

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** INCOME, High technology business investment tax credit qualifications

**BILL NUMBER:** HB 1451

**INTRODUCED BY:** Wakai, Finnegan, Ito, Mizuno, Nishimoto, Takai, Tsuji, Ward, 5 Democrats and 1 Republican

**BRIEF SUMMARY:** Amends HRS section 235-110.51 to: (1) provide that in order to qualify for the technology infrastructure renovation tax credit, a taxpayer shall be required to increase its workforce by 10% from what it was at the beginning of the tax year for two consecutive years beginning after December 31, 2009; (2) provide that if a business that received a technology infrastructure renovation tax credit moves its research and development or manufacturing components out of Hawaii within five years of receiving the credit, 100% of the tax credit received under this chapter shall be recaptured; and (3) extend the expiration of the technology infrastructure renovation tax credit from December 31, 2010 to December 31, 2015.

Amends HRS section 235-110.9 to extend the expiration of the high technology business investment tax credit from December 31, 2010 to December 31, 2015.

Amends HRS section 235-110.91 to: (1) provide that in order to qualify for the tax credit for research activities, a taxpayer shall be required to increase its workforce by 10% from what it was at the beginning of the tax year for two consecutive years beginning after December 31, 2009; (2) provide that if a business that received a tax credit for research activities moves its research and development or manufacturing components out of Hawaii within five years of receiving the credit, 100% of the tax credit received under this chapter shall be recaptured; and (3) extend the expiration of the technology infrastructure renovation tax credit from December 31, 2010 to December 31, 2015.

**EFFECTIVE DATE:** Upon approval

**STAFF COMMENTS:** The legislature by Act 178, SLH 1999, and Act 221, SLH 2001, enacted various tax incentives to encourage the development of high technology businesses in the state. The acts provided investment and research credits as well as income exclusions providing tax relief to high tech businesses and individuals associated with high tech businesses. While this measure proposes additional qualifications to claim the credit, it also extends the expiration date of the credit from December 31, 2010 to December 31, 2015.

While the focus on high technology in the last few years is commendable, it fails to recognize that investments are made with the prospect that the venture will yield a profit. If the prospects for making a profit are absent, no amount of tax credit will attract investment. People do not invest to lose money. It should be remembered that until Hawaii's high cost of living can be addressed, all the tax incentives in the world will not make a difference in attracting new investment to Hawaii.

As one former Hawaii resident who has been a success in the field of high technology pointed out recently what will make Hawaii conducive to high tech businesses and it is: (1) entrepreneurs, not capital, that come first; (2) entrepreneurs coming from engineering schools and technology companies; (3) building a world class engineering school in Hawaii; (4) supporting internships at technology companies; (5) allowing our best children to go away to get a worldwide perspective; (6) not broadband passing through Hawaii that is a selling point; (7) that people fly direct and therefore is Hawaii's location in the middle of the Pacific an advantage?; (8) learning the rules of the game; (9) looking at Israel and learn from them; and (10) doing your own thing, being a copy cat does not work. At the heart of his remarks was the fact that in order to produce a high technology industry in Hawaii, those companies need to have access to institutions of higher education which are producing the people needed by the high technology industry. Without the academic synergy, Hawaii will never become a center for high technology activity. Thus, all of the tax incentives like this measure embodies will fall short of luring high technology firms to Hawaii.

Further, the tremendous tax burden, the draconian regulatory environment, and the dramatic increase in permitting and fees that go with the permitting process make Hawaii an unattractive place to do business. It should be remembered that while the high technology credits may look like a good incentive or enticement to undertake research activities in Hawaii, those who would conduct this research must live in the same high cost-of-living environment with which other taxpayers continue to struggle. Thus, the cost of maintaining those researchers will be higher than to do so where the cost of living is much lower. Let's not bet the farm on high technology without really understanding what makes this industry tick.

As evidenced by reports of businesses other than qualified high technology companies claiming these credits, before these credits are extended, as this measure proposes, a comprehensive evaluation of these credits should be performed to determine whether the credits are achieving their goal or creating yet another drain on the state's financial condition. Due to the dire condition of the state's financial condition, it is questionable whether we can afford these credit payouts.

Given the growing amount of high technology tax credits being claimed, nearly \$130 million for the most recent year reported, taxpayers find it incredulous that lawmakers would even consider extending these credits given the gaping hole in the state budget that has budget makers slashing the state's safety net health and social service programs. With declining revenues every program from education to corrections to health services will be severely curtailed. If the state doesn't have the money to put textbooks in the schools why then do we need the highly touted, high paying jobs the advocates for the industry promise? The next generation may not even know how to read given the cuts to the education budget.

Finally, if this bill is an attempt to "fix" some of the loopholes of the high technology tax credit, it falls far short. Certainly it tries to tighten up the recapture, but the problem also exists at the front end because of the vagueness of the definitions of what is a qualified cot for which the credit can be claimed. If there is to be any kind of incentive, the current statute needs to be thrown out and lawmakers need to start from scratch using the federal law as guidance.



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The Twenty-Fifth Legislature, State of Hawaii  
Hawaii State House of Representatives  
Committee on Economic Revitalization, Business & Military Affairs

Testimony by  
Hawaii Government Employees Association  
February 17, 2009

H.B. 1451 – RELATING  
TO TAXATION

The Hawaii Government Employees Association, AFSCME, Local 152, AFL-CIO supports the purpose and intent of H.B. 1451, which extends the high technology infrastructure renovation tax credit and the research activities tax credit until 2015. It also precludes a business from claiming the high technology business investment tax credit after December 31, 2008.

Although we remain concerned about the extension of Act 221, SLH 2001 until 2015, the bill imposes specific requirements to obtain the tax credits. For example, if a business that receives a technology infrastructure tax credit moves out of Hawaii within five years of receiving the tax credit, 100% of the tax credit shall be recaptured. To be eligible for the qualified research tax credit, the business must have increased its workforce by 10% for two consecutive years beginning after December 31, 2009.

The state Department of Taxation recently estimated that the program cost the state an estimated \$747 million through 2007. Although qualifications for Act 221, SLH 2001 were tightened under Act 215, SLH 2004, the credits are still considered generous compared with those offered by other states. It is likely that at least a portion of the estimated gains in the technology sector would have occurred without the credits. Given the serious financial problems confronting the state, tax credits of all types deserve close scrutiny.

We are concerned that the costs associated with Act 221 far exceed the benefits and may be wasting scarce resources that could be directed elsewhere. Without additional safeguards such as those contained in H.B. 1451, we cannot support any extension of these tax credits.

Thank you for the opportunity to testify in support of H.B. 1451.

Respectfully submitted,

*Nora A. Nomura*  
Nora A. Nomura  
Deputy Executive Director

H A W A I I   G O V E R N M E N T   E M P L O Y E E S   A S S O C I A T I O N





## HOUSE BILL 1451: RELATING TO TAXATION

**DATE:** February 17, 2009  
4:00PM, Conference Room 329

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

**FROM:** Lisa H. Gibson  
President  
Hawaii Science & Technology Council

RE: Testimony in Strong Opposition to HB1451

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

While The Hawaii Science & Technology Council (HISciTech) supports the intent of extending the R&D and infrastructure renovations credits, it opposes this bill and respectfully requests that you hold it.

First, HISciTech 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.

*The Hawaii Science & Technology Council (HISciTech) is a 501(c)6 industry association with a 28-member board. HISciTech serves Hawaii companies engaged in ocean sciences, agricultural biotechnology, astronomy, defense aerospace, biotech/life sciences, information & communication technology, energy, environmental technologies, and creative media.*

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

Lisa H. Gibson  
President

PACIFICAP  
GROUP

PACIFICAP GROUP, LLC  
820 Milliani Street, Suite 600  
Honolulu, HI 96813  
Direct: 808.237.5388 Fax: 808.537.2188

February 14, 2009

To: [EBMtestimony@Capitol.hawaii.gov](mailto:EBMtestimony@Capitol.hawaii.gov)

*Testimony for Hearing before the  
House Committee on Economic Revitalization, Business and Military Affairs  
Tuesday, February 17, 2009, 4:00 pm*

*State Capitol, Conference Room 329  
415 South Beretania Street  
Honolulu, Hawaii 96813*

*Re: Testimony in Strong Opposition to HB 1451  
Relating to Taxation*

Chair McKelvey, Vice-Chair Choy, and Committee Members:

Thank you for the opportunity to submit testimony in STRONG OPPOSITION to HB 1451, which relates to taxation and various high technology tax incentives that are commonly known as "Act 221." I respectfully request that you vote against passage of this bill.

I am Jeff Au, Managing Director and General Counsel of PacifiCap, Hawaii's largest locally based venture capital firm.

I strongly oppose this bill because it would repeal the Act 221 High Technology Business Investment Tax Credit (the "Act 221 Investment Credit") retroactively to December 31, 2008.

Terminating the Act 221 Investment Credit will cut off the only source of cash that many local technology companies need to operate and survive. It will cause many of them to "starve to death," possibly resulting in job losses of \$100 million per year or more for hundreds of Hawaii workers.

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. This bill extends incentives for companies to spend on high tech renovation and research, but it cuts off the source of money that they need to have anything to spend in the first place. This bill penalizes companies for moving research and manufacturing activities outside of the State, but it fails to consider that there will be no research or manufacturing to move in the first place if these companies run out of cash and fail because the Act 221 Investment Credit is terminated.

Voting to pass this bill would be analogous to passing a new job creation law that requires the State government to increase its workforce by 10% per year while at the same time abolishing the State's right to collect taxes.

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. During this period, these companies need investors to invest new cash each year to provide the money they need to continue their research and operations. Cutting off this source of capital before research and development is completed, and before companies reach profitability, can cause these companies to run out of money and fail, causing not only job losses, but also losses of all the money previously invested, as well as the loss of any "upside" potential for these companies, their workers, their investors and the State.

In short, this would create a "lose-lose-lose" scenario for all parties involved. It would be analogous to a parent cutting off food and support for a three year old child, before the child was mature enough to earn money on his own to support himself, thus causing the child to starve to death.

Tax Department data shows that in 2007, 177 Act 221 companies paid more than \$228 million in salaries and other job compensation, while 78.5% of them still were not profitable. If just 50% of Act 221 companies fail because of repeal of the Act 221 Investment Credit, more than \$100 million of jobs could be lost.

The retroactive repeal to December 31, 2008 of the Act 221 Investment Credit contemplated by this bill also could trigger numerous lawsuits against the State for violations of federal constitutional law.

