



GOV. MSG. NO. 624

EXECUTIVE CHAMBERS
HONOLULU

LINDA LINGLE
GOVERNOR

June 9, 2010

The Honorable Colleen Hanabusa, President
and Members of the Senate
Twenty-Fifth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

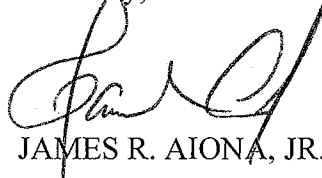
Dear Madam President and Members of the Senate:

I am transmitting herewith SB2401 SD1 HD1, without my approval, and with the statement of objections relating to the measure.

SB2401 SD1 HD1

A BILL FOR AN ACT
RELATING TO STATE FINANCES.

Sincerely,



JAMES R. AIONA, JR.

JAMES R. AIONA JR.

ACTING GOVERNOR

P R O C L A M A T I O N

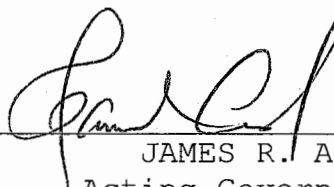
WHEREAS, under Section 16 of Article III of the Constitution of the State of Hawaii, the Governor is required to give notice, by a proclamation, of the Governor's plan to return with the Governor's objections any bill presented to the Governor less than ten days before adjournment sine die or presented to the Governor after adjournment sine die of the Legislature; and

WHEREAS, Senate Bill No. 2401, entitled "A Bill for an Act Relating to State Finances," passed by the Legislature, was presented to the Governor within the aforementioned period; and

WHEREAS, Senate Bill No. 2401 is unacceptable to the Governor of the State of Hawaii;

NOW, THEREFORE, I, JAMES R. AIONA, JR., Acting Governor of the State of Hawaii, do hereby issue this proclamation, pursuant to the provisions of Section 16 of Article III of the Constitution of the State of Hawaii, giving notice of my plan to return Senate Bill No. 2401 with my objections thereon to the Legislature as provided by said Section 16 of Article III of the Constitution.

DONE at the State Capitol, Honolulu,
State of Hawaii, this 9th day of
June, 2010.



JAMES R. AIONA, JR.
Acting Governor of Hawaii

EXECUTIVE CHAMBERS

HONOLULU

June 9, 2010

STATEMENT OF OBJECTIONS TO SENATE BILL NO. 2401

Honorable Members
Twenty-Fifth Legislature
State of Hawaii

Pursuant to Section 16 of Article III of the Constitution of the State of Hawaii, I am returning herewith, without my approval, Senate Bill No. 2401, entitled "A Bill for an Act Relating to State Finances."

The purpose of this bill is to suspend claims for the High Technology Business Investment Tax Credit and the Technology Infrastructure Tax Credit for tax years 2010, 2011 and 2012.

This measure is objectionable because it negatively impacts Hawaii's economy and makes it more difficult to sustain our current efforts to recover. It may not achieve its purpose of generating revenues to cover the state budget shortfall, and the bill may impact the state's future credit worthiness ratings.

First, this bill negatively impacts Hawaii's economy and business climate by increasing the uncertainty of doing business in the State. In 2009, Hawaii was ranked forty-second in the nation in an assessment of its state business climate by the Small Business and Entrepreneurship Council. This measure would continue to perpetuate that perception by making Hawaii's tax law unfriendly to businesses and investors.

Investors and businesses make decisions to hire, expand or start up a company based on assessments of the risks and rewards involved. One of the factors examined is the government's tax and regulatory structure. When government policies change with little notice or rationale, businesses become wary because they are no longer able to assess the future risks of putting money into Hawaii. The fact that this bill

would change the tax credit rules retroactively, implies people who put capital in Hawaii can no longer trust the State Government to keep its word. This is bad economic policy and bad public policy.

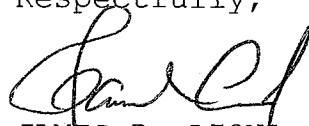
Second, this bill may not actually generate revenue as stated in the committee report for the H.D. 1 version of this measure. Rather the measure would delay a total of \$168,400,000 in state financial obligations to fiscal years 2013-2014 and 2014-2015. Because a number of investors and businesses have already stated their intent to challenge this measure in court if it becomes law, their additional tax payments under this measure will likely be transferred to the Litigated Claims Fund until all matters are resolved. As such, it is highly uncertain whether the revenues from this measure can be counted toward the financial plan, since there is a possibility that revenues will not be deposited into the general fund as expected in fiscal years 2010-2011, 2011-2012, and 2012-2013, when the budget shortfall is most severe.

