished by the proposed program.

None

- ii. A listing/description of the positions requested, and funding requirements by cost category and source of funding.

None

- iii. For all lump sum requests, please provide a detailed breakout including specific purposes for all planned expenditures.

None.

- b. For all position count reductions, please specify whether the positions were filled or vacant.

None

6. Program Restrictions:

- a. A description of the reduction, the reasons for the reduction, and the impacts to the objectives to be accomplished by the program.

None.

- b. A listing/description of the positions cut including source of funding, please specify whether the positions were filled or vacant.

None.

7. Capital Improvement Program (CIP) Requests for Fiscal Year 2009:

None.

8. Proposed Lapses of CIP Projects:

None.

**Senate Committee on Economic Development and Taxation
Budget Requests for Supplemental Budget 2008-2009
January 22, 2008**

**Testimony of the Department of Accounting and General Services
State Foundation on Culture and the Arts**

Program Structure Number:

08 01 03

Program I.D. and Title:

AGS 881 State Foundation on Culture and the Arts

Page Reference in the Supplemental Budget Document:

Volume I, Pages 114-115

1. Introduction:

- a. Summary of program objectives.

The mission of the State Foundation on Culture and the Arts (SFCA) is to promote, perpetuate, preserve, and encourage culture and the arts, history and the humanities as central to the quality of life of the people of Hawai'i.

- b. Description of program objectives.

The agency's current strategic plan is effective FY2003-2008. Program goals of the plan are 1) to provide leadership and advocacy for culture and the arts in Hawai'i, and to promote better collaboration and communication between SFCA, the culture and the arts community, the business community, policy makers and the general public; 2) to increase funding in support of the culture and arts community and SFCA's overall mission; 3) to reach people with limited access to culture and the arts, especially rural communities and the Neighbor Islands; 4) to undertake initiatives focusing on Native Hawaiian culture and the arts, in partnership with the Hawaiian culture and arts community and interested organizations; and 5) to advance the goal of ensuring that the arts are integral to the education of every student in Hawai'i.

The agency is currently developing its strategic plan for FY2009-2013. The new plan will be disseminated at the close of the 2008 fiscal year.

- c. Explain how your program intends to meet its objectives in the upcoming supplemental year.

The SFCA plans to meet its program objectives through implementation of the following: distribution of 109 grants in support of statewide arts and cultural programming; completing the initiation of an online application and jurying process for its exhibition programs; convening activities and providing technical assistance in arts education, folk arts, history and humanities, and public art; honoring master artists in the traditional arts, outstanding writers of literature, and artistic fellows; publishing the agency's newsletter, annual report, and maintaining the agency's website; implementing a formal communications plan; continuing implementation of the agency's strategic plan; assuming the administration of the Artists-in-the-Schools Program from the DOE; opening a gift shop and visitor's center as part of the Hawai'i State Art Museum complex; conducting efforts to encourage cultural tourism and the preservation of the Native Hawaiian culture and arts; launching new programs and exhibitions at the Hawai'i State Art Museum; developing educational tours for the museum; initiating and completing public art commissions; and designing initiatives that meet community needs through culture and arts programming.

2. Program Performance Results:

- a. Discuss the performance results achieved by each program in FY07.

In FY2007 funding was sustained at \$1.8 million to 101 organizations; launched an online application process for the Biennium Grants Program; the SFCA continued its partnership with the Department of Human Services to award grants using grant funds from the Temporary Assistance for Needy Families fund; the SFCA executive director continued representing the agency on the Hawaii Tourism Board; the SFCA convened a formal awards ceremony honoring accomplishments in literature, the visual arts and lifetime achievement; SFCA staff chaired the Hawaii Commemorative Quarter Commission; the SFCA rejoined the Western States Arts Federation, a regional arts organization; the Hawai'i State Art Museum received 30,000 visitors during the year; two art commissions were completed; a new art exhibition called

Precious Resources was mounted at the Hawai'i State Art Museum; conservation work was assessed for more than 60 works of art; the SFCA conducted a tour of the Hawaii Youth Opera Chorus to 3 neighbor islands as part of NEA American Masterpieces initiative; the SFCA commenced planning of hula conference called Ka 'Aha Hula O Halauaola; the Arts First strategic plan continued to integrate the arts into the core curriculum of public education; the student art exhibition was mounted at the Hawaii Convention Center; three School Arts Excellence Awards to elementary schools conducting outstanding arts programs were conferred; the agency's newsletter, Hawai'i Artreach, continued to be published; an e-newsletter was initiated. And SFCA initiatives met with success, including the state's representation at the NEA's Poetry Out Loud national competition; Live from the Lawn,/Lanai (5,677 attendance), First Fridays (6,343); Second Saturdays (2,220) and ArtLunch (427) at the Hawai'i State Art Museum.