Retroactively repealing the Act 221 Investment Credit **two years** before its original sunset date of December 31, 2010 will pull the financial rug out from under local tech companies and their investors who in good faith took a chance on Hawaii as a place to invest and try to grow their companies. It will irreparably harm Hawaii's reputation as a place to invest in and do business for decades to come.

Many of the kamaaina who returned to Hawaii and convinced their families and themselves that it was worth the risk of coming home to work and trying to contribute to our community will conclude that this was all a very, very big mistake.

Even if this bill does not ultimately become law, I fear the negative impact on Hawaii's reputation if your Committee passes out this bill without amendment. It will send a message to both local and outside investors that they cannot rely upon our State to honor its long-term commitments. It will tell Hawaii's investors, entrepreneurs and workers in high tech and all other industries that our State is willing to play "bait and switch" with their money, their companies, their livelihoods and their careers.

The current credit crisis and financial meltdown around the world demonstrates how critical investor trust and confidence is to continued investment and economic growth. Once undermined, this trust and confidence is extremely difficult to restore and can cause irreparable harm for many years to come.

We are all aware of the serious budgetary problems facing our State. However, we need to make sure that proposed solutions do not make existing problems of job loss and economic stagnation even worse. Starving to death dozens of promising companies with growth potential that currently employ hundreds, if not thousands of employees, is not the way to fix our economy. We need to avoid being "penny wise and pound foolish," and make sure that we do not "jump from the frying pan into the fire."

There are better ways to balance the State budget, such as collecting just a fraction of the \$1 billion of delinquent taxes each year, which totals several billion dollars including past years.

We also must keep in mind that under existing law, Act 221 already has a self-adjusting mechanism with respect to the State budget. As the economy slows, prospective investors make less money and have less money to invest. Their income tax liability also goes down, resulting in less need for and less utilization of tax credits.

I support the intent of this bill to extend the Technology Infrastructure Renovation Tax Credit and the Tax Credit for Research Activities under Act 221, which provides tax credits of 4% and 20%, respectively, of amounts spent on high tech renovations and research. However, these incentives will have little value to most local tech companies without the Act 221 Investment Credit, which provides them with the investment capital they need to get started, survive and have cash to spend in the first place on renovations and research.

The restrictions imposed on these incentives by this bill are also very problematic.

Requiring companies to increase their workforces by 10% per year (regardless of if these companies have enough money to pay for these jobs) could drive them into bankruptcy. This bill is even more unrealistic in trying to force technology companies to increase their workforces while at the same time cutting off the Act 221 Investment Credit, which may be their only source of cash to pay for these jobs.

Punishing Act 221 companies with recapture of credits if they have any of their research or manufacturing activities outside of Hawaii is also unrealistic. We live in a global economy. It can much more difficult to build a technology company in Hawaii than elsewhere. Most Act 221 companies would not be in Hawaii in the first place if they did not want to be here. However, there are legitimate business imperatives that often require local companies to have at least some business activities outside of Hawaii in order to be competitive, or even survive. 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.

Our State spends much more money each year on public education. Would it be good policy to pass a new law that requires students and their parents to refund to the State the costs of their K-12 educations if they choose to attend college on the mainland or move away from Hawaii after graduating high school?

The Department of Taxation's comprehensive study of the Act 221 Investment Credit published in September 2008 concluded that the benefits of Act 221 have far exceeded its costs:

- As of the end of 2007, more than \$1.2 billion had been invested in at least 333 Act 221 technology and media companies, which had already spent more than \$1.4 billion in Hawaii.
- 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.
- These Act 221 high tech and media companies earned more than \$228 million in revenues in 2007 alone.
- All of these benefits, already realized long BEFORE most of these Act 221 companies have reached their full potential, have already far exceeded the costs of credits claimed from 1999 through 2006 of less than \$296 million (\$437 million including credits claimed from 1999 through 2007).

Based on DoTax's study, Act 221 is NOT the cause of the State's current budgetary problems. To the contrary, Act 221 has been an effective stimulus for the economy, which has resulted in far more investment and job creation in Hawaii than the costs of the credits to the State. It does not make sense to retroactively repeal the Act 221 Investment Credit at a time when our economy needs it the most.

Young technology companies require several years and multiple rounds of investments to reach their full potential. According to a January 3, 2009 *San Francisco Chronicle* article, venture-backed companies took an average of 8.3 years before going public in 2008. If capital from Act 221 is limited, we will risk prematurely killing many Act 221 companies and losing up to 7 years worth of past investments already made into these companies. To the extent that 78.5% of Act 221 companies in 2007 were not yet profitable and needed additional capital to survive, more than a \$100 million of jobs per year could be lost if less than half of the Act 221 companies run out of money and fail.

Thank you very much for allowing me to submit this testimony today.

Respectfully submitted,

Jeffrey K. D. Au  
Managing Director and General Counsel  
PacifiCap Group, LLC



# MAKAI MOTION PICTURES

VIA EMAIL: February 16, 2009  
Email to: EBMtestimony@capitol.hawaii.gov  
From: coreytong@aol.com, coreytong@earthlink.net

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: Corey Tong  
President and Chief Creative Executive, Producer of new feature film 'THE GATHERING PLACE'  
Makai Motion Pictures, Honolulu, Hawaii

RE: Testimony In Strong Opposition to HB1451

Aloha Chair, Vice Chair and Members of the Committee,

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

First, Makai Motion Pictures 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.

MAKAI MOTION PICTURES is an international film financing, development and production company based in Hawaii. The company is committed to creating original, high-quality film and

# **MAKAI**

## **MOTION PICTURES**

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television programming for the international marketplace with a particular emphasis on stories and content originating from or in Hawaii. Makai Motion Pictures also forms co-production, creative and financial partnerships with filmmakers, production-distribution companies and original content creators around the Asia-Pacific Region and the globe.

Born and raised in Hilo, and then having lived away on the mainland U.S., as well as in France, Germany and Japan for over 20 years, I have always had dreams to return to the islands to work professionally and creatively, and to showcase the unique social, cultural and geographic beauty of the islands to the rest of the world. Hawaii's Act-221 investment credits – created with such vision for the development of new industries – provided me with the single most important opportunity to bring my professional international film knowledge and experiences back to the islands and to create projects in Hawaii that would give the islands vast international exposure. I helped to produce a film called THE LAND HAS EYES with some Hawaii-partners in 2004, and spending time professionally back in the islands – along with the opportunities to develop new projects that Act-221 provided – gave me the incentives and financial opportunities to consider moving back to Hawaii to launch our media company Makai Motion Pictures.

Makai Motion Pictures is currently in the midst of financing a new international feature film project called THE GATHERING PLACE which we intend to shoot in summer-fall of 2009, set mostly on the island of Oahu (with newly renovated The Royal Hawaiian Hotel, local restaurants and homes, Kapiolani/Sans Souci and Waimanalo beaches as primary locations), with local production crews and as many 'hapa-local' cast as possible. Budgets/expenditures in Hawaii would range from \$500,000 to more than \$3M, upwards of 60-100 local positions or roles per project, along with needs for production services and support, hotels, transport, catering, post-production, music talent, etc.

Makai Motion Pictures is utilizing international (Hong Kong, Japan, mainland U.S.) financing to support this film production partnered with the vital investment of Hawaii equity and 221 investment. Makai Motion Pictures also has several other projects in development, most created with Hawaii in mind as primary locations and character inspiration. We want to remain a viable Hawaii production and development company, and our project financing, production and distribution phases all depend on the vision and financial opportunities that the state of Hawaii provides for long-term sustainability for companies like ours to remain in the islands.

Especially crucial, Makai Motion Pictures is currently negotiating to bring in upwards of \$2million for our feature film THE GATHERING PLACE from outside the state. The film is one of the few international-level films written and produced by a 'local boy' using local executive/producing teams, and using Hawaii musicians and cast that will have international exposure not only in the U.S. but in Japan and Chinese-speaking territories.

If Act 221 were to sunset retroactively on December 2008, that would effectively cut off opportunities for financing in 2009 and beyond, and our company Makai Motion Pictures will very likely need to move to California. THE GATHERING PLACE film would likely need to be shelved or re-worked into another setting and location, as there would be little or no incentive to use Hawaii creative talent or settings if there are no financial opportunities to support them. Makai has spent over two years developing this project inspired by, and created and set in Hawaii. We sincerely want to continue developing the local talent base, producing international

# **MAKAI**

**MOTION PICTURES**

Page 3 of 3

quality programs and showcasing Hawaii to the world, as no one else will if we don't do it ourselves.

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

Sincerely,

Corey Tong  
President & Chief Creative Executive  
Makai Motion Pictures  
Honolulu, Hawaii  
+1 808 524 5738  
+1 415 626 5585  
[ctong@makaimotionpictures.com](mailto:ctong@makaimotionpictures.com)



## CORPORATE OFFICE

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To:	House Committee on Economic Revitalization, Business and Military Affairs Representative Angus McKelvey, Chair Representative Isaac W. Choi, Vice Chair
From:	Dr. Rick Holasek, President and CEO
Company	NovaSol
Date:	Tuesday, February 17, 2009 4:00 PM Room 329
Subject:	HB1451 - Relating to Taxation
RE:	Testimony In Strong Opposition to HB1451

**FAX**

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

Please see my attached letter for testimony in strong opposition to HB1451.

Sincerely,

Rick Holasek, PhD  
 President and CEO, NovaSol  
 Ph: 441-3666  
 rick@nova-sol.com

[www.nova-sol.com](http://www.nova-sol.com)



February 17, 2009

**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: Rick Holasek, President and CEO, NovaSol

**RE: Testimony In Strong Opposition to HB1451**

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

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

First, NovaSol 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.

NovaSol is a local Hawaii-based high technology firm working in the aerospace/defense sector. Established in 1998, we specialize in reconnaissance camera systems and free space optical communications.

Thank you for the opportunity to testify on this important bill.

Sincerely,

Rick Holasek, PhD  
President and CEO, NovaSol  
808-441-3666  
rick@nova-sol.com

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**From:** Robert M Giasolli [rgiasolli@gmail.com]  
**Sent:** Monday, February 16, 2009 7:40 PM  
**To:** EBMtestimony  
**Subject:** Strong Opposition to HB1451

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: Robert M Giasolli  
Chief Technical Officer  
Innovasc Inc.

RE: Testimony In Strong Opposition to HB1451

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

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

First, **Innovasc Inc.** 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.