Finally, while Moody's maintained Hawaii's Aa2 rating on approximately \$4,700,000,000 in outstanding general obligation bonds this past February, the agency also revised the outlook on those bonds from stable to negative. One of the reasons for that revision is "Hawaii's narrowed financial operations as underscored by significantly lower reserve levels and payment deferrals," as well as "out-year structural gaps due to one-time solutions already incorporated in the enacted budget." This bill adds \$168 million to that future structural gap by delaying our tax credit obligations. As such it could negatively impact the assessment of Hawaii's credit worthiness by adding to the payment deferrals of the State.

STATEMENT OF OBJECTIONS
SENATE BILL NO. 2401
Page 3

For the foregoing reasons, I am returning Senate Bill
No. 2401 without my approval.

Respectfully,

A handwritten signature in black ink, appearing to read "James R. Aiona, Jr.", written in a cursive style.

JAMES R. AIONA, JR.
Acting Governor of Hawaii

VETO

THE SENATE
TWENTY-FIFTH LEGISLATURE, 2010
STATE OF HAWAII

S.B. NO. 2401
S.D. 1
H.D. 1

A BILL FOR AN ACT

RELATING TO STATE FINANCES.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The purpose of this Act is to address state
2 finances. More specifically, this Act suspends a taxpayer's
3 ability to claim the technology infrastructure renovation and
4 high technology business investment tax credits.

5 SECTION 2. Chapter 235, Hawaii Revised Statutes, is
6 amended by adding a new section to be appropriately designated
7 and to read as follows:

8 "§235- Suspension of technology infrastructure
9 renovation and high technology business investment tax credits.

10 (a) For the purpose of this section:

11 "High technology business investment tax credit" means the
12 tax credit established under section 235-110.9.

13 "Technology infrastructure renovation tax credit" means the
14 tax credit established under section 235-110.51.

15 (b) Notwithstanding any other law to the contrary, no tax
16 liability under this chapter for taxable years beginning in
17 2010, 2011, and 2012 shall be reduced by any technology
18 infrastructure renovation tax credit or high technology business



1 investment tax credit under section 235-110.51 or 235-110.9, as
2 applicable.

3 (c) Any tax credits suspended under this section may be
4 claimed in taxable years beginning in 2013 and the following
5 taxable years until exhausted."

6 SECTION 3. Chapter 241, Hawaii Revised Statutes, is
7 amended by adding a new section to be appropriately designated
8 and to read as follows:

9 "§241- Suspension of high technology business
10 investment tax credit. (a) For the purpose of this chapter,
11 "high technology business investment tax credit" means the tax
12 credit established under section 235-110.9 and made operative
13 under section 241-4.8.

14 (b) Notwithstanding any other law to the contrary, no tax
15 liability under this chapter for taxable years beginning in
16 2010, 2011, and 2012 shall be reduced by any high technology
17 business investment tax credit under section 235-110.9 or 241-
18 4.8.

19 (c) Any tax credits suspended under this section may be
20 claimed in taxable years beginning in 2013 and the following
21 taxable years until exhausted."



1 SECTION 4. Chapter 431, Hawaii Revised Statutes, is
2 amended by adding a new section to article 7, part II, to be
3 appropriately designated and to read as follows:

4 "§431:7- Suspension of high technology business
5 investment tax credit. (a) For the purpose of this chapter,
6 "high technology business investment tax credit" means the tax
7 credit established under section 235-110.9 and made operative
8 under section 431:7-209.

9 (b) Notwithstanding any other law to the contrary, no tax
10 liability under this chapter for taxable years beginning in
11 2010, 2011, and 2012 shall be reduced by any high technology
12 business investment tax credit under section 235-110.9 or 431:7-
13 209.

14 (c) Any tax credits suspended under this section may be
15 claimed in taxable years beginning in 2013 and the following
16 taxable years until exhausted."

17 SECTION 5. New statutory material is underscored.

18 SECTION 6. This Act shall take effect on July 1, 2010.

