

February 18, 2009

**LATE TESTIMONY**

**HB1451 - Relating to Taxation**

DATE: February 17, 2009

TIME: 4:00pm

PLACE: Conference Room 329

TO: House Committee on Economic Revitalization, Business and Military Affairs  
Representative Angus McKelvey, Chair  
Representative Isaac W. Choi, Vice Chair

FROM: Joe Ferraro, FAIA, Principal  
Ferraro Choi And Associates, Ltd

RE: Testimony In Strong Opposition to HB1451

Aloha Chair, Vice Chair, and Members of the Committee,

While Ferraro Choi supports the intent of extending the R&D and infrastructure renovations credits, it opposes this bill and respectfully requests that you hold it.

First, Ferraro Choi opposes that section of this bill which seeks to change the sunset date of the investment credit to December 31, 2008. We believe that such an amendment, which retroactively amends the sunset date of the investment credit, is unconstitutional and will cause many Act 221/215 companies to fail by cutting off their primary source of capital.

Secondly, this bill requires companies to increase their workforces by 10% per year, but it cuts off the only source of cash that many of them have to pay for these jobs with the retroactive repeal date for the investment credit. Many young technology companies have little or no revenue while they conduct research to develop new technologies and products that they plan to sell. This process can take several years. The imposition of the 10% increase in employment is burdensome and unrealistic for companies at this stage of development. That said, DoTax data tells us that these Act 221 companies created more than 4,000 employee and independent contractor jobs, which paid more than \$228 million in salary and other compensation in 2007 alone.

Third, this bill penalizes companies for moving research and manufacturing activities outside of the State. Under existing law, Act 221 already requires qualified companies to have at least 75% of their research activities and/or gross income to be from Hawaii. However, increasing this requirement to 100% will be overly restrictive and will destroy the effectiveness of these high tech incentives.

Ferraro Choi is an architectural firm formed in 1988 with 23 employees. Most of our clients are scientific and research related including NSF, NOAA, the University of Hawaii, NELHA and the DOE. However we also service smaller research entities such as APIC in Kakaako and work with small startups such as Safe Water Systems located at the Manoa Innovation Center. If this bill is allowed to become law, since our client base is almost exclusively research and educational oriented, we see it driving our base of clients and consultants out for the state or at least reducing jobs for our office. Hawaii needs more than tourism and the federal government's DOD to sustain our economy.

Thank you for the opportunity to testify on this important bill. We respectfully ask that you hold this bill.

Sincerely,

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