**Innovasc is a biotechnology company focused on the development of medical devices that will significantly reduce the need for stents. Stents are widely used to treat artery blockage and have enjoyed a rapidly growing market, but complications from stents are significant. Doctors are looking for safer treatment options. Innovasc devices are designed to pre treat the diseased artery and provide life long support for an expanded lumen**

opening with a lower rate of complications to stents.

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

Sincerely,

Robert M Giasolli  
CTO, Innovasc Inc.  
VP Americas, [www.MANCEF.org](http://www.MANCEF.org)  
808-398-5024 cel  
[rgiasolli@mancef.org](mailto:rgiasolli@mancef.org)

**From:** Laurent Scallie [l.scallie@aci-sim.com]  
**Sent:** Tuesday, February 17, 2009 12:09 AM  
**To:** EBMtestimony  
**Subject:** HB1451 - Relating to Taxation / Atlantis Cyberspace, Inc. (ACI)  
**Importance:** High

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: Laurent Scallie

CEO  
Atlantis Cyberspace, Inc. (ACI)  
RE: Testimony In Strong Opposition to HB1451  
Aloha Chair, Vice Chair, and Members of the Committee,

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

First, ACI 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 obs, 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.



ACI is a military simulation company providing critically needed training and mission rehearsal capabilities to the U.S. military dismounted infantry troops. We are delivering a training facility to the Hawaii National Guards this month. I encourage you to view our product video located at <http://www.aci-sim.com/>

ACI currently employs 13 people and 10 independent contractors, our projected 09 gross sales is \$4.5M and we plan to grow to a 130 people employee and over \$50M in sales within 3-4 years. This represents a lot of high paying local technology jobs. We raised over \$8M in angel investment including 80% of it as a result of the Act 221/215. The capability to raise additional capital is vital for our company if we are to survive and become cash flow positive. Raising money in the mainland without the Act 221 incentive is next to impossible with this economy. The proposed changes in the bill will have a devastating impact on our future and potentially force us to move out of Hawaii or even go out of business as we run out of money so close to becoming a success story for Hawaii.

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

Sincerely,

**Laurent Scallie**

Chief executive officer, ACI

Cell 808 780 7187

<http://www.aci-sim.com/>



**Laurent Scallie**

ACI

Chief executive officer

(808) 842-3838 Work

(808) 780-7187 Mobile

<http://www.aci-sim.com>

[l.scallie@aci-sim.com](mailto:l.scallie@aci-sim.com)

934 Pumehana Street, Suite 200

Honolulu, Hawaii 96826

United States of America

HAWAII STATE HOUSE OF REPRESENTATIVES  
25<sup>TH</sup> LEGISLATURE - REGULAR SESSION OF 2009

COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS AND MILITARY AFFAIRS

February 17, 2009  
4:00 PM, Conference Room 329

***HB 1451 - RELATING TO TAXATION***

Chair Rep. Angus L. K. McKelvy, V. C. Rep. Isaac W. Choy and Committee Members:

Good Afternoon. My name is Dante Carpenter, Director of Public Affairs for Carbon Diversion, Inc. (CDI). CDI strongly opposes this measure simply because placing any caps, or any other convoluted restrictions on Act 221/215 is simply the wrong strategy at a time when Hawaii needs an economic stimulus, not the equivalent of “a poke in the eye with a sharp stick!”

Please let the original enabling legislation with its sunset in December 2010 run its course, at the very least. Do not let short-term thinking compromise long-term objectives. The State of Hawaii cannot afford to stop Act 221/215 just when it’s starting to pay off. These Tax incentives provided both responsive and responsible legislation in 2001 and 2003, respectively. And, they were created for Hawaii to expand business opportunities in activities other than Tourism (at all time low) and Military (beyond Hawaii control) and local and state government largess (?).

Carbon Diversion Inc. is a local Hawaiian company which has developed a hybrid gasification carbonization process which can reduce various organic feedstock and tires (non-fossil fuel) into carbon products and synthetic gas. This results in lessened dependency on fossil fuels, landfills and can indirectly provide lower priced electrical energy to the grid.

To change the end dates from 2010 to 2009, or earlier this year, is unconscionable “games playing!” It could virtually emasculate CDI’s growth projections and cause irreparable harm to the company and its relations with customers, both private and governmental. It obviates any “good intentions” of ACT 221/215 Incentives – which will include millions of dollars in investments and hundreds of jobs created to-date. Moreover, you’ll help stymie future growth potential at a time when Hawaii can least afford it!

If you must do something to “show an appropriate legislative concern” then:

- Form a “Study Team” and Charge the DOTAX, DBED&T, and LRB including Representatives from the various categories of Tax Incentive QHTB’s, (whether recipients of benefits or not) with a Combined Mission to follow up and study with “true data” and “true experience” to-date ( i. e., accurate case histories and analytical measurements) against “comparative activities;” and thereafter
- Above “true data” and “true experience” to be collected and analyzed proportionately in the “time frame” from ACT 221’s inception in 2000, then modified by ACT 215 in 2003, through December 31, 2009; then
- Carry forward the comparative projections from actualities measured above with its logical extensions to the projected ACT 221/215 End date of December 31, 2010; and

[Recipient Name]  
February 16, 2009  
Page 2

- Summarize the Findings, projected Conclusions and Recommendations to the original End-date (12/31/10); and
- Finally, present the study to next year's legislature in the form of "an action plan based on facts and figures prorated during the life of the enabling statutes to-date" with appropriate and rational recommendations based on actual field experience.

Hawaii's future depends upon economic diversification rooted in the seeds planted with the help of Acts 221/215. The cost is small indeed, when compared to the ultimate benefit. Let the entrepreneurs do their thing, and everyone will benefit.

Meanwhile, we strongly urge you to file this bill.

Thank you very much



Michael Rivero, Producer

**Monday, February 16, 2009**

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: Michael Rivero  
 Owner  
 Home Baked Entertainment

RE: Testimony In Strong Opposition to HB1451

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

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

First, Home Baked Entertainment 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.

213-291-8801 Los Angeles / 808-780-3788 Hawaii / 866-239-8738 Toll-free from the US mainland  
<http://h bentertain.com> rivero@h bentertain.com / 98-871 C Kaonohi St., Aiea, HI 96701-2144.



# HOME BAKED ENTERTAINMENT

Michael Rivero, Producer

Monday, February 16, 2009

Home Baked Entertainment is a small company specializing in computer animation for film, television, and industrial presentations.

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

Sincerely,

Michael Rivero  
 Owner  
 Home Baked Entertainment  
 808-780-3788  
 rivero@hbentertain.com

A large, stylized handwritten signature in black ink, likely belonging to Michael Rivero.

213-291-8801 Los Angeles / 808-780-3788 Hawaii / 866-239-8738 Toll-free from the US mainland  
<http://hbentertain.com> [rivero@hbentertain.com](mailto:rivero@hbentertain.com) / 98-871 C Kaonohi St. , Aiea, HI 96701-2144.

**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Sunday, February 15, 2009 10:14 PM  
**To:** EBMtestimony  
**Cc:** strsws@mac.com  
**Subject:** Testimony for HB1451 on 2/17/2009 4:00:00 PM  
**Attachments:** 221-215 Slideshow.pdf; 221-215 Handouts.pdf

Testimony for EBM 2/17/2009 4:00:00 PM HB1451

Conference room: 329  
Testifier position: comments only  
Testifier will be present: Yes  
Submitted by: Shan Steinmark  
Organization: Strategic Transitions Research  
Address: 66 Queen Street - #3501 Honolulu, HI  
Phone: 8084639590  
E-mail: [strsws@mac.com](mailto:strsws@mac.com)  
Submitted on: 2/15/2009

Comments:

Aloha Chair McKelvey & Vice Chair Choy,  
I am attaching both slideshow & handout versions of my testimony on HB 552, HB 727 & HB 1451.  
I will also be present at the EBM hearing on Tuesday February 17th at 4:00 p.m.  
I will also be present at the EBM hearing on Tuesday February 17th at 4:00 p.m.  
At that time I will present clarifying comments on the following:  
1. Cost-Benefit Analysis of Act 221/215 2. The Unsung Value of LOCAL IP in Science &  
Technology 3. The Critical Need in Hawaii for Economic Re-Vitalization, Investment into the  
Innovation Economy & Pursuit of Strategic Growth Opportunities Mahalo for your akamai kokua,  
Shan Steinmark

**ACT 221/215**  
**COST-BENEFIT ANALYSIS**  
**&**  
**RECOMMENDATIONS**  
**for**  
**CHANGE**

Shan W. Steinmark, Ph.D.  
Strategic Transitions Research

1/27/09

HI LEG. / STR

1

**BACKGROUND & DISCLOSURES**

- Hawaii Science & Technology Council - Board of Directors / CEO Forum Designer
- Hawaii Angels - Executive Board, Due Diligence Shepherd & Equity-Side Investor
- Hawaii Biotech - Board Observer
- Kuehnle AgroSystems - Board of Directors
- Pipeline Micro - Former Board of Directors
- Talk-Story Productions - Former Advisor
- Hnu Photonics, Hnu Defense, Hnu Energy - Pre-Board Advisor
- Pacific Asia Center for Entrepreneurship (Shidler College of Business) - Advisory Board
- Governor's Hawaii Innovation Council - Subcommittee on Capital Formation
- Governor's Maui Council of Advisors
- Strategic Transitions Research - Founder (1973)
- **40 Years = Consultant Enhancing Individual, Team & Organization Effectiveness**  
- **Primarily with R&D / Growth Businesses - From Start-Ups to Fortune 500**

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2

## COMMON GROUND

### ROLE:

- ASK TOUGH QUESTIONS
- TELL TRUTH TO POWER
- COLLABORATE TO SOLVE PROBLEMS

### ANALYZE

- SORT MYTH FROM FACT
- STUDY CAUSE-EFFECT
- LEARN BEST PRACTICES

### LEAD, LEAD, LEAD

- SET DIRECTION
- BUILD COALITIONS
- MOTIVATE & INSPIRE

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3

## COST-BENEFIT ANALYSIS for ALL

	PROS	CONS	CHANGE
Agriculture			
Real Estate			
Tourism			
Military			
Technology			

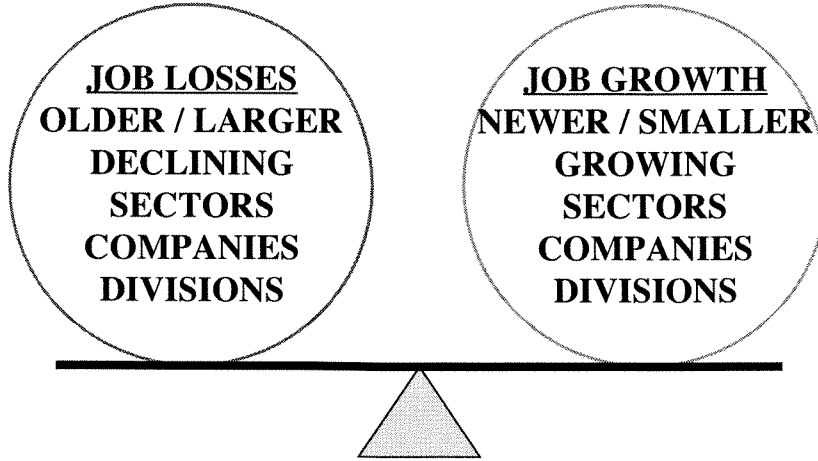
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4