- b. Explain how these results relate to the program's objectives and department's mission.

The results support the HSFCA's objectives to promote effective programming at the community level in culture and the arts and history and the humanities. Through these activities, programs, services, and initiatives, leadership and partnerships have been developed and sustained, arts education has been strengthened, access to the arts has increased and the artistic, historical, and cultural heritage of Hawai'i has been perpetuated.

- c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.

Measurements of program effectiveness include assessing the number of projects (including grants) funded in the community; assessing the ability of the agency's programs to reach target populations such as residents, rural and underserved communities, at-risk youth; needy families; schools, individual artists and visitors; and evaluating the type of program activities supported through funding and the implementation of initiatives. Grantees must complete contractual obligations through project reports. Agency programs are consistently evaluated through participant evaluation forms, formal surveys, field observations and reports, and debriefings with staff and related committees. Consultant services are engaged for more in depth assessments such as the agency's

strategic plan. The agency also conducted a benchmark assessment of its current strategic plan.

Program activities range from a community grants program that awards an average of 100 grants statewide each year of a biennium, to Art in Public Places Program events such as art dedications and the student art exhibit at the Hawai'i Convention Center, to Folk Arts Program apprenticeships that support cultural preservation through grants awards to traditional master artists/apprentice teams. Publications and promotions were completed, including the agency's newsletter, annual report and new e-newsletter.

- d. Discuss actions taken by each program to improve its performance results.

Programs use a variety of measurements to evaluate effectiveness including final project reports, assessments by users (such as grant applicants, artists, and initiative partners), amount of staff time spent on projects, providing technical assistance and development of legislation to address target audiences such as Native Hawaiians, the Capital District and the general arts community. The agency also complies with Federal reporting standards to qualify for its grants from the National Endowment for the Arts and the Department of Human Services. Other quantifiable measurements include the number of visitors in the museum, audience size, website hits, and number of requests for public information services.

- e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.

Grant funds from the SFCA Biennium Grants Program reach an estimated one million residents and visitors per year. Our most dramatic modifications in progress are establishing online applications for both the Biennium Grants Program and the Art in Public Places Program exhibition process. These online programs are being implemented through membership in the Western States Arts Federation (WESTAF). The rationale for the conversion to online applications was to facilitate ease and access for the public. Grants contracts and the grants RFP were revised to continually improve efforts to effectively administer the agency's Biennium Grants Program. Criterion to align community projects with the SFCA strategic plan and Department of Human Services objectives was inserted in the grants application forms.

3. Problems and Issues:

- a. Discussion of problems and issues encountered, if any.

The SFCA must continually represent the needs of the arts community for sustained, and possibly increased, funding. This is a priority of the current strategic plan. The SFCA has conducted an intensive evaluation of its grants program, restructured and cut operating costs in an effort to be more effective to both the State administration and the public. Negotiations, new partnerships, research and outreach are all necessary to develop and sustain funding. The SFCA is continuing its partnership with the Department of Human Services to address the prevention of teen pregnancy through arts programming at the community level.

- b. Program change recommendations to remedy problems.

None

- c. Identify any program issues or problems that have affected or will affect the implementation of the program and the corrective measures or remedies established or planned.

None

4. Expenditures for Fiscal Year 2008:

	Appropriation				Available	Estimated
	Budget Act	Collective	Transfer In	Restrictions	Resources	Expenditures
	<u>FY 2007-08</u>	<u>Bargaining</u>	<u>Transfer(Out)</u>			
(Pos. Count)	(26.00)				(26.00)	(26.00)
Personal Services	1,765,111	62,458	(74,739)		1,752,830	1,752,830
Current Expenses	7,192,129		(71,588)		7,120,541	7,120,541
Financing Agreements	0					0
Equipment	10,000		146,327		156,327	156,327
Motor Vehicle	<u>36,000</u>				<u>36,000</u>	<u>36,000</u>
Total	9,003,240	62,458	0	0	9,065,698	9,065,698
Less: (Pos. Count)	(14.00)				(14.00)	(14.00)
Special	4,471,223	35,983	0	0	4,507,206	4,507,206
(Pos. Count)	(2.00)				(2.00)	(2.00)
Federal	772,791	6,887	0	0	779,678	779,678
(Pos. Count)	(0.00)				(0.00)	(0.00)
Interdepartmental	625,000				625,000	625,000
Transfer						
(Pos. Count)	(10.00)				(10.00)	(10.00)
General	3,134,226	19,588	0	0	3,153,814	3,153,814

- a. Explain all transfers within the program I.D. and the impact on the program.