# CHRONIC CHALLENGE in AMERICA

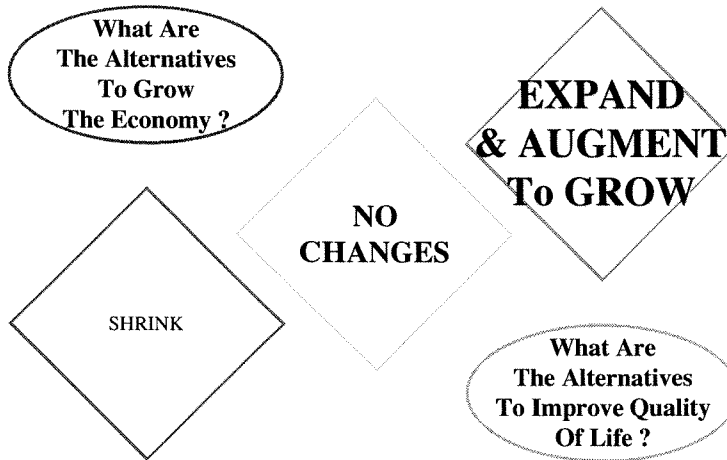


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5

# TOUGH CHOICES



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6

## HOW TO SURVIVE & THRIVE

	<i>SURVIVE</i>	<i>THRIVE</i>
<b>“UP” ECONOMY</b>	<i>Regularly Manage Non-Performers</i>	<i>Steadily Pursue Strategic Growth Opportunities</i>
<b>“DOWN” ECONOMY</b>	<i>Aggressively Manage Non-Performers</i>	<i>Urgently Pursue Strategic Growth Opportunities</i>

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7

## REAL \$ GROWTH via INNOVATION

**???'S for HAWAII AMIDST GLOBAL COMPETITION:**

- HOW DO WE GROW START-UP BUSINESSES ?
- HOW DO WE GROW THE SCI-TECH INDUSTRY ?
- HOW DO WE GROW AN INNOVATION ECONOMY ?

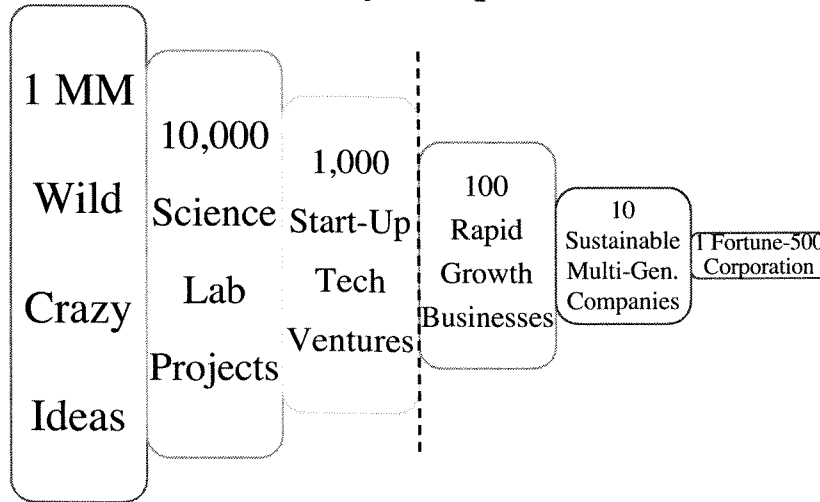
**UNIVERSAL ANSWER =  
MORE / BETTER / FASTER ...  
TECHNOLOGY, TALENT & CAPITAL !!!**

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8

## Innovation Economy - Requires "PIPELINE"

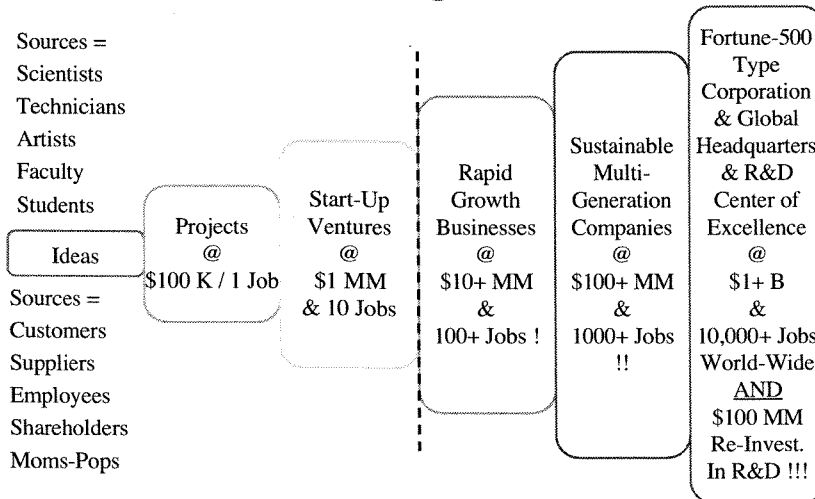


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9

## Success = Self-Sustaining GROWTH ENGINE



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10

## THE JOB CREATION PROCESS

MUST BUILD & SUSTAIN  
INNOVATION PIPELINE  
& GROWTH ENGINE !!!

MOST JOB GROWTH  
OCCURS in the LATER STAGES  
of INNOVATION

MOST  
REAL ECONOMIC GROWTH  
BEGINS WITH  
INNOVATION

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11

## MORE-BETTER JOBS - HOW ?

**Build & Sustain a Full Innovation Pipeline in HI**

**Develop & Retain Local Creative / Tech Talent**

**Enhance Support for Commercialization**

**Provide Incentives to Attract Clean Manufacturing**

**Develop Strategic World-Class Centers of Excellence**

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12

## THE VALUE of LOCAL TALENT

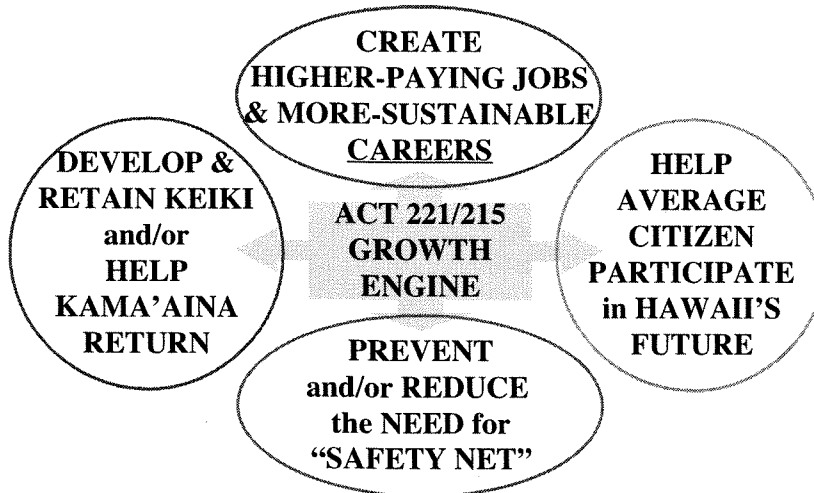
	LOCAL Inventors Owners	LOCAL Managers	LOCAL Employees
HAWAII <u>WITH</u> ACT 221/215	<b>HIGHER</b> %	<b>HIGHER</b> %	<b>HIGHER</b> #’s NOW & FUTURE
HAWAII <u>WITHOUT</u> ACT 221/215	<b>lower</b> %	<b>lower</b> %	<b>lower</b> #’s now & future

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13

## PEOPLE



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14

## HI Strategic Growth Opportunities

TROPICAL BIO-TECH

TROPICAL AGRICULTURE

TROPICAL OCEAN-AQUACULTURE

*DIVERSE CULTURE / INTEGRATION / CREATIVE ARTS*

RENEWABLE ENERGY GENERATION

NATIONAL DEFENSE / SECURITY

ASTRONOMY DUAL-USE

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15

## MORE-BETTER CAPITAL - HOW ?

Pursue Hawaii's Strategic Growth Opportunities

Provide Better PR for Success Stories in Hawaii

Attract More Mainland / Pacific Rim VC Capital

Link to Federal "Shovel-Ready" / "Ready-to-Go"

Develop Strategic World-Class Centers of Excellence

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16

## THE VALUE of LOCAL CAPITAL

	LOCAL Investment	LOCAL R.O.I.	LOCAL RE-Invest. ENGINE
HAWAII <u>WITH</u> ACT 221/215	<b>HIGHER</b> \$\$\$\$\$	<b>HIGHER</b> \$\$\$\$\$	<b>HIGHER</b> \$\$\$\$\$
HAWAII <u>WITHOUT</u> ACT 221/215	<b>lower</b> \$	<b>lower</b> \$	<b>lower</b> \$

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## REVENUES - MYTHS VS. FACTS

	<i>Myths</i>	Probabilities
<u>EXPAND</u> ACT 221/215	<b>More Cost</b> <b>Less Tax Rev.</b>	<b>More Benefit</b> <b>More Bus. Rev.</b>
<u>SHRINK</u> ACT 221/215	<b>Less Cost</b> <b>More Tax Rev.</b>	<b>Less Benefit</b> <b>Less Bus. Rev.</b>

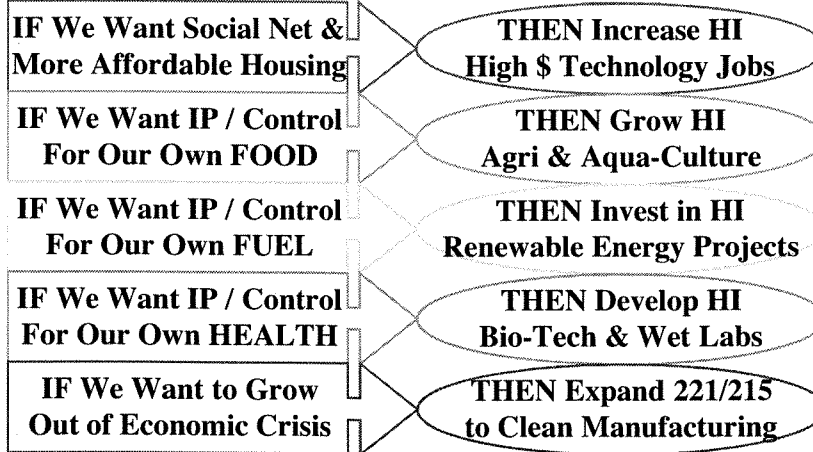
**NOTE: TAX REV. DEPENDENT on BUSINESS REV.  
& TAX LIABILITY DEPENDENT on TAX ADVICE**

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18

## FIXING PROBLEMS - CASE EXAMPLES

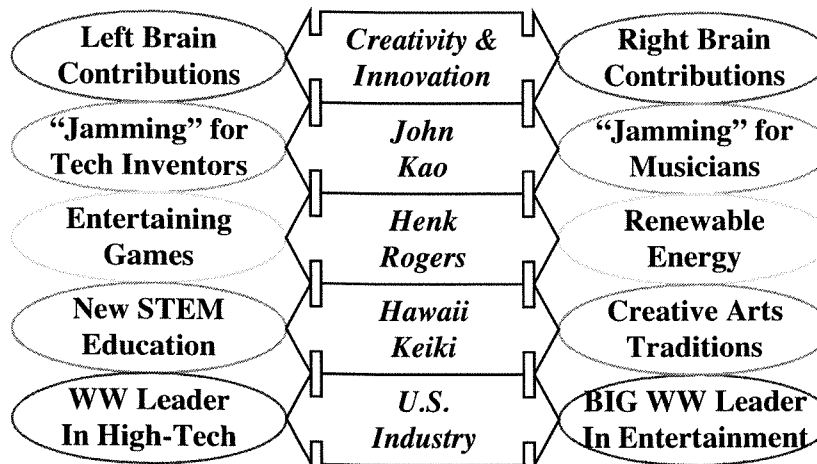


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19

## NEED IP in BOTH SCIENCES & ARTS



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20



## SUSTAINABILITY - WHEN & HOW ?

	Land-Use Economy	Innovation Economy
<b>HAWAII WITH ACT 221/215</b>	<b><u>Small Footprint</u> Use More Energy Sources Than Land</b>	<b><u>Local Sustainable</u> Technology for Food/Fuel/Health &amp; Higher Wages</b>
<b>HAWAII WITHOUT ACT 221/215</b>	<b><u>Large Footprint</u> Lower Wages &amp; More Need For Social Net</b>	<b>Much Slower Behavior Change &amp; Less Progress Toward Future</b>

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## LOCAL IP = LOCAL ENGINE / CONTROL

	IMPORT	EXPORT
<b>HAWAII WITH ACT 221/215</b>	<b>\$ \$ \$ \$ \$</b> <b>\$ \$ \$ \$ \$</b> <b>\$ \$ \$ \$ \$</b>	<b><u>LOCAL</u> Ideas / IP &amp; Technology for Food-Fuel-Health &amp; Many Products</b>
<b>HAWAII WITHOUT ACT 221/215</b>	<b><u>Others'</u> Ideas / IP &amp; Technology for Food-Fuel-Health &amp; Most Products</b>	<b>\$ \$ \$ \$ \$</b> <b>\$ \$ \$ \$ \$</b> <b>\$ \$ \$ \$ \$</b>

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## **CRISIS = DANGER & OPPORTUNITY**

### **CHALLENGES:**

- NATIONAL FINANCIAL CRISIS
- STATE TOURISM & BUDGET CRISES
- THREAT to LOCAL JOBS, HOMES & “SAFETY NET”

### **SOLUTION**

- BUILD on SUCCESS
- DEVELOP LOCAL ASSETS
- USE GROWTH ENGINE

### **NOT**

- Destroy Work-in-Progress
- Succumb to Fear
- Shrink

1/27/09

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23

**INVEST**  
**in**  
**HAWAII**  
**NOW !**

1/27/09

HI LEG. / STR

24

**From:** Bruce Anderson [banderson@oceanicinstitute.org]  
**Sent:** Monday, February 16, 2009 11:20 AM  
**To:** EBMtestimony  
**Cc:** Hawaii Science & Technology Council  
**Subject:** HB1451

FROM: Bruce S. Anderson, Ph.D., President, Oceanic Institute

RE: **Testimony In Opposition to HB1451**

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

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

First, Oceanic Institute 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, will cause many companies that have planned their financing around Act 221/215 to fail by cutting off a major source of planned revenue.

Secondly, this bill requires companies to increase their workforces by 10% per year without consideration of the age or prior growth of these companies. 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 many years. For example, it has taken Oceanic Institute more than ten years to develop and refine technologies for growing moi fingerlings, which are now grown in offshore cages. These are only now appearing in many restaurants and markets in Hawaii. The imposition of the 10% increase in employment may be unrealistic for companies involved in the research and development of new products.

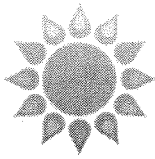
Third, this bill penalizes companies for moving research and manufacturing activities outside of the State. Under existing law, Act 221 already requires qualified companies to have at least 75% of their research activities and/or gross income to be from Hawaii. Increasing this requirement to 100% may be overly restrictive considering the national and international networks that are necessary to support research and development activities today. We do not live isolation. It should be recognized that the best research and technology development is usually collaborative in nature with partners outside of Hawaii.

As a not-for-profit, the Oceanic Institute cannot take direct advantage of the tax credits allowed under Act 221/215. However, many of our private sector partners involved in developing new aquaculture technologies in Hawaii have taken advantage of these credits. Indeed, most of these would probably not be financially viable today without it. Continuing the tax credits and extending the date is important to giving investors the confidence and investment return that is needed to continue to support this growing industry in Hawaii.

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

Sincerely,

Bruce S. Anderson, Ph.D.  
President  
Oceanic Institute  
2-202 Kalaniana'ole Highway



**pacific**  
light & power

*Bringing Renewable Energy to Hawaii and Pacific Oceania*

---

**HB1451 - Relating to Taxation**

**DATE:** February 17, 2009  
**TIME:** 4:00 pm  
**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:** Pamela S. Miller  
**Title:** VP, Project Development  
**Company:** Pacific Light and Power, LLC

**RE:** Testimony In Strong Opposition to HB1451

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

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

First, Pacific Light and Power 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.



*Bringing Renewable Energy to Hawaii and Pacific Oceania*

---

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.

Pacific Light and Power is a Kauai-based renewable energy company working with resource-constrained grids through the Hawaiian islands and the Pacific Rim. Because island grids have special challenges, it is necessary to use unconventional technologies in order to make renewable energy feasible. These technologies are difficult to finance and Act 221 gives investors incentive to promote these projects and technologies.


Pacific Light and Power is developing more than one project. Just one 10 megawatt renewable energy project will create approximately 100 construction jobs and between 4 and 10 permanent jobs, while contributing to the Hawaiian Clean Energy Initiative and Renewable Portfolio Standard targets for energy produced by renewable means. This also reduces the island's dependence on oil as a power generation fuel, keeping resources on island.

Act 221 is a good incentive for development on Hawaii and should not be constrained.

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

Sincerely,

Pamela S. Miller  
VP, Project Development  
Pacific Light and Power, LLC  
(808) 634-8866  
[pam@pacificlightandpower.com](mailto:pam@pacificlightandpower.com)



**Hawaii  
Aquaculture  
Association**

THE HOUSE  
THE TWENTY-FIFTH LEGISLATURE  
REGULAR SESSION OF 2009

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

DATE: February 17, 2009

TIME: 4:00pm

PLACE: Conference Room 329, Hawaii State Capitol

RE: Testimony In Strong Opposition to HB1451

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

While the Hawaii Aquaculture Association (HAA) supports the intent of extending the R&D and infrastructure renovations credits, the HAA strongly opposes HB 1451 and respectfully requests that you hold it for the following three reasons.

First, the HAA 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.

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

Sincerely,

Ron Weidenbach, HAA President

# Cellular Bioengineering, Inc.

*Invent. Disrupt. Inspire.*

HB1451: Relating to Taxation

Date: February 17, 2009

Time: 4:00 p.m.

Place: Conference Room 329

To: House Committee on Economic Revitalization, Business and Military Affairs  
The Honorable Angus McKelvey, Chair  
The Honorable Isaac Choi, Vice Chair

From: Michael J. Coy, Vice President, Cellular Bioengineering, Inc. (CBI)

Re: Testimony in Strong Opposition to HB1451

Aloha Chair, Vice Chair and Members of the Committee:

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

First, CBI opposes that section of this bill which seeks to change the sunset date of the investment credit to December 31, 2008. CBI believes 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.

Second, 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 pay 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.

With help from Act 221, CBI has grown from 2 employees to 30; acquired technologies from leading scientific institutions around the world; harnessed a robust portfolio of over 25 patents and patent applications; developed the world's most advanced artificial cornea technology which holds the promise of restoring vision to 10 million people around the world; commercialized from concept to market a new generation of green technology for surface cleaning and decontamination; brought talented kama'āinas back home to work, thrive, and pay taxes; and demonstrated to the world that it is entirely possible for a Hawaii-based technology company to have impact that is truly global. Without Act 221, many of these feats could not possibly be accomplished in Hawaii.

Sincerely,

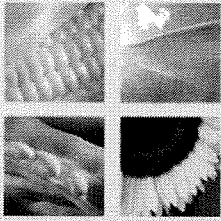


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[www.cellularbioengineering.com](http://www.cellularbioengineering.com)





# Hawaii Crop Improvement Association

*Growing the Future of Worldwide Agriculture in Hawaii*

Testimony By: Alicia Maluafiti

HB 1451, Relating to Taxation

House EBM Committee

Tuesday, Feb. 17, 2009

Room 329, 4:00 pm

Position: Strong Opposition

Chair McKelvey, and Members of the House EBM Committee:

My name is Alicia Maluafiti, Executive Director of the Hawaii Crop Improvement Association. The Hawaii Crop Improvement Association (HCIA) is a nonprofit trade association representing the agricultural seed industry in Hawaii. Now the state's largest agricultural commodity, the seed industry contributes to the economic health and diversity of the islands by providing high quality jobs in rural communities, keeping important agricultural lands in agricultural use, and serving as responsible stewards of Hawaii's natural resources.