Transfers from Personal Services and Current Expenses were made to meet information technology needs.

- b. Explain all transfers between program I.D.s and the impact on the program.

None

- c. Explain any restrictions and the impacts on the program.

None

5. Supplemental Budget Requests for Fiscal Year 2009:

	Act 213/07 <u>FY 2009</u>	Budget Adjustment <u>FY 2009</u>	Supplemental Budget <u>FY 2009</u>
(Pos. Count)	(26.00)	(3.00)	(29.00)
Personnel Services	1,769,954		1,769,954
Current Expense	6,222,129	100,000	6,322,129
Financing Agreements	0	0	0
Equipment	10,000	0	10,000
Motor Vehicles	<u>0</u>	<u>0</u>	<u>0</u>
Total	8,002,083	100,000	8,102,083
(Posn Count)	(10.00)	(0.00)	(10.00)
General Fund	2,164,226	0	2,164,226
(Posn Count)	(14.00)	(3.00)	(17.00)
Special Fund	4,439,723	0	4,439,723
(Posn Count)	(2.00)	(0.00)	(2.00)
Federal Fund	773,134	0	773,134
(Posn Count)	(0.00)	(0.00)	(0.00)
Interdepartmental Transfers	625,000	100,000	725,000

a. Workload or program request:

- i. A description of the request, the reasons for the request, and the desired outcomes or the objectives to be accomplished by the proposed program.

The SFCA requests a conversion from Temporary to Permanent status for 3 arts program specialist positions in the Art in Public Places Program and raising its U Fund account ceiling from \$625,000 to \$725,000.

The three FTE arts program specialists, all SR-18, support the installation, transportation, and gallery design functions of the Art in Public Places Program and the Hawaii State Art Museum. The positions report to a senior arts program specialist and collectively this versatile, industrious team is responsible for the display of works of art in the State's collection. This entails transporting, mounting, framing,

crating, shipping, insuring, labeling and other numerous tasks. With the added demands of the museum, retaining a core exhibit support team is imperative to the upkeep of the collection and the integrity of exhibitions.

The request to increase the ceiling of the U Fund account is to accommodate an increase in funds from the Department of Human Services' Temporary Assistance to Needy Families (TANF) grant. The TANF funds support community grants and agency initiatives to prevent teen pregnancy and to engage at-risk youth through the arts. The SFCA-DHS partnership has been developing steadily, serving statewide communities through approximately 40 organizations each year.

- ii. A listing/description of the positions requested, and funding requirements by cost category and source of funding.

	<u>FY 2009</u>	
	<u>F.T.E.</u>	<u>Amount</u>
Personal Services		
Arts Program Specialists II (SR18)	(3.00)	<u>0.00</u> (B)
Total Personal Services	(3.00)	0.00 (B)
Other Current Expenses		<u>100,000</u> (U)
Grants		
Total Other Current Expenses		100,000 (U)
Total Request	(3.00)	100,000

- iii. For all lump sum requests, please provide a breakout indicating specific purposes for all planned expenditures.

The \$100,000 increase in the agency's U Fund account is specifically designated for the SFCA Biennium Grants Program and/or SFCA initiatives that encourage culture and arts programming at the community level throughout the state.

- b. For all position count reductions, please specify whether the positions were filled or vacant.

None

6. Program Restrictions:

- a. A description of the reduction, the reasons for the reduction, and the impacts to the objectives to be accomplished by the program.

None

- b. A listing/description of the positions cut including source of funding, please specify whether the positions were filled or vacant.

None

7. Capital Improvement Program (CIP) Requests for Fiscal Year 2009:

None

8. Proposed Lapses of CIP projects:

None

Senate Committee on Economic Development and Taxation
Budget Requests for Supplemental Budget 2008-2009
January 22, 2008

Testimony of the Department of Accounting and General Services
Stadium Authority

Program Structure Number:

08 02 05

Program I.D. and Title:

AGS 889, Spectator Events and Shows - Aloha Stadium

Page Reference in the Supplemental Budget Document:

Volume I, Pages 116-117

1. Introduction:

- a. Summary of program objectives.

The objective of this program is to provide people of all ages with the opportunity to enrich their lives through attendance at spectator events and shows.