HCIA member companies do not participate in technology R&D and infrastructure renovations tax credits and exemptions. We strongly believe that such tax credits and exemptions are necessary to stimulate long-term economic growth in the science, innovation and technology industries.

This measure 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. In addition, it will cause many Act 221/215 companies to fail by cutting off their primary source of capital.

Further, the Department of Taxation data states 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. Yet, this measure requires companies to increase their workforces by 10% per year, and 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.

We request that you hold this bill in committee. Thank you for the opportunity to testify.

**HCIA 2008-2009  
Board of Directors**

**President**

Adolph Helm

**Vice President**

Fred Perlak

**Treasurer**

John Anderson

**Secretary**

Alika Napier

**Directors At Large**

Mike Austin

Roy Foster

David Gilliland

Cindy Goldstein

Laurie Goodwin

Kirby Kester

Paul Koehler

Leslie Poland

Martha Smith

Mark Stoutemyer

Jill Suga

**Past President**

Sarah Shtan

**Executive Director**

Alicia Maluafiti

91-1012 Kahi'uka Street

Ewa Beach, HI 96706

Tel: (808) 224-3648

director@hciaonline.com

www.hciaonline.com

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**From:** Elliot Parks [parks@hibiotech.com]  
**Sent:** Monday, February 16, 2009 5:16 AM  
**To:** EBMtestimony  
**Subject:** Testimony in opposition to HB 1451

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: Elliot Parks  
President and CEO  
Hawaii Biotech Inc.

RE: Testimony In Strong Opposition to HB1451

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

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

First, Hawaii Biotech Inc. 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.

Hawaii Biotech Inc. is the oldest and largest biotech company in the State of Hawaii and is the only clinical stage biotech company conducting clinical studies in the State. We are developing preventative vaccines to prevent several important infectious diseases, including diseases of the tropics. We employ 30 full time

employees at our facility in Aiea as well as local part-time employees, contractors, and consultants. The Investment Tax credit is vital to our continuing activities here in Hawaii.

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

Sincerely,

Elliot Parks  
President & CEO  
Hawaii Biotech Inc.  
808-792-1399  
[eparks@hibiotech.com](mailto:eparks@hibiotech.com)

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**From:** GB Hajim [ghajim@strangeframe.com]  
**Sent:** Monday, February 16, 2009 1:21 AM  
**To:** EBMtestimony  
**Cc:** Hawaii Science & Technology Council  
**Subject:** HB1451 - Relating to Taxation

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: GB Hajim  
> Title: Managing Director  
> Company: Island Planet One Productions

RE: Testimony In Strong Opposition to HB1451

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

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

Island Planet One Productions opposes the 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. If this happens I will have to lay off all my employees immediately forcing half of the to drop out of UH Hilo (since their income from our company is the only way they can afford tuition).

Our company's workforce has grown 500% within the last year and we have over a million dollars of investment lined up for the first half of 2009. Two thirds of this amount is from mainland investors. If you change the law now, you instantly kill our company since we are depending on this capital until our film is completed and revenue stream begins in the first quarter of 2010. These investors will take their money elsewhere and we would be forced to move our company overseas. Is this what you want? Another brain drain and capital flight?

You need to come to the local high schools here and take a look into the eyes of these kids and their parents. Most of the jobs are in the waning tourism industry. The unemployment rate is around 7% here and growing - Where is their hope for a better life? Where are their options?

When we started this production the economically prudent thing to do would have been to do the production in Eastern Europe where a government offered to pony up 50% of the budget. No credits. A simple cash infusion. Because of the cheaper labor and other costs, our \$2.5 million feature would have cost under \$1 million with the government of Bulgaria putting up 1/2 of the total!

But that's not the reason I developed this style of animation and this production pipeline. It is not the reason why I go to high schools and the local colleges to teach workshops and classes. The reason in a nutshell: I want to create something sustainable here so that the youth (including my own) can be inspired and our best and brightest can be encouraged to stay here. This tax incentive for investment allows us to reach for that dream.

The UH Student who now does most of my high end Maya stuff - I hired him back when he was 16 at Pahoa High. His mom couldn't afford to keep him in the same house for more than a few months at a time. He built his own computer, but had no place to plug it in most of his time in high school. He was helping his mom survive by bagging groceries at \$8/hr! Now, 3 years later, he is writing render engines, paying his way through college with his wages from my company and, recently, was flown to the mainland to compete in a software competition.

I'll never forget when I hired this 14 year old Hilo High School student for an internship in digital design. Her mother

came to me with tears in her eyes saying, "When I was her age I could draw as well as her and I drew all the time, but there were no opportunities here, so when I graduated I joined the military, then came back, got married, had kids, and never drew again. Thank you for my daughter. Thank you from me."

Almost all my employees and interns have stories like this.

Do you know the story of WETA in New Zealand? Started with a couple of smart, creative guys, passionate about film, making a movie where Muppets, that looked straight out of Sesame Street, were shooting at each other with automatic rifles and blowing each other up with bombs. Sounds sustainable? Within 12 years they were in charge of putting the Lord of the Rings together.

With a whole lot of creativity, passion and brains, we are creating a small miracle here. We will make it grow bigger.

In this past holiday season, one of my animators gave me a gift and on the card he wrote: "Thank you for giving me the job of my dreams."

That is what this is all about.

Thank you for the opportunity to testify on this important bill. We respectfully ask that you hold this bill and continue the tax credits for at least 2009. Here on the outer islands, it is one of our only hopes to diversify our economy with jobs that pay a living wage.

Sincerely,

GB Hajim

**Director**

Island Planet One Productions, LLC

(a Hawaii State Qualified High Technology Business)

PO Box 430 Papaikou Hawaii 96781

cell (808) 960-7619 studio (808) 963-5482

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**From:** Johnson W. K. Choi, MBA, RFC. [jwkc8168@yahoo.com]  
**Sent:** Monday, February 16, 2009 6:14 AM  
**To:** EBMtestimony  
**Cc:** Sen. Roz Baker; Sen. Carol Fukunaga; Rep. Angus McKelvey; Rep. Isaac W. Choy; Lisa Gibson; robyn@hiscitech.org; David G. Watumull; Ted E Liu; Governor Linda Lingle; Johnson Choi; Johnson Choi; James Tollefson; Sherry Menor  
**Subject:** HB1451 - Relating to Taxation - Testimony In Strong Opposition to HB1451

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

RE: Testimony In Strong Opposition to HB1451

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

**We have brought our Company to Hawaii in 2004 under the Rule/Reg of Act 221. Like most other Act 221 Companies, it will require 8-9 years of continuing funding for our company to break even and turn into profit. To make change or terminate Act 221 is like asking a woman during mid-term pregnancy to starve or make substantial "negative" change to her life to "almost" ensure miscarriage. Pulling the rug mid-term to cause harm to any Act 221 companies also affect lives and harms to their families who are also citizens and voters of the State of Hawaii.**

Hawaii does not have a good "business" reputation in North America and Asia. People/businesses in North America/Asia are watching closely. It may further enforce Hawaii's poor business reputation when Government throughout Asia are doing all they can to "assist" businesses, not taking steps to destroy it.

**Your action could affect our next generation of business opportunities for the Sons and Daughters of Hawaii, forcing increasing number of our smartest kids to leave Hawaii.**

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

First, Makai Motion Pictures LLC 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.

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

Sincerely,

Johnson W. K. Choi, MBA, RFC.

Executive VP & CFO

Makai Motion Pictures LLC

1188 Bishop St Ste 3403, Honolulu, HI 96813, USA

Phone: (808) 524-5738

[johnsonwkchoi@yahoo.com](mailto:johnsonwkchoi@yahoo.com)

.....  
Johnson W. K. Choi, MBA, RFC

2008 SBA Minority Small Business Champion of the Year - National Winner

<http://www.hkchcc.org/sba.htm>

President - Hong Kong.China.Hawaii Chamber of Commerce

<http://www.hkchcc.org>

Vice Chairman - Hawaii Pacific Export Council

<http://www.hkchcc.org/hawaiipacificdec.htm>

International Businesses: <http://www.johnsonchoi.com/contactus.htm>

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**From:** P. Shinkawa [onlinesurf@yahoo.com]  
**Sent:** Monday, February 16, 2009 7:14 AM  
**To:** EBMtestimony  
**Subject:** 2/16/09... House Bill 1451

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: Paul Shinkawa, Vice President  
Shinkawa Limited

RE: Testimony In Strong Opposition to HB1451

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

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

First, **Shinkawa Limited** 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.

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

Thank you & Aloha,



Paul Shinkawa  
Shinkawa Limited  
1481 S. King Street, Suite 201  
Honolulu, Hawaii 96814  
(808) 947-9475  
(808) 949-3229 fax  
(808) 782-2500 cell  
[onlinesurf@yahoo.com](mailto:onlinesurf@yahoo.com)

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**From:** John Stiles [jstiles@integratedcoffee.com]  
**Sent:** Monday, February 16, 2009 11:19 AM  
**To:** EBMtestimony  
**Subject:** HB1451 - Relating to Taxation

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: John I. Stiles, Ph D  
Chief Executive Officer & Chief Scientist  
Integrated Coffee Technologies, Inc.

RE: Testimony In Strong Opposition to HB1451

Aloha Chair, Vice Chair, and Members of the Committee, While Integrated Coffee Technologies, Inc. supports the intent of extending the R&D and infrastructure renovations credits, it opposes this bill and respectfully requests that you hold it.

First, Integrated Coffee Technologies, Inc. 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, Including Integrated Coffee Technologies, Inc. to fail by cutting off their primary source of capital. We are currently pursuing Act 221/215 funding that would close in March of 2009. We a retroactive sunset date this would be devastating to our continued operations here in Hawaii.

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.

Integrated Coffee Technologies, Inc. is a Qualifying High Technology company supported in part by funding obtained through Act 221/215 investment. By the end of 2009 we anticipate that we will be almost self supporting and expand our workforce by as much as 30% to support production resulting from our research. However, we still need to generate some funds to get to that point in these very difficult times. I urge you to allow Act 221/215 to continue so that our company as well as others dependent on investment can continue to provide jobs and grow the technology industry in Hawaii.