- b. Description of program objectives.

Among its activities, this program conducts an on-going promotional program to enhance and expand utilization of the facility; provides ticket selling services; directs, controls and coordinates support activities relative to the preparation and execution of all events and shows; provides for public safety and security during events; maintains and enhances the main and related facilities; and provides parking and maintains traffic control within the stadium premises.

- c. Explain how your program intends to meet its objectives in the upcoming supplemental year.

The Stadium Authority intends to meet its objectives by continuing to develop strong partnering relationships with its existing licensees; seek and cultivate relationships with new promoters and other potential licensees who have not utilized the Aloha Stadium as a venue for their events; reexamine all existing contractual relationships to determine if the program's position can be

enhanced immediately or in future contract cycles; foster external competition for goods and services provided by the program; review existing facilities to determine needed improvements/upgrades that will attract new licensees and fulfill hereto untapped niche market needs; continue to focus on customer service, employee training and development; and provide value and customer satisfaction in the quality of products, prices and services.

2. Program Performance Results:

- a. Discuss the performance results achieved by each program in FY07.

In FY2007, the Aloha Stadium hosted 295 events. Revenues from events in FY 2007 were \$8,607,272 with \$752,042 in additional revenues from other sources. Total revenues earned in FY 2007 was \$9,359,314. Total attendance for events held at the stadium was approximately 1.8+ million.

- b. Explain how these results relate to the program's objectives and department's mission.

These results relate directly to the Stadium Authority's objective which includes providing a first class arena for large spectator sporting events and shows. Attendance at the University of Hawaii football games averaged 32,000+ per game in FY2007. Per capita revenues for these events were \$10.10, an increase of \$0.95 over FY2006.

- c. Explain how the effectiveness of the program is measured (i.e.: outcomes, measures of effectiveness, benchmarks, etc.) and discuss the performance results achieved during the past two years.

The effectiveness of the Stadium Authority is measured in the number and variety of large spectator events held at the facility. In FY2007, the stadium hosted 295 events.

- d. Discuss actions taken by each program to improve its performance results.

During the past year, the Stadium Authority through its Stadium Manager's Office spent considerable time and energy cultivating relationships with new promoters to entice them to utilize the Aloha Stadium as a venue for their events. The building and maintenance of these relationships is critical to the expansion of

the program. In December of last year, the stadium hosted a U2 concert which grossed more than \$4.4 million in ticket sales and \$266,000 in food and beverage sales. Slated for early 2008 is a soccer event which will be televised internationally.

- e. Please identify all modifications to your program's performance measures and discuss the rationale for these modifications.

None.

3. Problems and Issues:

- a. Discussion of problems and issues encountered, if any.

There are several unexpected issues which the Stadium Authority is facing during the upcoming supplemental budget year. Chief among these are increases in sewer, utility, refuse and insurance costs totalling \$271,852 for FY08.

- b. Program change recommendations to remedy problems.

Increase of \$13,973 for Electricity: The projected electricity cost is based on last year's actual cost plus a 5% increase. However, last year's average cost per barrel of sweet crude was approximately in the low \$70 range. This fall, the price of sweet crude has hovered around \$90+ per barrel and projected to reach more than \$100 per barrel. The 5% increase is a very conservative estimate on what will be needed in the fiscal year. At this point in time, it is difficult to predict exactly what the shortfall will be.

Increase of \$123,800 in Sewer Assessment Fee: The Stadium Authority originally budgeted only \$90,000 for sewer assessments. However, in July 2007, the stadium's sewer rate climbed to \$6.22 per thousand gallons (up from the old rate of \$3.42 per thousand gallons). The increase is based on projected usage of 34,500 at \$6.22 per thousand gallons. Total sewer assessment fee for FY2008 is projected at \$213,800.

Refuse Disposal Increase of \$92,100: The increase in refuse disposal fees is due to an increase in contracted services. Contract service adjustments were due to increases in fuel prices and operational expenses (e.g., labor increases and dumping fees).

Increase of \$41,979 for Insurance: The increase in insurance costs is based on the rising costs of property and liability insurance premiums as imposed by DAGS-Risk Management.

- c. Identify any program issues or problems that have affected or will

affect the implementation of the program, and the corrective measures or remedies established or planned.

The problems and issues identified in the above significantly affect the Stadium Authority's ability to carry on everyday operations. The emergency increase in operational funding is required to provide for basic health, safety and sanitation needs. Without the increase, the program will not be able to meet minimal operational objectives.

4. Expenditures for Fiscal Year 2008:

	Appropriation				Available Resources	Estimated Expenditures
	Budget Act FY 2007-08	Collective Bargaining	Transfer In Transfer (Out)	Restrictions		
(Pos. Count)	39.50					39.50
Personal Services	4,224,755	106,395	---	---	---	4,331,150
Current Expenses	3,340,401	---	---	---	---	3,340,401
Financing Agreements	---	---	---	---	---	---
Equipment	1,283,150	---	---	---	---	1,283,150
Motor Vehicles	---	---	---	---	---	---
Total	8,848,306	106,395				8,954,701
Less: (Pos. Count)	39.50	---	---	---	---	39.50
Special	8,848,306	106,395	---	---	---	8,954,701

a. Explain all transfers within the Program I.D. and the impact on the program.

None.

b. Explain all transfers between Program I.D.s and the impact on the program.

None.

c. Explain any restrictions and the impacts on the program.

None.

5. Supplemental Budget Requests for Fiscal Year 2009:

	Act 213/07 <u>FY 2009</u>	Budget Adjustment <u>FY 2009</u>	Supplemental Budget <u>FY 2009</u>
(Pos. Count)	39.50		39.50
Personnel Services	4,224,755	242,761	4,467,516
Current Expense	3,340,401	634,000	3,974,401
Financing Agreements	---	---	---
Equipment	---	---	---
Motor Vehicles	---	---	---
Total	<u>7,565,156</u>	<u>876,761</u>	<u>8,441,917</u>
(Pos. Count)	39.50		39.50
Special Fund	7,565,156	876,761	8,441,917

a. Workload or program request:

- i. A description of the request, the reasons for the request, and the desired outcomes or the objectives to be accomplished by the proposed program.

The program budget requests an increase of \$451,761 for part-time employee pay raises, electricity, gasoline, insurance, sewer, refuse, and central services costs.

The Stadium Authority is requesting funds to do incremental seat replacement work. Most of the 47,000 spectator seats at Aloha Stadium are 32 years old and have experienced extreme deterioration due to solar heat and ultraviolet exposure, rain and wind damage, spectator wear and tear, and obsolescence. Consequently, many of the seats are brittle and cracked, and are unsafe for continued public use (sudden seat failures, pinching, etc.). While replacing the seats in a single capital improvement project would probably be the most cost effective approach, it would impose extreme hardships on stadium operations and events; requiring closing the stadium for an extensive period of time, resulting in revenue losses for the Stadium Authority, its licensees and concessionaire. Replacing the seats in five-phase increments is more suitable because it would reduce

stadium closure periods. The Stadium Authority recommends replacing the defective seats using in-house staff to perform the necessary work. It is estimated that the task can be completed by six part-time, intermittent employees. The goal is to replace approximately 3,000 seats each year. Material costs for the replacement work is estimated at \$300,000 per year and \$125,000 in labor annually.

- ii. A listing/description of the positions requested, and funding requirements by cost category and source of funding.

Personal Services		
Hourly payroll	242,761	(B)
Other Current Expenses		
Electricity	76,600	(B)
Gasoline	2,000	(B)
Insurance	41,700	(B)
Sewer	29,700	(B)
Refuse	108,000	(B)
Central services assessment	76,000	(B)
Repair and maintenance	<u>300,000</u>	(B)
Total other current expenses	<u>634,000</u>	
Total request	<u>876,761</u>	

- iii. For all lump sum requests, please provide a breakout indicating specific purposes for all planned expenditures.

Funding for all items is solely through the Stadium Special Fund. General Funds and other programs will not be affected or negatively impacted by these requests.

\$117,761	Increase to base budget for part-time employee pay raises in keeping with Section 103-55, HRS.
125,000	Labor costs for part-time employees to perform seat replacement work.
334,000	Increase to base budget to cover increases in electricity, gasoline, insurance, sewer, refuse, and central services assessment costs.

300,000 Increase to base budget to purchase 3,000 seats, brackets, and incidental hardware for seat replacement work.

- b. For all position count reductions, please specify whether the positions were filled or vacant.

None.

6. Program Restrictions:

- a. A description of the reduction, the reasons for the reduction, and the impacts to the objectives to be accomplished by the program.

None.

- b. A listing/description of the positions cut including source of funding; please specify whether the positions were filled or vacant.

None.

7. Capital Improvement Program (CIP) Requests for Fiscal Year 2009:

Capital improvement program (CIP) requests for fiscal year 2009 will be submitted through AGS-221.

8. Proposed Lapses of CIP projects:

None.