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

Sincerely,

John I. Stiles, Ph D  
Chief Executive Officer & Chief Scientist Integrated Coffee Technologies, Inc.  
808-637-9948  
[jstiles@integratedcoffee.com](mailto:jstiles@integratedcoffee.com)

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**From:** David Moncrief [drm3@hawaii.rr.com]  
**Sent:** Monday, February 16, 2009 12:51 PM  
**To:** EBMtestimony  
**Subject:** HB 1451 - Relating to Taxation

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: David Moncrief

RE: Testimony In Strong Opposition to HB1451

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

While I as a private citizen support the intent of extending the R&D and infrastructure renovations credits, it opposes this bill and respectfully requests that you hold it.

First, I oppose 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.

Since Act 221, which was designed to stimulate the growth of our local high technology businesses, took affect in 2001, it has worked to provide investment capital to qualified high tech companies by returning to investors 100% of their investment in qualified high tech companies. What is Hawaii's return on our tax credit investment to date? These companies have received more than \$900 million in out-of-state investment capital while these companies spent \$1.4 billion in Hawaii. About \$295 million of this money was claimed as a tax credit by local investors. So for every tax dollar returned to local investors, four dollars of private sector out-of-state dollars

were invested in qualified high tech companies operating in Hawaii. These companies have spent 87% of their expenses in Hawaii. Sounds like a win-win, doesn't it?

These qualified high tech companies in 2007 employed 1,450 full-time employees and hired 2,118 independent contractors, each of whom could involve more than one person. These jobs on average pay \$1,500 more than other jobs in Hawaii. That means that local employees of these companies earned \$2.1 million more than the average Hawaii worker in 2007 and local contractors these companies hired, assuming an average of 3 workers per contracted company paid their workers \$9.5 million more than the average Hawaii company. These additional wages totaling \$11.6 million could be expected to generate Hawaii State taxes amounting to \$5,000 per employee and contractor in 2007 totalling about \$40 million in Hawaii State taxes from wages after subtracting the average of wages on other jobs in Hawaii. It can be argued that Hawaii tax revenues from these high tech company employees over and above (subtracting) the average wages of other jobs in Hawaii would reduce the cost of the tax credits by \$40 million, not to mention the tax on the businesses. I assume the corporate tax of 35% on a combined \$15 million profit or \$5 million in corporate taxes.

Taking it all in, for a net expenditure of roughly \$250 million in tax credits, these qualified high tech companies in Hawaii return \$560 million to Hawaii's economy for every for every million dollars invested by the state in tax credits. That is a 560% return and a net \$460,000 profit.

At this time when our economy is tanking does it make sense to try to stimulate our economy out of recession by reducing or ultimately eliminating our very profitable government-free enterprise deal that in 1977 paid us a 560% return on our investment of tax credits? Aren't we about to eat the hen that lays golden eggs if we proceed with HB1451?

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

Sincerely,

David R. Moncrief, Retired HECO  
President of Diamond Head Rotary Club  
Phone: 808-358-0842  
Email: [davidmoncrief001@gmail.com](mailto:davidmoncrief001@gmail.com)

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**From:** Ken Sanders [kens@hawaii.rr.com]  
**Sent:** Monday, February 16, 2009 11:55 AM  
**To:** EBMtestimony  
**Subject:** Strong Opposition to HB1451

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: Ken Sanders  
Chairman, Co-Founder, President  
Ocean Network LLC

RE: Testimony In Strong Opposition to HB1451

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

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

First, Ocean Network 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.

Ocean Network is a digital media company that has all-ocean programming on Oceanic Cable Channel 349. We also aggregate and produce ocean content to export to other states and countries, which is a tax gain for the state and a plus factor for the U.S., which is why the U.S. Dept. of Commerce is helping us to identify outlets for our work in the Pacific Rim. We will always be headquartered in Honolulu and our staff of five will grow many-fold if Act 221 continues, because it's impact is that investors like not only the tax credit incentive but our

purpose of providing Educational, Recreational, Informational, and Advocacy for the oceans programming to Hawaii and eventually the world.

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

Sincerely,

J. Kenneth Sanders  
Chairman, Co-Founder, President  
Ocean Network LLC  
Ph. 256-7263  
[ksanders@oceannetwork.tv](mailto:ksanders@oceannetwork.tv)

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**From:** Shipman, James @ Honolulu [James.Shipman@cbre.com]  
**Sent:** Monday, February 16, 2009 9:39 AM  
**To:** EBMtestimony  
**Subject:** HB1451 - Relating to Taxation

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: James C. Shipman  
Title: President  
Company: JCS Realty, Inc.

RE: Testimony In Strong Opposition to HB1451

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

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

First, JCS Realty, Inc. 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.

I am supportive of ACT 221/215 to help diversify our economy, to develop more white collar opportunities for our children, and to provide a better community for Hawaii and the ultimately the world.

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

Sincerely,

James C. Shipman (B)  
JCS Realty, Inc.  
1003 Bishop Street, Pauahi Tower #1800  
Honolulu, HI 96813-6457 | 808-541-5184 P | 808-541-5155 F  
[james.shipman@cbre.com](mailto:james.shipman@cbre.com)



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**From:** diver [diver@decisionresearch.com]  
**Sent:** Monday, February 16, 2009 1:23 PM  
**To:** EBMtestimony  
**Subject:** HB1451 - Relating to Taxation

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: Walter Simmons, President  
Decision Research Corporation  
1600 Kapiolani Blvd., Suite 900,  
Honolulu, HI 96814  
Phone (808) 949-8316

RE: Testimony In Strong Opposition to HB1451

Dear Chair, Vice Chair, and Members of the Committee:

Our company has operated under Act 221 since it was enacted. We have entered into reasonable contractual obligations assuming the original law would remain in place.

The changes proposed in HB11451 could be disastrous for us and for our 58 employees.

Please do not pass a bill with these provisions.

Very truly yours,

Walter Simmons, President  
Decision Research Corporation  
1600 Kapiolani Blvd., Suite 900  
Honolulu, HI 96814

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**From:** Brooke S. Loughridge [b\_schim@yahoo.com]  
**Sent:** Monday, February 16, 2009 7:58 AM  
**To:** EBMtestimony  
**Subject:** 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: Mark Loughridge  
President, Aloha Island Inc.  
RE: Testimony In Strong Opposition to HB1451

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

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

First, Aloha Island, Inc. 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.

Aloha Island, Inc. is a digital media company that would not exist without Act 221. We hire local artists, engineers and programmers to develop software.

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

Sincerely  
Mark Loughridge  
President  
Aloha Island, Inc.  
808.945.7745  
[b\\_schim@yahoo.com](mailto:b_schim@yahoo.com)

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**From:** Thomas Blankley [tblankley@msn.com]  
**Sent:** Monday, February 16, 2009 10:15 AM  
**To:** EBMtestimony  
**Subject:** HB1451 - Relating to Taxation

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: Thomas S. Blankley, Jr.  
Company: ATCO Software LLC.

RE: Testimony In Strong Opposition to HB1451

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

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

First, ATCO Software LLC. 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.

In the 5 years since ATCO first took advantage of Act 221/215, we have developed a software product which is now beginning to receive notice around the country, not just Hawaii. The software has developed new clients in California, Oregon, Arizona, New Mexico, Michigan and Japan. We have received inquiries from China, Hong Kong, New Zealand and Australia. We have now started a working relationship with the world's largest online seller of optional tours, Viator.com, as well as the world's largest online restaurant reservation service OpenTable.com. As a result of the work that we have done for 5 years, and the recognition that we are now receiving, ATCO is currently looking to hire selected types of technical and non-technical staff...EVEN IN THIS ECONOMIC ENVIRONMENT! Without Acts 221 and 215, not only would we not be in a position to offer new jobs, but we would not even be in our current position of growth. We urge all Representatives to support Acts 221 and 215 as now without any changes that could

jeopardize this vital piece of the tech industry's growth in Hawaii.

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

Sincerely,

Thomas S. Blankley, Jr.  
Manager  
ATCO Software LLC.  
(808) 927-2232  
[Tom@atcosoftware.com](mailto:Tom@atcosoftware.com)  
[www.atcosoftware.com](http://www.atcosoftware.com)

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**From:** cecil raleigh [cbraleigh@att.net]  
**Sent:** Monday, February 16, 2009 7:31 AM  
**To:** EBMtestimony  
**Cc:** eshonsey@shonco.com; 'Martin Sabarsky'  
**Subject:** HR 1451

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: C. Barry Raleigh

Chairman

HR Biopetroleum, Inc.

RE: Testimony In Strong Opposition to HB1451

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

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

First, HR Biopetroleum 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.

HR Biopetroleum is a renewable energy company, producing marine algae to generate liquid transportation fuel, founded in Hawaii in 2004. Our joint venture with Shell, Cellana, LLC, employs over 50 people on the Big Island and

Oahu to prove out the technology leading to commercialization. Our first planned commercial plant is scheduled to be located next to the Maalaea power plant in Maui, where carbon dioxide from the stacks will be converted into algal biomass in ponds on what is presently sugar cane land.

If we are required to spend all our funds in Hawaii, Act 221 would no longer aid us in securing the necessary investment to build the plant. Our company eventually will have worldwide presence and it is necessary for us to begin securing sites elsewhere.

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

Sincerely,

C. Barry Raleigh  
Chairman  
HR Biopetroleum, Inc.  
808-728-1669  
[braleigh@hrbp.com](mailto:braleigh@hrbp.com)

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**From:** Dr R Yonover [seerescue@juno.com]  
**Sent:** Monday, February 16, 2009 7:54 AM  
**To:** EBMtestimony  
**Subject:** HB1451 - Relating to Taxation

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: Dr. Robert Yonover  
President  
SEE/RESCUE Corporation

RE: Testimony In Strong Opposition to HB1451

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

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

First, SEE/RESCUE Corporation 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.

SEE/RESCUE Corporation is a research and development company that invented the military-approved and adopted RescueStreamer technology that is manufactured and distributed by another local company in Aiea. Although SEE/RESCUE Corporation does not utilize the Act 221/215 tax credit directly, they are an excellent

tool to grow the technology sector in general and SEE/RESCUE Corporation's future licensee's as our technologies grow in scope.

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

Sincerely,  
Dr. Robert Yonover  
President  
SEE/RESCUE Corporation

tel. 808-395-1688

e-mail: [SeeRescue@juno.com](mailto:SeeRescue@juno.com)

licensee/product website: [www.RescueStreamer.com](http://www.RescueStreamer.com)



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**From:** James Karins [jkarins@yahoo.com]  
**Sent:** Monday, February 16, 2009 3:50 PM  
**To:** EBMtestimony  
**Subject:** HB1451 testimony(resent)

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: James P. Karins  
President and CEO  
Pukoa Scientific

RE: Testimony In Strong Opposition to HB1451

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

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

First, Pukoa Scientific 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, will cause many Act 221/215 companies to fail by cutting off their primary source of capital and will result in the termination of product spin-off companies from dual use companies.

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.

Pukoa Scientific is a 15 person company started in 2004 specializing in the interpretation of image and signal data to identify objects, threats or targets in the dual use sector. Our average salary is over \$100,000, 12 of our 15 people are full time and 11 of those 12 reside in Hawaii. The one individual who resides in California is a critical cog in our wheel; he possesses world class knowledge in one of our core technologies. If we were required to have 100% of the research conducted in Hawaii we would lose a very talented and gifted individual

who makes our company stronger. This would be a tremendous detriment to the long term success of the company. Of the 11 full time staff 8 graduated from high schools in Hawaii, 10 graduated from University of Hawaii or Hawaii Pacific University and at least 4 worked on the mainland prior to finding work in Hawaii. In addition to the economic benefits our type of business is environmentally friendly. Through the use of telecommuting, laptops, cell phones, and teleconferencing, most of our staff are able to work from home 80% of the time resulting in savings of over 2000 hours of commuting time and 4000 gallons of gasoline per year. These are the types of businesses that Hawaii needs, that create jobs that the youth of Hawaii want.

Although we have successfully grown our business, the current economic climate makes it almost impossible to generate 10% year-over-year job growth. As President Obama has emphasized with the recent stimulus package, retaining jobs is just as important as creating jobs; and right now, these investment and R&D tax credits are working successfully at retaining jobs.

From a historical perspective, if it weren't for Act 215/221 Pukoa Scientific wouldn't have made it. We utilized the investment tax credits to get started and to provide working capital, and we are now utilizing the R&D credit to develop commercial spin-offs for new sustainable companies. These new companies will require new investment capital to survive. The creation of this cycle with spin-off companies is the kernel to establishing a technology critical mass. It occurred in silicon valley, San Diego, and Research Triangle Park and it takes about 20 years to become sustainable. Some companies mature faster but the critical mass is required for long term stability of this high paying industry. Our company is one that is succeeding and creating this technology critical mass. We have utilized approximately \$550,000 in tax credits through 2008 and have generated over \$5M in revenue and over \$2.5M in salaries. In 2007 we became profitable and we are beginning to offset our credits with income taxes. We see future growth and a continued high return for the state and the taxpayers from this investment through increased tax revenues, high paying jobs and a green industry. Other companies will follow in that success; some will be far more successful, some will have moderate success and others will fail, but the industry will succeed with the perseverance and continued long range vision that this legislature has shown in the past.

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

Sincerely,

James P. Karins  
President and CEO  
Pukoa Scientific, LLC

karins@pukoa.com

---

**From:** Michael Steiner [MSteiner@SteinerAssoc.com]  
**Sent:** Monday, February 16, 2009 3:28 PM  
**To:** EBMtestimony  
**Subject:** Testimony Opposition to HB1451, 2/17/09, 4:00 PM, Room 329

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: Michael Steiner, Principal  
Steiner & Associates

RE: Testimony In Strong Opposition to HB1451

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

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

First, Steiner & Associates 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.

Steiner & Associates is a consulting firm that provides business and management expertise to entrepreneurs, start-ups and professional service firms. Through my association with Act 221 companies, I have seen the dedication and desire of these firms to bring innovation, business and jobs to the State of Hawaii. Relying on tourism for so long has left Hawaii without a fall back industry. Act 221 incentives will provide the impetus to attract and retain new viable business which will produce jobs and provide a much needed source of revenue.

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

Sincerely,

Michael Steiner, CLM  
Principal  
Steiner & Associates  
702 Kanaha Street  
Kailua, HI 96734

Phone: (808) 221-5955  
Email: [MSteiner@SteinerAssoc.com](mailto:MSteiner@SteinerAssoc.com)  
Web: [www.SteinerAssoc.com](http://www.SteinerAssoc.com)

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**From:** Roy Tjioe [rtjioe@islandfilmgroup.com]  
**Sent:** Monday, February 16, 2009 5:16 PM  
**To:** EBMtestimony  
**Cc:** rgalindez@islandfilmgroup.com  
**Subject:** Testimony in Opposition to HB 1451

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: Roy Tjioe  
Principal, Island Film Group

RE: Testimony In Strong Opposition to HB1451

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

Island Film Group recently produced "Princess Ka`iulani", an independent feature film about the life of Hawaii's last crown Princess.

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

First, Island Film Group 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. Further, by shortening the sunset date to December 31, 2008, a date that has already passed, the bill interferes with currently ongoing fundraising activities undertaken by Act 221 companies in reliance upon the statutorily recognized sunset date of 2010.

What we need to stimulate the growth of the film and television industry is an EXTENSION of the sunset date, giving Act 221 companies a meaningful opportunity to attract even more outside capital to Hawaii, allowing more Hawaii based independent film projects to be made, resulting in more local workers being hired, and creating even more free advertising for the State of Hawaii when the film and television products depicting Hawaii's natural beauty (and its history and culture, as in the case of "Princess Ka`iulani") are exhibited nationally and internationally.

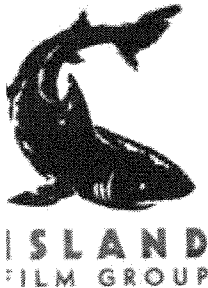
Secondly, this bill requires companies to increase their workforces by 10% per year, but it cuts off the only source of cash that many of them have to pay for these jobs with the retroactive repeal date for the investment credit. Many young technology companies have little or no revenue while they conduct 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, Department of Taxation 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. Increasing this requirement to 100% will be overly restrictive and will destroy the effectiveness of these high tech incentives.

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

Sincerely,



**Roy J. Tjioe**  
Island Film Group  
PO Box 3261  
Honolulu, HI 96801-3261

(808) 536-7955 Honolulu  
(310) 984-6865 Los Angeles  
(888) 749-7955 Toll Free  
[www.islandfilmgroup.com](http://www.islandfilmgroup.com)

**FAX COVER SHEET**

FAX NUMBER 18085868479

FROM Phil Kinnicutt

DATE 2009-02-16 17:28:37 GMT

RE HB 1451 - Strong Opposition

**COVER MESSAGE**

This is a ridiculous bill and is in all probability unconstitutional because it attempts to retroactively amend the sunset date of the investment tax credit. I cannot believe it was even submitted for serious consideration.

Phil Kinnicutt  
Kinnicutt Consulting, LLC  
808-254-4534  
leafishing@aol.com

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**From:** Virendra Nath [vnath1@yahoo.com]  
**Sent:** Monday, February 16, 2009 9:54 AM  
**To:** Rep. Angus McKelvey; Rep. Isaac W. Choy  
**Cc:** Sen. Roz Baker; Robinson J. Robert; Nancy Makowski; Virendra Nath  
**Subject:** Testimony for Act 221 Bills

Dear Reps. McKelvey and Choy:

Since there are so many bills related to Act 221 being considered by your committee, I believed it would be more efficient for all concerned for me to send my testimony via email to both of you and the testimony can be included with all the bills being considered.

My name is Virendra Nath. I have been an entrepreneur for the last 25 years. I was the winner of the High Technology Entrepreneur of the Year award in 1998 and have served on many other committees involved with entrepreneurship.

I have been working towards diversification of the Hawaii economy for the last 20 years. In 1987, I formed the Information Industries Association of Hawaii; in 1989 I was appointed to one of the advisory boards for Hawaii Information Network Corporation by Governor Waihee; in 1997-98 I worked on the Economic Revitalization and Diversification Task Force put together by Governor Cayetano - this was the time when the Hawaii economy was at its lowest ebb in 30 years.

All this is to say that I am not a latecomer to the efforts to diversify Hawaii's economy and make it prepared to compete in a world where innovation will rule the day. We are far away from everywhere, and yet we are the loveliest of places. Interesting, competent and brilliant people already find Hawaii a wonderful place to spend their leisure time, and many have expressed a desire to do "something" to make it more dynamic. There is a large group of accomplished retirees in Hawaii, people with money, initiative and interests beyond leisure pursuits. These are assets that, properly mobilized, can catapult us into a true innovation economy.

How to bring them together - that is the question we asked ourselves for almost 15 years before Act 221 was passed. The burst of enthusiasm and interest in innovative companies that Act 221 brought was unsurpassed. People who only considered real estate or New York hedge funds as outlets for their funds, were suddenly showing up at the meetings of HVCA and the Hawaii Angels - and within 12 months finding companies to invest in.

What has surprised me is the amount of Mainland money that is being brought to Hawaii companies as part of Act 221. I never expected to see \$3 of Mainland money for every \$1 of Hawaii money invested in Hawaii companies. I suppose this is an extension of the well known "network effect" - sophisticated investors have friends who are also sophisticated investors and our companies are coming to the attention of many who would not otherwise be aware of us.

Act 221 has been a smashing success. We have the fragile beginnings of a true innovation economy. Unfortunately it has been constantly been a target of political gamesmanship. If we had simply left it alone and allowed investors to invest, allowed the intermediaries to do the job of linking investors to companies, it would have been much more successful. The repeated assaults by the Lingle administration against Act 221 has taken up so much of the time and energy of intermediaries (HVCA, HSDC, Hawaii Angels and others) that it has limited the due diligence and the marketing of Hawaii. That is a sad, sad side effect of our politicized process.



Please renew Act 221 for an additional 10 years. It will take that long to let this fragile industry take root in Hawaii (remember - it took Silicon Valley almost 30 years from the formation of HP to the formation of Intel).

I understand that there is a budgetary constraint; if a budgetary constraint is to be imposed, please consider limiting the Act 221 companies to those operating on the neighbor islands. Any other limitations will be open to severely dislocating innovation - corruption, first to file, etc. Good companies will be left holding the bag and many poor companies will slip through. Geographic limitation also has the benefit of increasing economic activity in less wealthy parts of our state.

If Act 221 is not renewed, it will be a very large lost opportunity for the State of Hawaii. It would not be overstating it to say that this legislature is consigning our children to making the dirty beds of wealthy tourists for their entire lives, rather than dreaming to be engineers, astronomers, and marine biologists. There are few truly significant things that a legislator can do - completely changing the future of an entire economy is one of them. And your committee's decisions on Act 221 will be one of them - no matter which way you vote.

Sincerely,

Virendra Nath  
President, HDEP International  
Convenor, Maui Angels